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VZ.N - Q1 2026 Verizon Communications Inc. Earnings Call

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OVERVIEW:

Company Summary



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PRESENTATION

Operator

Good morning, and welcome to Verizon's first-quarter 2026 earnings conference call. (Operator Instructions) Today's conference is being recorded. If you have any objections, you may disconnect at this time.

I would now like to turn the call over to Colleen Ostrowski, Senior Vice President, Investor Relations.

Colleen Ostrowski - *Verizon Communications Inc - SVP, Investor Relations*

Thanks, Brad. Good morning, and welcome to our first-quarter 2026 earnings call. I'm Colleen Ostrowski, and on the call with me this morning are our Chief Executive Officer, Dan Schulman; and Tony Skiadas, our CFO.

Before we begin, I'd like to point you to our Safe Harbor statement, which can be found in the earnings presentation and on our Investor Relations website. Our comments this morning may include forward-looking statements, which are subject to risks and uncertainties. Factors that may affect future results are discussed in our SEC filings.

This presentation also contains non-GAAP financial measures, and you can find reconciliations of these measures in the materials on our website. Finally, as a reminder, the results of Frontier Communications are included in our financial and operating results beginning on January 20, 2026, the date we closed the Frontier acquisition.

With that, I'll turn it over to Dan.

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

Thank you, Colleen, and good morning, everyone.

When I joined Verizon, I had a simple but ambitious goal. I wanted Verizon to reclaim its market leadership. Obviously, there are a lot of things we need to do right to make that happen. We need to delight our customers and put them at the center of everything we do. We

need to drive consistent and fiscally responsible subscriber and revenue growth. We need to keep more of our customers, as measured by our churn rate, and convert that into stronger, more predictable cash generation for our shareholders.

With all of that in mind, we ended last year with our strongest quarter of Mobility and Broadband net adds in six years, and we entered 2026 with a clear set of priorities, a step function improvement and guidance and a realistic plan. Today, our first-quarter results show that our turnaround is not only progressing, it is gaining momentum, powered by a comprehensive transformation program that is reshaping how we operate and serve our customers. I'm also very pleased that our East unions recently ratified a new four-year contract that we believe will enable us to better serve our customers.

Let me start by saying we delivered a strong quarter across our core operating metrics, and we translated that performance into solid operational and financial outcomes, some of which we haven't seen in over a decade. I'll briefly review the key highlights of the quarter, including the impact of the network outage we experienced earlier in January.

Then, I'll walk through three key themes: how we will continue to drive healthier growth; second, how we will accomplish that with meaningfully better customer economics; and finally, how that leads to improved cash generation. I'll close with how these results and the transformation work underway support an increase in our 2026 guidance for both our adjusted EPS growth and our postpaid phone net adds.

In the first quarter, total revenues grew 2.9% to \$34.4 billion. While our reported Mobility and Broadband service revenue grew below our annual guided range, our reported growth includes a one-time pressure of 80 basis points on our Wireless service revenues from customer credits and other impacts related to our network outage.

We ended the quarter with momentum, with March Mobility and Broadband service revenue growing in the middle of our guidance range, with Consumer Wireless service revenue approximately flat year over year. We anticipate Q1 Mobility and Broadband service revenues will be the low point of 2026, and we are highly confident that our forecast for Mobility and Broadband service revenue growth is in line with our 2% to 3% guidance for the year.

Importantly, the quality of our revenue is improving. We are purposely shifting our mix towards durable, recurring service revenues and away from low-margin, highly promotional activity. We are prioritizing customer lifetime value over short-term revenue maximization. The benefits of that approach are obvious when looking at the combination of positive postpaid phone net adds, better churn, lower acquisition and retention costs, and higher free cash flow and adjusted EPS.

We added 55,000 postpaid phone net adds in the quarter. That represents an improvement of over 340,000 postpaid phone net adds versus the same period a year ago. And it's the first time in 13 years that Verizon has had positive postpaid phone net adds in Q1.

Both Consumer and Business had significant improvements in postpaid phone net adds. Overall, we delivered almost 0.5 million net adds across our Mobility and Broadband platforms. This is a strong continuation of the momentum we established in Q4 of last year, and it is happening while we are also improving the overall quality and economics of our customer relationships.

I'm particularly pleased to see the early results of our transformation efforts on our customer retention. Consumer postpaid phone churn in the quarter was 90 basis points, a sequential improvement of 5 basis points from Q4. Importantly, churn improved throughout the quarter. And in March, Consumer postpaid phone churn improved further to below 85 basis points. That is a significant improvement both sequentially from Q4 and within the quarter, and it reversed the upward pressure we had seen in churn over the past several years.

As expected, when we stop imposing blunt price increases without corresponding value on our customers and begin to remove friction from the end-to-end customer experience, they reward us with their loyalty. At the same time, we are acquiring and retaining customers far more efficiently. Our cost of acquisition and retention in March was down approximately 35% relative to the end of Q4, and we expect to maintain a lower cost of acquisition and retention as we look forward.

I would point out that we accomplished these meaningful cost reductions while still delivering increasingly positive postpaid phone net adds versus a year ago. In other words, we are no longer predominantly reliant on expensive promotions to drive our growth. We are growing, and we are doing so in a much more disciplined, repeatable, and fiscally responsible manner.

We, of course, retain the flexibility and conviction to defend our base and have a large war chest, if necessary, to react to competitive moves in the market. These trends in churn and unit economics are lifting our Consumer lifetime value and are already flowing through to the bottom line and to our free cash flow.

