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VZ.N - Q2 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 second-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 - Senior Vice President*

Thanks, Brad. Good morning, and welcome to our second-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.

As a reminder, on June 29, 2026, we filed an 8-K with the Securities and Exchange Commission, which disclosed our agreement to form a joint venture with BT Group Plc to combine our international wireline businesses. As such, the net assets that Verizon will contribute to the JV are now classified as assets and liabilities held for sale and have been moved from Verizon Business Group to Corporate and Other.

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 stepped into this role last October, I said we were going to do three things: put our customers at the front and center of every decision, run the company with operational discipline, and translate that into accelerating financial performance for our shareholders. In Q1, we highlighted the first proof points.

Today, with our second-quarter results, we see clear and compelling evidence that our transformation is driving a structural and meaningful inflection in our results. Tony will take you through our financials in more detail, but in a nutshell, we are accelerating across every key metric, and consequently, we are raising our Mobility and Broadband service revenue, free cash flow, and adjusted EPS guidance.

Our operational metrics continue to shine. In the quarter, we delivered 184,000 postpaid phone net adds, a meaningful step-up from Q1 and an increase of 193,000 from last year. Our Consumer Q2 postpaid phone net adds were our best in five years, and our overall postpaid phone gross adds for Q2 were our best in the last eight years.

In the first half of 2026, our postpaid phone net adds are up 537,000 versus a year ago, and we continue to expect postpaid phone net adds to be in the upper half of our 750,000 to 1 million range for the full year. In addition, we added 348,000 Broadband net additions, continuing the share-taking momentum we have built over the last several quarters. In total, our Mobility and Broadband net adds for Q2 were over 550,000.

I'm also particularly pleased to say that our net new accounts have also been positive for the past two months. It's been a long time since we have been able to say that we are now growing both accounts and lines.

Importantly, we are driving our postpaid phone net add growth in a fiscally responsible manner. Consumer postpaid phone churn was 84 basis points, down from 90 basis points in Q1 and 95 basis points in Q4 of last year, and it is an improvement of 6 basis points from a year ago. Verizon's overall postpaid phone churn also improved by 5 basis points from last year as our Business Group also drove a meaningful improvement year over year.

I want to pause on our churn number because it is one of the most important metrics in assessing the health of our business model. Consumer postpaid phone churn of 84 basis points is a step change for Verizon. As all of you know, our churn had been steadily rising quarter after quarter, and it is now down year over year and down sequentially for the second consecutive quarter.

At the same time, we are improving the quality of our gross adds and lowering our costs to acquire and retain our customers. When you compound lower churn with healthier acquisition economics, you get exactly the kind of operating leverage you are seeing in our financial results.

In fact, our financials all accelerated in Q2. Mobility and Broadband service revenue grew by 2.8%, up from 1.6% in Q1. We see this trend continuing to accelerate in the second half of the year. And as a result, we are now guiding our Q3 Mobility and Broadband service revenue to approach 3% year-over-year growth. And our Q4 Mobility and Broadband service revenue is now anticipated to grow at approximately 4% year over year. For the full year, we are now guiding revenues to grow 2.5% to 3%, the upper half of our previous 2% to 3% range.

Our bottom line also outperformed as our adjusted EPS grew by 6.6% year over year to \$1.30. As a result, we are raising our adjusted EPS guidance to 6% to 7% growth for the year.

And one of the stars of the quarter was our free cash flow of \$6.4 billion, up 24% year over year, one of the strongest cash flow quarters in our history. Consequently, we are raising our full-year guidance for free cash flow growth from approximately 7% or more growth to 9% to 10% growth. This is in sharp contrast to the past five years when both our average annual free cash flow and adjusted EPS grew at approximately negative 1% during that timeframe.

We also completed \$1 billion of share repurchases in the quarter, bringing year-to-date buybacks to \$3.5 billion, already ahead of our full-year commitment of at least \$3 billion. We are now raising our full-year buyback target to up to \$4.5 billion, reflecting both our accelerating free cash flow and our conviction that Verizon stock at current levels represents a compelling use of capital.

These results reflect the operating discipline we have been building across the company. I want to spend a moment on what is actually happening underneath these numbers because the drivers of our model are more important than any single metric.