I'd also point out that a lower cost of acquisition will benefit our future revenue growth as the headwinds of promotion amortization finally begin to subside. Adjusted earnings per share for the quarter were \$1.28, up 7.6% year over year, our highest adjusted EPS growth rate in over four years. Free cash flow is approximately \$3.8 billion, up 4% year over year and represents a strong start to the year.

Our performance is consistent with and in a few key areas ahead of the guidance we laid out for 2026, driven by a better customer experience and operating efficiency. It is also the foundation for the capital allocation priorities we have outlined: investing to maintain our network excellence and our overall value proposition, maintaining our ironclad commitment to our dividend, steadily reducing our leverage, and returning capital to our shareholders.

Now, let me come back to the three themes I mentioned earlier: healthier growth, better economics, and stronger cash generation. First, healthier growth. The story in Mobility and Broadband is that we are now consistently adding more of the right customers at the right economics. The dramatic year-over-year improvement in postpaid phone net adds over the past two quarters with continued momentum into Q2 all reinforce that our offers and our go-to-market strategies are working.

We are leaning into converged value -- Mobility plus Broadband, a simplified customer experience, and features that matter to customers -- rather than chasing every promotion in the market. We are also beginning to see the benefits of our transformation efforts, which make it easier for customers to do business with us and reduce friction in their interactions with us.

In fact, I'm very pleased to say that our Consumer customer service team delivered its best quarter on record for customer satisfaction, driven by improved resolution, fewer handoffs, and faster response times. In Broadband, we continue to aggressively expand our footprint, increase penetration, and position those assets as a core part of our long-term growth story. We are solidly on track to have more than 32 million Fiber passings by the end of this year.

We are early in the journey of fully monetizing the combination of best-in-class Mobility and a growing Fiber and Fixed Wireless Access footprint. But we already see in our net adds and in our improved churn that customers value having more of their connectivity needs met by a single trusted provider. Our Frontier integration is on track, and I'm extremely pleased with the level of teamwork and focus from go-to-market execution to network integration, and all with a keen focus on driving convergence and delivering on our more than \$1 billion of run-rate operating cost synergies by 2028.

Now, let me turn towards our second theme, which revolves around driving better economics. The improvements in churn, acquisition costs, and retention costs are not one-off events. They are the result of specific choices we have made over the past 200 days and the early benefits of a broader transformation we have launched across the company.

We have put in place an ambitious company-wide transformation built around 10 major work streams. These work streams span everything from becoming an AI-first company to reducing friction in every step of the customer journey to re-examining outdated internal policies and procedures that slow us down and add to bureaucracy. We aim to simplify our products and services, apply micro-segmentation to better match offers to customer needs, and drive towards our goal of being the most efficient telco in the world.

Each workstream has a dedicated cross-functional Tiger team with clear monthly and annual targets and a disciplined governance process that reviews progress, unblocks issues, and reallocates resources where needed. This program is changing how we run the company day to day.

As I've mentioned before, we will not rely on empty across-the-board price increases that create short-term financial gains but erode the long-term trust of our customers. Instead, we aim to delight customers. A central pillar of our upcoming new value proposition is the end-to-end redesign of our customer experiences to ensure we delight each customer in every interaction. Our commitment to customer value and trust is becoming part of our corporate DNA, embedded in how we design offers, how we communicate with our customers, and how we measure success internally.

We are in the final stages of extensive market research that will inform a new generation of offers built around the principles of transparency, simplicity, and genuine value delivery. We have begun to embed AI and automation into our operations and customer interactions, which is already significantly improving customer experiences and lowering costs.

We will encourage more volume into digital sales and service channels, which lowers costs, increases engagement, and leads to higher customer satisfaction. And we have begun to see meaningful cost benefits from our transformation efforts as we take out legacy structural costs from the business. Consequently, we are well on our way towards our OpEx savings target of \$5 billion in 2026.

Churn is the clearest measure of whether our efforts are resonating with our customers. When we achieve the kind of churn benefits we did during the first quarter, it has profoundly positive implications for our business model. Every cohort now contributes more revenue, more margin, and more cash.

That affect compounds over time. Lower churn also makes our marketing dollars work harder, because we are not simply replacing customers who leave, we are adding to a more stable base. Our advertising is also evolving, as exemplified by our Connor Storrie brand advertisement, which resonated powerfully across social media and focused on our service and our network, not promotions or handsets.

The same is true for acquisition and retention economics. We were able to meaningfully drive year-over-year improvement in our postpaid phone net adds, while driving the cost of acquisition and retention lower by approximately 35%. Obviously, this fundamentally changes the return on investment we make to attract and keep our customers. And as I mentioned, the less we spend on promotions, the lower our amortization headwinds, enabling a step function change in our future revenue growth.

And these improvements come from the work our teams are doing in our transformation streams: smarter channel mix, less friction, better tools and modeling, the beginning of AI-enabled processes, and a tighter focus on fiscally responsible offers that drive profitable growth. We expect these more efficient levels to be sustainable under our current strategy, and we see additional opportunities to further improve our trends as our transformation matures.

Finally, our third theme revolves around stronger cash generation. The combination of healthier subscriber growth and better economics is evident in our first-quarter free cash flow results, and we are confident in our annual guidance of approximately 7% or more growth. We are seeing the benefits of a more disciplined capital program, where we continue to invest in capacity, coverage, and reliability, but do so with sharper prioritization and better utilization of the assets we already have.

We are also continuing to execute on our operating expense initiatives, which are delivering a substantial war chest to continue our investments in driving our end-to-end value proposition, while driving continued shareholder returns. We see room for further meaningful efficiencies in the years ahead while simultaneously advancing our primary goal of delighting our customers and, by doing so, driving long-term sustainable revenue growth.

We have also discussed in our previous earning calls that we aim to drive incremental margin by eliminating sunseting or creating structures to dramatically reduce our exposure to non-core assets. We are well underway in this journey, and we look forward to sharing more details shortly.

All that brings me to our updated outlook. On the back of our first-quarter performance, the leading indicators we see in our business and the traction we are seeing in our transformation work streams, we are raising our guidance for adjusted EPS growth to 5% to 6% versus the prior range of 4% to 5%. We also now anticipate our postpaid phone net adds to be in the upper half of our 750,000 to 1 million range.

We are reaffirming the balance of our guidance: Mobility and Broadband service revenue growth of 2% to 3%, with Q1 being the low point of 2026, and free cash flow growth of approximately 7% or more versus last year. We are making these changes early in the year because the data supports a higher level of confidence.

We are ahead of pace on postpaid phone net adds and doing so with lower churn, better unit economics, and record customer satisfaction scores. We have clear line of sight to the remaining cost and capital efficiency actions that underpin our free cash flow target, and the transformation program gives us additional levers as the year progresses.

At the same time, we are far from assuming a perfect environment. We operate in a dynamic and rapidly changing landscape. Our revised guidance continues to reflect a prudent view of competitive dynamics and the macro, political, and economic environment.

Our capital allocation priorities remain unchanged. We will continue to invest in our network, our platforms, and our people to deliver the reliability and experiences our customers expect. We will, of course, maintain a strong and sustainable dividend, reflecting the cash-generating nature of our business, and as Tony will discuss, we are delivering on our commitment to return capital to shareholders. We will continue to use excess cash to strengthen our balance sheet over time, giving us flexibility as markets and opportunities evolve. And we remain on track to return to our target leverage ratio in 2027.

To summarize, in the first quarter of 2026, Verizon grew underlying Mobility and Broadband service revenue in line with our annual guidance, delivered positive postpaid phone net adds in Q1 for the first time in 13 years, reduced churn meaningfully quarter over quarter, and exited the quarter with Consumer postpaid phone churn below 85 basis points, all while significantly lowering both acquisition and retention costs, driving our best adjusted EPS growth in four years and delivering strong free cash flow. We did all of this by addressing a significant network event transparently and decisively.

At the same time, we have launched and are executing against the 10-stream transformation program that is making Verizon an AI-first, simpler, more efficient, and more customer-centric company. On the strength of that performance, the transformation work already underway, and the trends we see in the business, we are raising our adjusted EPS growth outlook to 5% to 6%, and we anticipate our postpaid phone net adds will be in the upper half of our guided range while we maintain our free cash flow and Mobility and Broadband service revenue guidance.

We still have much to accomplish, and we are far from our longer-term aspirations. But the direction of travel is clear. We are growing, our customers are staying longer, we are serving them more efficiently by executing on a disciplined transformation agenda, and we are converting all of that into stronger, more durable cash generation for our shareholders.

With that, I'll turn it over to Tony to provide more detail on the quarterly results, and then we will take your questions.

Anthony Skiadas - Verizon Communications Inc - Chief Financial Officer, Executive Vice President

Thanks, Dan, and good morning.

Our first-quarter results reflect a strong start to the year. We built upon the operational momentum from the fourth quarter and continued executing on our transformation efforts to deliver on both volume and financial growth. Dan has discussed our plan to deliver long-term sustainable financial and operational growth, and our first-quarter results show the early impacts of that plan.

We're on track to deliver our 2026 guidance, including increased guidance for postpaid phone net adds and adjusted EPS growth. In Mobility, we are pleased that for the first time since 2013, we generated positive first-quarter total postpaid phone net additions. Our first-quarter results of 55,000 included significantly better performance from both our Consumer and Business segments.

Consumer postpaid phone net losses were 35,000, a 321,000 improvement year-over-year, driven by a higher mix of new to Verizon gross adds. In total, the year-over-year improvement of 344,000 reflects our consistent and disciplined go-to-market approach, solid execution of our volume growth strategy, and steady progress with churn.

While there is more work to be done with customer experience, which is the largest component of our transformation plan, we're pleased to see early signs of progress towards our goals. Total postpaid phone churn was down 5 basis points sequentially to 0.97% for the first quarter. Consumer postpaid phone churn was 0.90%, down 5 basis points sequentially and improved throughout the quarter as we took actions to delight and retain our customers.

In prepaid, we grew our customer base for the seventh consecutive quarter. We delivered 115,000 net adds, driven by our Visible and Total Wireless brands, demonstrating the continuing strength of our prepaid business and our segmentation approach. We look forward to optimizing the value of each of these brands as we continue our transformation.

Shifting to Broadband, we continued to take share in the first quarter and delivered 341,000 Broadband net adds. This includes 214,000 Fixed Wireless Access net adds and 127,000 Fiber net adds. We now have approximately 16.8 million Broadband subscribers.