First of all, our overall customer economics continue to improve. In Q2, our Consumer promotional cost of acquisition improved by approximately 15% year over year, while our promotional cost of retention also improved by approximately 17% year over year.

It's also important to note the net adds we are bringing into Verizon are of higher quality. Remember that we are no longer acquiring lines with zero revenue. We delivered Q2's net add and churn performance at those lower cost levels. And with our new value proposition, we expect our cost of acquisition and retention to continue to improve.

That combination -- higher quality net adds, better volumes, lower churn, and lower unit cost economics -- is the engine behind the adjusted EPS and free cash flow performance you are seeing. And it is a meaningful and structural shift in our business model. It will also drive improving revenue growth as we add more net subscribers across Postpaid, Prepaid, and Broadband and begin to benefit from a reduction in our promo amortization headwinds.

In Q4, we will also lap the year-over-year headwind from our decision to keep our pricing in line with the value we provide. As I've said, we will not raise prices without adding corresponding value for our customers.

Second, the network is delivering. Following the actions we took after the January event, our network performance metrics have improved sequentially every month as we embed sophisticated AI models that allow us to autonomously fix network issues in minutes, as opposed to hours, and with our success in the AWS spectrum auction we will add to our network superiority.

Third, convergence is real, and it's working. Our Frontier integration is ahead of plan. We are seeing the cross-sell economics we expected with converged Mobility and Broadband customer cohorts, churning materially less than single product customers. With 348,000 Broadband net adds this quarter, we continue to take share.

Fourth, the transformation workstreams I described last quarter are producing tangible results, and we are fully on track to deliver at least the \$9 billion of OpEx and CapEx savings we said we would. The 10 transformation initiatives we launched are no longer plans on a page. They are showing up as lower cost to serve, faster customer journeys, and a step change in productivity across the organization.

We are rapidly becoming an AI-centric company in how we operate, and the operating leverage we are experiencing in our results reflect that. Our \$9 billion cost program for this year is on plan, on pace, and is a multi-year tailwind that will continue to bear fruit in the years ahead.

Before I wrap up, I want to highlight several important initiatives we recently launched. Each of these will fundamentally improve our ability to serve our customers while driving incremental value for our shareholders.

Our new Consumer value proposition launched in mid-June, and it is delivering well beyond our expectations across every metric. It is built on a single idea that our customers should not have to do anything -- no plan changes, no upsells, no fine print -- to get more from the company they have chosen. They should get more just for being our customer. And there are three elements I'd like to highlight.

First, we launched the most comprehensive Loyalty Program in our industry. Every Verizon customer -- not a tier, not a segment, not a subset -- has access to our full Loyalty Program with no plan change required. It includes monthly cash back, a redemption catalog that is genuinely differentiated from anything in this industry, and the elimination of activation and upgrade fees. We do not feel it is appropriate to charge a customer to join our network or upgrade their device. We are redefining what it means to reward customers for their loyalty.

Our second innovation is Simplicity, a radically transparent and simplified Wireless plan, \$45 with our best network performance. One plan, one price, no games. We are taking the complexity out of choosing a Wireless plan and trusting that a clean, honest offer wins. We are separating phone subsidies from our Wireless pricing. That translates into better transparency, more flexibility and choice for customers, and meaningfully better margins for Verizon.

And finally, we launched a fully converged nationwide plan called Verizon One, \$70 for Mobility and Broadband together, all taxes and fees included on one bill with integrated servicing across both products. This is what convergence is supposed to feel like for a customer: one price, one bill, one call if you need help, nationwide coverage, all backed by one company accountable for the entire experience. Nobody else in the industry is delivering that today.

Our new value proposition is a structural repositioning of the Verizon brand around customer value. And it's just another step in our journey to put the customer at the center of everything we do: lower Consumer postpaid churn, healthier net adds, and a lower cost of acquisition and retention. Those numbers tell you that we have already begun to compete differently.

Simplicity, Verizon One, and the Loyalty Program are the customer-facing expressions of that shift. They are designed to drive volumes, further reduce churn, and enhance the lifetime value of our customers. We have been deeply thoughtful and fiscally conservative in how we have built this proposition. The economics have been pressure tested, the Loyalty Program is funded within our existing operating envelope, and every assumption underpinning Simplicity and Verizon One is grounded in discipline modeling.