We are confident in the long-term success of our Broadband strategy. Frontier accelerates our opportunity to grow our Broadband subscribers as well as our converged offerings, a key enabler to growing Wireless share in under-penetrated Frontier markets. In the first quarter, in addition to Frontier, we've also closed the Starry transaction, an investment that will enable us to drive further Broadband growth opportunities in multi-dwelling units within urban areas.

Overall, we're pleased with our operating results for the first quarter as we have seen significant improvement in our net adds. We look forward to continuing our commercial momentum throughout the year.

Now, let's turn to our consolidated financial results. Our first-quarter financial results show our disciplined execution is directly translating into operating leverage. We are driving financial growth and strong free cash flow even as we undergo a transitional year for revenue.

Mobility and Broadband service revenue was \$22.9 billion for the first quarter, a 1.6% increase year over year. This result includes \$20.6 billion of Wireless service revenue, which was down 1% year over year. Customer credits associated with a network outage reduced first-quarter Wireless service revenue by approximately 80 basis points.

As previously communicated, we continue to absorb elevated promotional amortization pressures and are lapping approximately 180 basis points of pricing impacts implemented in the prior year. We expect to improve upon our first quarter's Wireless service revenue performance by maintaining low churn, being disciplined around cost of acquisition and cost of retention, and continuing to drive net adds.

Additionally, we continue to see strong performance with PERC adoption, continued growth in premium base mix and prepaid. Given these factors, we are confident we will achieve our full-year revenue guidance and expect to have an even stronger and more sustainable revenue profile by the end of 2026.

Our disciplined financial approach and targeted actions led to strong profitability this quarter. Consolidated adjusted EBITDA was \$13.4 billion, a 6.7% increase in the prior year. Adjusted EBITDA margin of 38.9% expanded by 140 basis points. This represents our highest-ever reported adjusted EBITDA performance, and we expect it to be an industry-leading result.

We are growing responsibly with healthy economics in both the cost of acquisition and cost of retention. We are also making significant tangible progress with our cost efficiencies. During the quarter, we realized substantial savings in key areas, including advertising, network operating expenses, and workforce-related costs. A significant portion of these savings dropped directly to the bottom line, while we simultaneously reinvested a portion back into the customer experience.

Our integration of Frontier operations is progressing well. We are on track to deliver over \$1 billion in run-rate operating cost synergies by 2028. While there is more work ahead to drive further efficiencies, our first-quarter performance puts us on track to delivering our \$5 billion of operating expense savings target for 2026.

Our focus on the customer and our cost discipline drove adjusted EPS of \$1.28, up 7.6% year over year, even as we incurred the incremental depreciation and interest expense associated with the Frontier acquisition. Our performance reflects our responsible growth and our actions taken to streamline the business to make us more agile in serving our customers. This gives us the confidence to raise our guidance for adjusted EPS growth for the full year to 5% to 6%.

Now, let's turn to our cash flow and balance sheet. Our financial foundation has never been stronger. Our cash flow generation remains a cornerstone of our financial strength and a testament to our high-quality earnings. Cash flow from operating activities was \$8 billion for the first quarter. We achieved this strong result even after absorbing severance payments of approximately \$1.1 billion related to our restructuring efforts, incurring costs associated with the Frontier integration and delivering higher gross add volumes.

We're on track to achieve our CapEx guidance of \$16 billion to \$16.5 billion for the full year. Capital expenditures for the quarter were \$4.2 billion. We continue to invest strategically for network excellence and future growth opportunities in a disciplined way by prioritizing our Wireless and Fiber bills. As Dan mentioned, we expect to end the year with more than 32 million Fiber passings.

Free cash flow for the quarter was \$3.8 billion, up 4% year over year. We expect our free cash flow performance to ramp as we further realize the full run rate of our operating expense savings and grow volumes responsibly. We are on track to deliver our full-year free cash flow guidance of \$21.5 billion or more. Our robust cash flow enables the seamless execution of our capital allocation framework, including investing in our business, maintaining a strong dividend, strengthening our balance sheet, and returning additional value to shareholders through stock buybacks.

Our net unsecured debt to consolidated adjusted EBITDA ratio increased due to the acquisition of Frontier to approximately 2.6 times at the end of the quarter. We are making good progress and have paid down about half of the Frontier debt since the acquisition closed, and we expect to repay substantially all of Frontier's debt by the end of the year. We remain firmly on track to achieve our target net unsecured leverage ratio of 2.0 to 2.25 times during the 2027 timeframe.

Lastly, we are delivering on our commitment to enhance shareholder returns. In January, we declared an annualized dividend increase of \$0.07 per share, up 2.5% from our prior annual dividend rate. This marks the 20th consecutive year of dividend increases, a track record we're extremely proud of.

In addition, our stock buyback program is off to a strong start. We successfully completed \$2.5 billion in share repurchases during the first quarter. We are in a position of significant financial strength, generating the cash necessary to invest in our future, reward our shareholders, and maintain a healthy balance sheet.

In summary, our customer-centric approach has generated a step function change in our performance trajectory. We delivered positive first-quarter total postpaid phone net adds for the first time since 2013 and raised our full-year phone net add outlook. We achieved our best adjusted EBITDA in history, and we also delivered our best quarterly adjusted EPS growth rate since 2021 and raised our full-year adjusted EPS guidance. We returned a significant amount of capital to our shareholders, including commencing our first share buyback in over a decade.

Our first-quarter results demonstrate that our transformation is gaining momentum and we're delivering on our plan. This is a new Verizon, playing to win.

With that, I will now hand the call over to Colleen to take your questions.

Colleen Ostrowski - Verizon Communications Inc - SVP, Investor Relations

Thank you, Tony. Brad, we are now ready to take questions. (Event Instructions)

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Michael Rollins, Citi.

Michael Rollins - Citi Infrastructure Investments LLC - Analyst

Thanks. Good morning, and congratulations on the early progress. I'm curious if you could discuss the performance of accounts in ARPA with agentic in the quarter, as well as what that means for the go-forward outlook for these measures, including how the current promotional environment and your pricing strategy are influencing the performance. Thanks.

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

I think I'll jump on that, Mike, and then we'll -- Tony can add color if he so desires.

I think if we take a step back, clearly, we're now orienting everything we do around a customer-centric approach. And just by definition, that means that we're thinking about accounts and not just lines.

And I would say previously, the company predominantly focused on lines, and that's just not our approach going forward. And as a result of that focus, our trajectory is moving in the right direction. Account net adds improved year over year in both Consumer and total retail postpaid. And that's in the same quarter we delivered our best first quarter postpaid phone net adds in 13 years (corrected by company after the call).

And that's not a coincidence. Our customer-centric approach is driving our progress on both fronts. The net adds we're adding are higher quality than those that are rolling off. Our new accounts are being added with more lines per account. Our percent of new to Verizon continues to climb, and that's a leading indicator of where our account number is headed next.

But we're also very focused on driving higher revenue with every line. We are no longer giving away lines for free. Our entire approach is to grow our accounts and lines and overall ARPA. And I think there are a lot of different ways that we can do that. We can do that through convergence. Clearly, as we are more disciplined in our CoR and our CoA, we believe we're going to start to see the headwinds of promotion amortization on our revenue growth rate start to flip and become tailwinds.

And the majority of the ARPA decline in the first quarter came from our decision to do the right thing for customers on the network outage and to immediately give them credits, because we absolutely always want to do the right thing for customers and we value the long-term relationship with our customers. And so we feel really good about the way we reacted to our network outage, but obviously that's a one-time event and doesn't come and follow us through the rest of the year. So I would say in general, we expect to see account net adds continue to improve as well as ARPA as we go through 2026 and as we go into 2027.

Anthony Skiadas - Verizon Communications Inc - Chief Financial Officer, Executive Vice President

Yeah. Just to add a couple of things to that, Mike, we exited the quarter with good momentum. The team is focused on writing good business, and the new to Verizon is up 150 basis points, which is great to see. We see a lot of opportunities with convergence, and we saw that in

the quarter with bringing Frontier to the fold. And then also, we've done a lot of work on bringing value to customers, things like Perks -- we've seen significant uptake in Perks -- step-ups, and, of course, in FWA.

So as Dan mentioned, we do expect improvements in ARPA as the year progresses. And as we continue to reduce our reliance on expensive promotions, that will obviously reduce the headwind on promo amortization as we move ahead. So that's how we're thinking about it.

Michael Rollins - *Citi Infrastructure Investments LLC - Analyst*

Thank you.

Colleen Ostrowski - *Verizon Communications Inc - SVP, Investor Relations*

Brad, let's take the next question, please.

Operator

Michael Ng, Goldman Sachs.

Michael Ng - *Goldman Sachs Group Inc - Analyst*

Good morning. Thanks for the question. I wanted to ask about upgrade rates and the changing approach to device subsidies. What are you expecting around upgrade activity for the rest of the year? And how do you balance improved profits on some of these lower device subsidies versus opportunities to use devices to drive gross adds, given that it should be a strong device for fresh air? Thank you.

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

Yeah. Well, I'd say both on our cost of acquisition and our cost of retention, the improvements that we saw throughout the quarter, these are structural changes. They're not one-time or seasonal. We would expect that based on that micro-segmentation, really understanding what our customers exactly want and what our customized offer to them will be will result in us being able to be much more disciplined in how we think about retention.

Not every retention is going to be a free handset. In fact, quite the opposite. I mean, I think our industry has been too dependent on free handsets being the solution for everything. And I think all of us, and I know for sure Verizon, can be much more profitable when we start to micro-segment, really listen to what a customer wants and not just give them a free handset for everything. So I'll give you an example of that.

If a customer calls us and says that they're having a difficulty with service in their home, previously, what we would have done is send them a free handset so that they wouldn't churn. And what would happen at that point is a customer would have a nice new handset and still have poor service at their home. So we just spent like \$1,000 and did not solve the customer's issues. If we had listened and sent a femtocell to be installed at the house, we could have done that at one-third the cost and made the customer happy.

And so that's what's happening right now. We're listening to what customers really want, we're customizing offers to exactly their needs, and we're moving away from just having one tool in our toolbox, becoming much more sophisticated. And as we continue to micro-segment, we're going to become much, much better at this. And so I think we will continue to be ferociously focused on retention and acquisition, but doing it in a smart, fiscally micro-segmented manner should really improve our unit economics going forward.

Anthony Skiadas - Verizon Communications Inc - Chief Financial Officer, Executive Vice President

Yeah. And then, Michael, just a couple of things to add to that.

So obviously, the strong cash flow generation that we have in the business gives us a lot of optionality and scenario planning. In the quarter, we were able to absorb about 6% higher upgrade volumes year over year, being more surgical, as Dan mentioned, with retention offers and also having strong cash flow.