The new value proposition and Loyalty Program are additive to our financial profile. They are fully contemplated in our outlook, they do not require us to spend our way to growth, and they are designed to compound the operating leverage you are already seeing. As I mentioned, our initial results are extremely encouraging across every metric.

Our second announcement is our 50/50 joint venture with BT that combines our respective international wireline assets into a single focus entity. The combined JV will serve over 3,000 joint enterprise customers and represent roughly \$4 billion of combined revenue at formation. We expect to close this transaction in the second half of 2027.

The deal sharpens our focus on where and how we win. It improves the financial profile of the remaining business immediately. We expect that we will realize annualized savings of approximately \$200 million versus our current course and speed.

And most importantly, it allows us to significantly improve our ability to serve our enterprise customers. By uniting Verizon's network strength and international enterprise wireline team with BT's deep historic footprint, we are creating a standalone leader in the global connectivity market dedicated to supporting the digital future of multinational organizations.

Our third announcement is also quite consequential because it foreshadows where our revenue growth profile is going from here. We recently signed an agreement with Google valued at over \$1 billion to use Verizon dark fiber to connect their data centers.

We have other deals that we expect to announce by year-end that, taken together, are expected to be worth multiple billions of dollars in revenue over the next several years. These are long-duration, high-quality, contracted revenue streams from some of the most demanding infrastructure customers in the world.

We believe that this is just the beginning. The build-out of AI infrastructure across the United States is one of the largest capital cycles of our lifetime, and Verizon is uniquely positioned to participate in it.

We own one of the most extensive long-haul and metro fiber footprints in North America. We have spent decades building the kind of carrier-grade, low-latency, highly resilient transport network that hyperscalers need to connect compute to compute, model to model, and region to region. We built that infrastructure for a different era, but it has turned out to be exactly the right asset for this one. We are also in the early stages of retrofitting many of our central offices into data centers for inference edge computing, with multiple conversations underway with partners who are eager to utilize these power-ready and permitted locations.

We are moving quickly to expand our TAM into the rapidly growing AI infrastructure market. The agreements we have signed are the leading edge of a strategy that will become a meaningful, incremental leg of growth for Verizon. We expect this initiative to noticeably contribute to our revenue growth starting next year and to grow substantially from there.

I want to emphasize what that means in combination with everything else I've said today. In the back half of 2026, our Mobility and Broadband service revenue growth is expected to accelerate, with Q4 forecasted to grow by approximately 4% year over year. That acceleration is independent of the incremental AI infrastructure revenue that begins to layer into our results starting in 2027.

Said differently, our core business is accelerating, and a new revenue growth factor arrives on top of it next year. This is a very different revenue growth profile than Verizon has had in a very long time. And it is the foundation of why we believe that we are at the beginning of a multi-year growth story.

When I gave our initial 2026 outlook back in January, some of you rightly questioned if we could deliver this kind of acceleration in a single year. After almost a year into my tenure, we are not just on track; we are significantly raising the bar. And we are doing it the right way through healthier customer relationships, stronger network performance, and disciplined execution.

Tony and I believe that this is what a disciplined focus on customers and shareholders look like. We are innovating and investing in the full end-to-end customer experience. We are investing in our network. We are investing in our Broadband footprint and the convergence opportunity.

We're investing in our AI tech stack, we are growing our dividend, and we are paying down our debt. We are returning incremental capital through buybacks, not as a one-time event, but as a sustainable feature of how we run this company going forward. Every one of those levers is moving in the right direction, and that is a function of the operating discipline across the company.

The momentum we have in Q2 is driven by our leading indicators -- lower churn, quality net adds, increased customer satisfaction, network performance, convergence, and OpEx and CapEx efficiency -- and they are all pointing in the same positive direction. The back half of 2026 will be stronger than the first half, and 2027 should be stronger than 2026. This is a multi-year story, and we are early in it.

I want to thank the Verizon team for all your hard work. These results are yours. The customer-first mindset, the operational rigor, and the urgency you are bringing to this transformation every day, that is what's showing up in our numbers.

And I want to thank our shareholders for believing in us. We want to earn back your confidence with execution, not with promises. Halfway through the year, the financial profile of Verizon is materially different than it was a year ago, and the trajectory from here looks to be even more promising.

With that, let me turn it over to Tony to walk you through the financials in detail.

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

Thanks, Dan, and good morning.

Our second-quarter results reflect another strong quarter of execution, driving further momentum with our operational and financial performance. The transformation efforts we've put in place are gaining traction as we continue to make progress around the customer experience while positioning ourselves to be even more efficient.

As you heard from Dan, we are increasing our 2026 guidance for Mobility and Broadband service revenue, adjusted EPS, and free cash flow. This marks the second quarter in a row of raising components of our original full-year guidance. This was a direct result of strong operational execution and the progress we are seeing in the business.

Let me begin with our operational results. In Mobility, we delivered 184,000 postpaid phone net additions, an improvement of 193,000 from the prior year. This performance was driven by a 5-basis-point year-over-year reduction in postpaid phone churn, reflecting the improvements we are making with the customer experience.

As Dan mentioned, Consumer postpaid phone churn was down 6 basis points year over year. This result led to Consumer having positive postpaid phone net adds in the second quarter for the first time since 2021. Additionally, we had solid business phone net add results in the quarter, driven by year-over-year improvement across all customer groups. Overall, postpaid phone net adds were 239,000 for the first half of the year, an improvement of 537,000 from the same period last year.

We are writing good business, and we continue to focus on growing volumes, primarily by reducing churn. The key to reducing churn is becoming a customer-centric organization, and we are well on our way. In mid-June, we launched an industry-first Loyalty Program for all customers with Verizon Dollars and Verizon Shine.

We also introduced our Simplicity and Verizon One offerings, which streamline our go-to-market approach. As Dan mentioned, the early results are very encouraging. We believe that the launch of Simplicity will be a key long-term driver for margin expansion.

Further, the double-digit growth in app traffic since the launch is a concrete sign of interest in our programs and likely a leading indicator of churn improvement. The growing benefits we're seeing from churn reduction are allowing us to drive more of our net adds from retention, enabling lower spend on both CoA and CoR. We are being disciplined and targeted, while also reducing churn with better segmentation. To that end, our second-quarter upgrade volumes were down nearly 27% from the prior year.

Moving on to prepaid. Our offerings continued their consistent volume growth and positive revenue contributions in the second quarter. Prepaid net adds were 73,000, our eighth consecutive quarter of positive net adds. As a result, prepaid revenue was up approximately \$90 million year over year or nearly 5% growth.

We continue to take share in Broadband with 348,000 net additions in the quarter. Notably, we now have over 17.1 million total Broadband subscribers in our base.

Fixed Wireless Access and Fiber delivered net adds of 193,000 and 155,000, respectively, demonstrating our continued success in capturing our Broadband opportunity with both technologies. We continue to build out Fiber at an aggressive pace and remain on track to end the year with over 32 million Fiber passings.

We like what we're seeing from the Frontier markets, both in terms of generating Fiber net adds and our execution against the significant cross-sell opportunity. We recently launched Verizon One, which is our first unified go-to-market approach for Mobility and Broadband for both Fiber and FWA. It is one of the many steps we are taking to improve the customer experience and make it easier to do business with us.

Overall, our operational results for the first half of 2026 are a step-function improvement in where Verizon has been over the past several years. We added over 1 million Mobility plus Broadband subscribers in the first six months of the year, positioning us well on the path to deliver long-term, volume-based sustainable revenue growth.

Moving to our financial results. The quality of the business we're writing and our cost efficiency efforts continue to drive strong adjusted EPS growth and industry-leading cash flows. We are accomplishing this even in the midst of our transitional year for Mobility and Broadband service revenue.

As Dan mentioned, we drove an acceleration in our revenue growth rates compared to the prior quarter. Mobility and Broadband service revenue was \$23.4 billion, up 2.8% year over year and 120 basis points better sequentially. Wireless service revenue declined 0.7% from the prior year to \$20.8 billion.