And the one thing I can say is the rate of growth in upgrades has slowed the last couple of months and into the second quarter, and that's both reflective of the work we're doing, particularly in our retention and being very segmented in our approach and very disciplined, and also customer choice, customers choosing to hang on to their phones for longer periods of time. Obviously, we don't guide on this, but we'll see how it plays out, but we're being very disciplined in our approach.

Michael Ng - Goldman Sachs Group Inc - Analyst

Thanks, Dan. Thanks, Tony.

Colleen Ostrowski - Verizon Communications Inc - SVP, Investor Relations

Let's take the next question, please.

Operator

John Hodulik, UBS.

John Hodulik - UBS AG - Analyst

Great. Thanks. Maybe two, if I could. First on the cost cutting, maybe for Tony, any color on sort of how much of the \$5 billion in OpEx savings we've seen thus far and how it ramps through the year?

And then a lot of sort of bullish commentary on volume trends in the Wireless business on -- how should we expect the Fixed Wireless and Fiber Broadband trends to sort of play out through the year as you sort of digest the Fiber assets and get the converged offerings sort of up to speed? Thanks.

Anthony Skiadas - Verizon Communications Inc - Chief Financial Officer, Executive Vice President

Sure. Good morning, John.

So on the cost transformation, let me just start big picture. So obviously, we're making significant progress on the transformation work and the cost work, and it's showing up in the Adjusted (added by company after the call) EBITDA. And as we said in the prepared remarks, we expect Adjusted (added by company after the call) EBITDA to grow at a faster rate than adjusted EPS when you factor in both the Frontier acquisition interest expense, which is about \$1 billion, and also the depreciation from the asset base, which is about \$1.5 billion. And obviously, we had good acceleration in Adjusted (added by company after the call) EBITDA and really good operating leverage.

And to your question, we're off to a great start on the \$5 billion of cost transformation, and we're seeing proof points in the quarter. Maybe I can break down between the first quarter and also what's in progress and coming ahead. So in terms of what we're seeing right now, first and foremost on the network side and network operating costs, the team is doing a great job in continuing to decommission legacy elements

in the network, and that includes copper and recycling that copper and also monetizing that copper, as well as optimizing our third-party access costs with our larger footprint. And there's a lot more we can do here when you think about Frontier coming into the fold.

Second, from an advertising and marketing perspective, continued efficiencies in our spend, including use of digital. And as Dan mentioned, our cost of acquisition, cost of retention, structural improvements there since year-end, and particularly on cost of retention, really being targeted with our retention spend. And then from a workforce perspective, we're exiting the first quarter, we're running leaner with the 13,000 reduction behind us, as well as reduced third-party contractor and outsource spend.

And then in terms of what's the opportunities ahead and things that are underway, we talked about in the prepared remarks around customer experience, and that is the largest part and the largest facet of our transformation program. And that's addressing customer pain points, as Dan mentioned, reducing complexity and call volumes. If you think about both the IT and the real estate continuing to rationalize IT platforms, including AI enablement, along with reducing the real estate footprint, both on the network side and the admin side.

And then from a Frontier perspective, the integration work is well on track, and we said we expect at least \$1 billion of operating expense run rate synergies by 2028, and those synergies ramp as we execute on our integration plans. And as we continue through the cost transformation, the expectation is that we'll continue to reduce -- to further reduce costs beyond 2026.

And then when you put that together, the Adjusted EBITDA and the cost reductions allow us to do a number of things. [company clarification] First is run a lot more efficiently. Second is to absorb the transitional year that we have in service revenue. The third is to invest in the customer experience, and that includes defending our base if we need to do so. And lastly, returning a significant amount of capital to shareholders. And overall, we see a great path to both adjusted EBITDA and EPS growth for the year, and that gave us the confidence to raise the Adjusted EPS guide for the year. [company clarification]

And then I'll hand the Broadband question over to Dan.

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

Thanks for the question, John.

So convergence, obviously, is one of our key vectors of growth. We intend to fully leverage our growing Fiber footprint. As I mentioned in the last earnings call, we're still very focused on driving our Fiber footprint of 40 million to 50 million over the medium term. We made good progress this quarter towards that and expanding our Fixed Wireless Access capacity.

In Q1, we continued to take Broadband share. We have absolutely no intention to slow down, in fact, quite the opposite. We have a huge cross-sell opportunity. Only approximately 20% of our consumer postpaid phone base has Broadband, and so we see large go-to-market opportunities for us there. (corrected by company after the call)

Fiber has inherent advantages over FWA, and we're going to prioritize it where we have coverage. And therefore, you should expect a mix shift from where we've previously been. We have very positive owners economics on both our Broadband and our Wireless. Churn is almost 30% less on converged offers and has a higher of LTV and ARPA. However, be sure we're going to continue to drive FWA, and we entered the year with more available capacity in our network for Fixed Wireless Access than when we began 2025, and we intend to take advantage of that.

Q1 is seasonally our slowest quarter, but even so, we added 341,000 Broadband subscribers. And by the way, that excluded the first 20 days of January for Frontier. You can probably do the math on what our numbers could have been on Broadband had we had a full quarter of Frontier in our numbers. So we're quite pleased with where we are in our Broadband net additions, and we expect to see that accelerate as we go forward.

We're going to continue to invest heavily in Broadband. We're going to have at least 32 million passings. We're looking at more partnerships, potential acquisitions to speed the number of homes past. There's no question, we think that Fiber is a key differentiator against competitors who don't have it.