Total revenue for the second quarter was \$34.3 billion, down 0.7% year over year. Sequential improvement in Mobility and Broadband service revenue was offset by lower equipment revenue, which was down nearly 20% or over \$1.2 billion from the prior year, as we drove significantly lower upgrade volumes, another demonstration of a more disciplined approach as we structurally evolve our business model.

The inflection in growth we saw in the second quarter, combined with our expectations for the rest of 2026, give us confidence in raising our Mobility and Broadband service revenue guide. We now expect to grow Mobility and Broadband service revenue 2.5% to 3% for the full year.

In addition, we continue to anticipate Wireless service revenue improving in the second half of the year. Importantly, we are confident that the headwinds from promo amortization have peaked and that these pressures will ease across the second half of the year and into 2027.

Our cost efficiency work continues to drive operating leverage. As evident in our results, we're making tangible headway in our \$5 billion operating cost efficiency program. We're also making great progress with the Frontier integration and remain on track to deliver over \$1 billion in operating cost run-rate synergies by 2028.

Second-quarter adjusted EBITDA was \$13.7 billion, up 7.2% year over year. Adjusted EBITDA margin was 40.1% and represents the highest that we've ever reported.

Adjusted EPS was \$1.30, up 6.6% year over year. With the strong year-to-date performance and our visibility into the second half, we now expect to grow our full-year adjusted EPS by 6% to 7%.

Turning to cash flow. The high quality of our business and our customer relationships continue to generate strong free cash flow and support a healthy balance sheet.

Cash flow from operations was \$18.4 billion for the first six months of the year, up over \$1.6 billion or nearly 10% higher year over year. This was primarily driven by improved adjusted EBITDA performance and continued working capital benefits, primarily tied to lower upgrade volumes.

Capital expenditures were \$8.2 billion through the end of the second quarter. We are executing towards our full-year guide of \$16 billion to \$16.5 billion as we continue to focus on future growth opportunities within Mobility and Broadband.

The net of these resulted in industry-leading free cash flow of \$10.2 billion for the first half of the year. This represents a \$1.4 billion or a 16% improvement from the prior year. As Dan mentioned, the strength of our year-to-date results and the operational momentum of the business gives us confidence to increase our free cash flow guidance. We now expect to deliver 9% to 10% free cash flow growth year over year for 2026.

The strength of our cash flow allows us to execute on all aspects of our capital allocation framework. Our first priority continues to be investing in the business. You saw us taking meaningful action to accomplish that in FCC Auction 113. We're very pleased to have obtained high-quality AWS-3 spectrum that will enhance our network experience in alignment with our commitment to our customers.

In total, we acquired 82 licenses for approximately \$3.2 billion, which is a slight discount to their original auction price from 2015. The licenses are complementary to our existing spectrum and can be deployed with no capital investment. This reflects our prudent approach to spectrum acquisition. We expect to have this additional spectrum deployed within weeks of the FCC issuing these licenses.

We also continue to deploy Fiber at scale to capture growth opportunities, including AI infrastructure builds across the country. As Dan said, we expect the amount of revenue associated with these deals to be in the billions over the next several years. AI infrastructure represents a large opportunity with a new long-term high-quality revenue stream that we expect to ramp over the next few years.

From a balance sheet perspective, we continue to pay down debt in the period. As of the end of the second quarter, we have paid off substantially all of Frontier's debt six months ahead of schedule. Our net unsecured debt to consolidated adjusted EBITDA ratio at the end of the quarter was 2.5 times, a 0.1 times improvement from the previous quarter. We remain on track to reach our target leverage range during the 2027 timeframe.

Lastly, year-to-date, we've delivered shareholder returns of \$9.4 billion, up more than 60% year over year. This includes \$5.9 billion of dividends and \$3.5 billion of share repurchases. Our cash generation and the strength of our balance sheet provide significant optionality, which gives us the confidence to raise our full-year 2026 target for share repurchases to up to \$4.5 billion.

In closing, our second-quarter results represent a clear step-function improvement across our entire business. Our transformation is taking hold, and we are actively translating operational momentum into sustainable, profitable growth. There are three key pillars to this.

First, our operational momentum is very strong. We added over 1 million Mobility and Broadband subscribers in the first half of the year. This was driven by customer experience improvements and a 5-basis-point year-over-year improvement in postpaid phone churn in the quarter.

Second, disciplined financial execution. We generated our best-ever reported adjusted EBITDA and adjusted EBITDA margin. This reflects our relentless focus on cost efficiencies and writing high-quality business as our operating expense savings program remains squarely on track.

Third, we continue to evolve our offerings to be customer-centric. With the launch of Simplicity, Verizon One, and our Loyalty Programs, we are successfully capturing new customers and retaining existing ones with robust economics.

We are focused on putting the customer first, growing volumes responsibly, and driving meaningful returns for our shareholders. We're executing on our transformation and delivering on our plan. We are playing to win.

Before we go to Q&A, I want to share that our Board of Directors has extended Dan's contract to December 31, 2028. This reflects the Board's confidence in our trajectory, our strong results, and the momentum of our ongoing transformation under Dan's leadership. The entire Verizon team is thrilled by this development, and we look forward to building the new Verizon. Congratulations, Dan, from all of us. More details are in the 8-K that we just released.

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

Colleen Ostrowski - Verizon Communications Inc - Senior Vice President

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Sean Diffley, Morgan Stanley.

Sean Diffley - Morgan Stanley - Analyst

Great. Thanks very much. I had a question for Dan on the competitive backdrop and your new value proposition. I was hoping you could provide an assessment on the competitive landscape in Wireless and whether you're expected to intensify with a new device launch in the fall. Obviously, the market is competitive but not worsening and you're seeing less handset promos. You guys had your best postpaid nets in five years and Consumer churn's getting better.

Can you elaborate on which parts of your new go-to-market strategy are resonating most and with which cohorts? And then, how should we think about the line versus account growth going forward following the recent momentum with two months of accounts growing? Thanks very much.

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

Thanks for that question, Sean. Let me try and address most of it, at least. Let me start off with our value proposition and put that in some context. Our value proposition is just another step in our desire to put our customers front and center. We've been investing in every part of that end-to-end customer journey, from the in-store experience to our digital channels, to our billing, to our customer service.

We literally have hundreds of micro initiatives running in the company going after every single pain point that consumers might have with Verizon, and we're making great progress on that. Like you can see our Consumer postpaid churn down 6 basis points, down sequentially two quarters in a row to 84 basis points. And honestly, that's before our value proposition is really kicking in, and we expect to see improved performance, not just in churn, but in our cost of acquisition, our cost of retention.

I will say we're now 40 days into our launch of our new value proposition. And in all my years in the business, I've never seen a launch go as smoothly and as well as this one did. I think our marketing was bold. It was segmented. It was extraordinarily well-received.

And consequently, our results across the board are much better than we even anticipated. Our gross adds are about 16% better than we forecasted. And really importantly, our net new accounts are 31% greater than we forecasted. We are seeing tremendous growth in new account growth. As we mentioned in my remarks, for the past two months, we've seen positive growth in our new accounts, and I would expect that, for Q3, you will see positive new account growth as well.

And the quarter is off to a strong start, quite frankly. We are seeing new segments being penetrated based on the new value proposition. We're getting a lot more one- and two-line accounts, a lot more of the youth market, a lot more diverse accounts coming in. And our assumption sets around what would happen in base migration and ARPA. So base migration is maybe a third of what we expected, and Simplicity has been ARPA accretive as well.

And I would also just say that every new account onto Simplicity is basically subsidy-free, which, of course, that's just a huge structural improvement to our financial model. And it goes to your point around competition. I think the basis of competition is fundamentally changing.

It's moving away from subsidies, at least for us, and it's moving to the overall end-to-end customer experience, like what do the products and services look like, what does your servicing look like, what does your loyalty look like. And there's a new basis of competition going on that is much more structurally beneficial to Verizon. And frankly, we're seeing that throughout the industry.

Our Loyalty Program has got a ton of enthusiastic reaction from our customers. And really importantly now, we're seeing a huge number of partners reach out to come into our program with very aggressive promotions for our customers. And so all in, I'd say, really, we couldn't have a better start. We're seeing incremental volumes, a very strong start to Q3. Customer feedback has been positive, and obviously, it's making a big difference in our financials.