And I'd also point out that our attachment rate of Wireless when a customer has Broadband, I think it's best in the industry at approximately 55% right now [company clarification]. So expect that you'll see improvement in our Broadband numbers as we go through the year, and we're looking for the optimal, most efficient way to deliver Broadband to the home.

John Hodulik - *UBS AG - Analyst*

Great. Thank you both.

Colleen Ostrowski - *Verizon Communications Inc - SVP, Investor Relations*

Next question, please.

Operator

Sebastiano Petti, JPMorgan.

Sebastiano Petti - *JPMorgan Chase & Co - Analyst*

Hi. Thank you for taking the question. Dan, just a quick follow-up to John's question there, just in regards to your FWA commentary, I mean, should we still anticipate 8 million to 9 million FWA (inaudible) by 2028? Is that still a target for the management team? That's my first question.

And then, Tony, the buybacks, \$2.5 billion, great to see in the quarter, you're not surprised given the momentum. How should we think about the expectations for buyback in 2026? I think you previously talked about \$3 billion, clearly seems conservative at this point. And I didn't see any commentary in the press release, but I mean, how should we think about the, I guess, phasing or cadence of buybacks from here over the multi-year period? Thank you very much.

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

Yeah. I'll first jump on the FWA question. I don't think you should really adjust any of your thoughts around that. We're going to drive quite aggressively on the Broadband side. Again, there may be more of a shift to Fiber than FWA. We've had a lot of progress on FWA over the years, and we'll continue to drive it.

Anthony Skiadas - *Verizon Communications Inc - Chief Financial Officer, Executive Vice President*

Yeah. And then Sebastiano, on your question on capital allocation, I mean, as we said in the remarks earlier, that the pillars are the same. Our first priority is still investing in the business, and you see us doing that with our capital program of \$16 billion to \$16.5 billion and our acquisition of Frontier as well. The dividend is still ironclad for us, and we raised the dividend \$0.07 back in January, and that's the 20th consecutive year.

And the third is having a strong balance sheet and paying down debt. And as we said, there's no change to our long-term leverage targets, and we said we'd be there in the 2027 timeframe. We've also paid down about half of Frontier's debt stack already, so we're well on our

way there. And then fourth, as you mentioned, we have our share buyback program underway. We did \$2.5 billion of share repurchase in the first quarter, so we're off to a great start. And that reflects the strong cash generation and the conviction -- our conviction in the value of the stock at current levels.

In terms of your question, I can't talk about hypotheticals. If we have additional excess cash flow beyond our plan and maintain our leverage commitments and invest in the business and things like that, we would have the ability to do more, but our plan of at least \$3 billion is appropriate at this time.

But the overall goal doesn't change. It's generating strong cash flows and being able to execute across all four pillars of our capital allocation strategy and doing that simultaneously. As you saw, we returned a significant amount of capital to shareholders. It was \$5.4 billion in the first quarter. And we're doing all of this while we're executing on our transformation plan as well.

Sebastiano Petti - *JPMorgan Chase & Co - Analyst*

Great. Thank you both.

Colleen Ostrowski - *Verizon Communications Inc - SVP, Investor Relations*

Next question, please.

Operator

Sean Diffley, Morgan Stanley.

Sean Diffley - *Morgan Stanley - Analyst*

Thanks very much. Dan, you spoke recently about AI transforming the economy and impacting jobs. I was hoping you could elaborate a bit on how you think about the ability to take out more costs across the business. Obviously, you referenced it a bit on the OpEx commentary. But any tangible examples of AI use cases that are being implemented at Verizon, how you think about total headcount growth over time?

And then one on CapEx. Can you elaborate on investing in Wireless versus Fiber? And anything to say on Spectrum acquisition interest going forward? Thanks very much.

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

Sean, it's like 12 questions. Let me jump on the AI piece of it.

Obviously, I'm quite outspoken about the time we live in. It's one of ferocious technological change, not just AI, quantum coming in the next three years, humanoid robotics coming after that. I think it's important we openly talk about it and talk about the implications or potential implications of it. I also feel it is absolutely essential that Verizon uses the tools of this era to compete.

I want us to be not an AI-first company. I want us to be an AI-native company. And I think there are three areas where you're going to see us utilize AI to its fullest. One is around operational efficiency, taking out costs, improving productivity, delivering more value to customers. The second, and really important, I'll give some examples of this, is customer satisfaction improvements, how can we better serve our customers through the use of AI. And then finally, how do we fully ingest AI capabilities into our value proposition? How do we take that so that we micro-segment down to every single customer?

We have an initiative inside the company, we call it Every Customer Has a Name, and that is about full micro-segmentation. And that is where we will fully ingest all of our data, structured, unstructured, external data into creating customized propositions for every individual customer.

Our AI tech stack has four different layers to it right now. We have a data and intelligence layer, where we're taking, again, formatting all of our data, and we have a huge amount of data that's both structured and unstructured, putting it into the right formats, layering on top of that both LLMs and SLMs. We've got a second layer, which is our development factory layer, which is kind of our middleware. It's where we generate agents. It's where we have agent-building capabilities.

We have a third layer to our stack, which is what we're calling runtime engines, which is where we can deploy agents, we deploy business features and impact how we serve customers. And then surrounding all of that, we have a control plane, which looks at security, identity, guardrails, safety, observability, traceability, those kinds of things. We are going to be substantially complete with that entire AI tech stack by July, and we hope to be fully done by November.