I hope that answered most of your questions.

Sean Diffley - *Morgan Stanley - Analyst*

Very helpful. Thank you.

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

You bet.

Colleen Ostrowski - Verizon Communications Inc - Senior Vice President

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

Operator

Michael Rollins, Citi.

Michael Rollins - Citi Infrastructure Investments LLC - Analyst

Thanks, and good morning. I'm just wondering if I could drill a little bit more into the subject. So as we've been following the refreshed go-to-market, I think what's interesting is you're taking away, as you described, some of the customer pain points. But that does also take away some sources of revenue. So within the guidance, as you're improving service revenue growth, and you just described the better ARPA coming from the Simplicity plan, can you further unpack the ways in which you're replacing and improving service revenue growth?

And then secondly, I was curious if you could further discuss the hyperscale Fiber opportunity in terms of the revenue. And is that dark fiber, lit fiber, and the types of investments that might be needed on an incremental basis to deliver on those opportunities? Thanks.

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

Yeah. Hey, Mike. It's Tony. I'll take the revenue question, and then I'll pass it back to Dan on the AI question.

So on the revenue, I would say we've made good progress in the second quarter. As we mentioned in the prepared remarks, we're up 120 basis points from Q1, and we said Q1 would be the low point of the year. And based on the strength of the core business, we increased the guide to 2.5% to 3% for Mobility and Broadband revenue. And we said the third quarter would be approaching 3% and Q4 growing around 4%, and underpinning this is our Wireless service revenue.

And as we think about looking ahead, we expect Wireless service revenue to be about flat for the full year, which implies that the second half would suggest that we see positive revenue growth. And this comes from a few key areas. I mean, first is the volume growth that you see. Our Mobility net adds are up over 500,000 year-to-date year over year. And even on FWA, we're up over 1 million subs, 1.1 million subs year over year.

As we mentioned in the prepared remarks, the promo amortization headwinds have peaked and will ease across the second half of the year into 2027. And then, we have things like value-added services such as perks. I mean, the number of perks are up like 40% year over year, so that's driving revenue growth. Prepaid is growing. We're growing volumes, and now we're growing revenue, which is great to see.

And then, we're lapping the pricing increases from the second half of 2025. And as Dan mentioned, on Simplicity, we're seeing good green shoots in terms of ARPA accretion and as we look at each segment cohort. So that's very promising.

And we have, as we mentioned on the call -- in the remarks, that we have some early wins on AI Connect that Dan will get into in a second. And that's an opportunity for us above the core business, and we expect it to become meaningful in 2027. So when you put it together, the actions we've taken are driving durable improvements in our revenue and sets us up well for the strength as we head into 2027.

And with that, I'll hand it to Dan on the AI question.

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

Yeah. I'll just first go a little bit into what you just said, Tony.

I mean, I think we're driving revenue and volumes in the right way. We're redefining our business model as well. The cost structure is improving, our cost of acquisition down 15%, our cost of retention down 17%. Those are before the Simplicity impacts. And with churn beginning to come down, I think we not only will be able to drive our top line consistently and in an accelerating manner, but also begin to see that manifest itself in our bottom line and cash flow as well.

Mike, let me go into what we call AI Connect, our initiative inside the company. But this is the first time we're talking about it publicly. Our first focus was obviously to address our Mobility and Broadband end-to-end customer experience, fix that, launch our new value proposition, put into place our transformation work streams, and assure that we have the right cost structure in place to invest where we needed so that we could drive the results that you're seeing and the returns for our investors. And we're clearly beginning to see signs of that success as we look not just at Q2, but as we look ahead.

But behind the scenes, it was clear that there was a kind of once-in-a-generation opportunity for Verizon to participate in the massive AI infrastructure build-out. As we talked to hyperscalers, alternative cloud providers, enterprises, there's a need for ever-increasing compute power. I mean, everybody knows that, everybody's hearing about it.

And the way that that compute power has moved over the last year or so is, at first, it was about optimizing racks, and then it was basically saying how do we combine racks within a data center to optimize compute power. And now, it really is about how do you connect data center to data center to assure that you can optimize and maximize the ever-expanding need for compute.