I would say we've recruited quite a number of AI-savvy individuals into the company over the last seven months or so. We've done more in the last three months than we've done in the last three to four years around this. We had a previous project on this that had a four-year completion date. We, again, will be substantially complete on all of this by July.

We are working very closely with Google and Anthropic and other best-of-breed AI players to bring this to life. This isn't our own stack. We are using best-of-breed to go and make it happen. We're very close, obviously, with Anthropic. We are part of Glasswing. We are working with Mythos and have been for some time across all of our cybersecurity efforts, and it has given us great insight in terms of what we need to do to continue to have the world's most reliable, secure, and safe network.

We have been now for the past three months, we saw some of those results happen in this quarter, looking at working with Sierra, Levin Labs, Google to start to put into place of voice agents into some of our customer service operations. Again, we are testing these models and we are fine-tuning them. But what we are seeing already is a 1,280-basis-point improvement in customer SAT scores year over year in March 2026 (corrected by company after the call). I mean, these are quite astonishing step-ups in our ability to satisfy our customers.

We're deploying quad code across our software development lifecycle. This is not just around coding, but across the entire lifecycle. We see opportunities to do an increase in our delivery by 40% plus. And we spend a ton of money on vendor support here, and we see our way to reducing those costs by over 70% as a result of what we're doing with AI.

And in the network -- we have really deployed quite extensively inside our network. Up to 85% of our domain issues are autonomously resolved (corrected by company after the call). That means we are resolving issues before our customers even see them. We used to have in our network, like the bill of material, it was over like 1 million different combinations, thinking about the cost and the complexity around that. Using AI, we've driven that down now to about 20 kits. So our ability to deploy safe costs because of this is radically improved.

We already have over \$200 million of energy savings as a result of deploying AI into the network and looking at how we can optimize on energy, and we're doing things now at industrial scale. And so yeah, I'm quite pleased with the amount of progress we've made in a short period of time.

And I would also point out, on the commercial side, we are in quite deep discussions right now with hyperscalers, with alternative cloud providers, large enterprises to integrate our Fiber, both dark and lit, and our 5G assets to support their AI infrastructure efforts. And that can include data center connectivity, ability to help them with their training and inference.

And that is the potential for multi-billions in revenues, quite frankly. We'll have more specifics on that in the next three to six months, but the world is moving towards edge computing, towards data connectivity, and we are in a real good place to play inside that AI infrastructure revolution that's going on.

Colleen Ostrowski - *Verizon Communications Inc - SVP, Investor Relations*

Brad, I believe we have time to take one more question.

Operator

Michael Funk, Bank of America.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Yeah, great. Thank you guys for fitting me in. So Dan, one for you, theme of the call has clearly been customer lifetime value and micro-segmenting as well. So just kind of curious about the save budget as part of that micro-segmenting and churn reduction effort and how much you've improved or increased the save budget, how that might impact the repricing of the back book. And one follow-up, do you still expect your postpaid phone net adds to be 10% to 15% of the net new?

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

Okay. A lot of different questions in there. One, on our postpaid phone net adds, yeah, I mean, I still think that's probably a good estimate of the 10% to 15% of new. We'll have to see where the industry comes out, what is new, what's real in those numbers.

One thing I would say, though, on that that we haven't really talked about is I think it's obvious now that at least half, if not more than half, of our net adds are going to come from improvements in churn. And what that means is that the amount of dollars that we will spend on driving our net add number will be reduced because the bottom of our funnel is tightening. We're at 95 bps in Q4, 90 bps overall in Q1, 85 bps at the end of the quarter. [company clarification: metrics are consumer postpaid phone churn]

And so that obviously is an extraordinarily important element and a demonstration of how putting the customer at the center of everything you do when you stop raising prices with no corresponding value when you start improving the customer experience, which, by the way, is very difficult to do and is a differentiating thing and hard for others to follow. You put out a price plan, people can follow that. You put out a promotion, people can follow it. But the hard work of improving the customer experience, that comes day by day. One initiative after another to make that happen, and that's why I really am pleased to see an all-time record of our customer satisfaction when people interact with our customer service teams on our Consumer side.

On cost of retention, the cost of retention and cost of acquisition have come down substantially through the quarter. We believe that those lower levels will continue to play out through the year, and that really has to do with micro-segmentation and really understanding what a customer needs.

The era of just the free handset, that's gone right now. We're looking at what does a customer need, can they have a handset that -- it's last year's model that's been refurbished, do they need a new handset. Many of them, because of the economy, are keeping their handsets longer right now. And so I believe that you're going to continue to see CoR and CoA at reduced levels.

But of course, as Tony mentioned, we have a substantial war chest and we will defend our base whenever we see any competitive activity on that. But we think right now that the competitive intensity in the industry is moderating, quite frankly, and I think everybody is thinking about how do we look at acquisition, how do we look at retention in a much more segmented and much more fiscally responsible way than maybe we were several years ago.

So I appreciate the question.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Yeah. Thank you, Dan, for that. I appreciate it.

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

You bet.

Colleen Ostrowski - *Verizon Communications Inc - SVP, Investor Relations*

That's all the time we have for questions. Thank you all for your time today.

Operator

This concludes the conference call for today. Thank you for your participation and for using Verizon Conference Services. You may now disconnect.

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