And while that data center connectivity demand is exploding, there's an equal amount of desire and demand to power inference models and applications that need ultra-low latency, like robotics or remote surgery, autonomous driving, and move that out into the edge as opposed to these big massive data centers. And clearly, our long-haul and metro fiber networks, whether that's dark or lit, depends on the customer.

Some of them want it dark, so they can do the electronics around it. Some of it want it lit, so we do all of the servicing around it. But whether it's dark or lit, our assets are kind of suddenly in tremendous demand for that data center connectivity. And we have thousands of central offices, many of which we're taking copper out of, and we are retrofitting them to be remote data centers that are power-ready, permitted, fully redundant infrastructure. And those, we did a small trial on that and sold out capability in 24 hours, so we're seeing large demand for that as well.

We're just announcing this partnership with Google for several of our dark fiber routes for well in excess of \$1 billion. The demand for these fiber routes that we currently have and that we are building is ultimately limited, and that capacity and pricing is -- we're going to have to think about how we handle the demand for that.

We're clearly an attractive player with differentiated assets that are in high demand. We've been building carrier-grade fiber routes for decades. We know how to get it done. We understand permitting. We do our own construction. And we have a solid balance sheet and a solid service reputation that the AI ecosystem needs and counts on.

The revenues that we're talking about are meaningful. They've got margins that are equal to or greater than our existing margin structures, and they will begin to impact our revenues and margins beginning next year and grow substantially over the next five to 10 years.

And as Tony said, and I said, these AI Connect revenues are on top of what is an accelerating core Mobility and Broadband business. We're fortunate to be in a position where our assets and expertise intersect with this kind of generational demand. All of this is success-based kind of capital that we are putting in. And we see this accelerating business, plus our AI Connect infrastructure, providing us with a very different revenue feature than we've had in a long, long time.

Michael Rollins - *Citi Infrastructure Investments LLC - Analyst*

Thank you.

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

You bet.

Colleen Ostrowski - *Verizon Communications Inc - Senior Vice President*

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

Operator

John Hodulik, UBS.

John Hodulik - *UBS AG - Analyst*

Great. Thanks, and good morning, everyone. Dan, can we talk a little bit about Fixed Wireless? It seems that the adds there are on a bit of a downward trend. Can you talk about the performance of the product and maybe the runway you see with it?

And then number two, I mean, obviously, satellite competition is a key theme in the connectivity space these days. How does your Broadband product portfolio, and especially Fixed Wireless, sort of stack up to competition from these LEO constellations as you see it evolve? Thanks.

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

Yeah. Thank you, John, for that question. It's a great one.

We're very pleased with our Broadband net adds. We continue to take share. As Tony mentioned, we have 17.1 million Broadband customers. By the way, 58% of them have Mobility as well. So we are doing a really great job at cross-sell, and that's accelerating.

And as I mentioned on our last earnings call, you're going to continue to see a mix shift towards Fiber. We're growing our homes passed with that line of sight to at least 32 million homes passed by the end of the year.

And in our way of thinking, Broadband is Broadband. Where we don't have the fiber, we'll offer FWA for a true nationwide service. Customers don't distinguish between the two. They think about what speed are they going to get. Typically, on FWA, we're at least 300 meg down speeds.

And I really like what we're seeing with our convergence efforts here. Obviously, we've got lower churn, but we're seeing increased ARPA as well. It's interesting with our Verizon One product that we just launched, well over 50% of the people signing on to Verizon One with Fios are [choosing a premium Fios speed]. (corrected by company after the call) So that's incremental ARPA. We have room to sell them more lines, more perks, that kind of thing. And so from a lifetime value perspective, we just want to drive as much convergence as we possibly can.

In terms of satellite, we see no impact from satellite providers on our Broadband penetration and our Broadband capabilities. And by the way, that's not surprising. It is very difficult for satellite providers to provide a service that's even close to what we can provide with our Broadband services.

I mean, today's satellites, their beams cover hundreds of square miles. Even at the very lowest Broadband speeds, call it 100 meg down and 20 up, the ceiling that they can provide service without degrading quality for everyone is very small. I mean, even if you look five years out and assume that these three satellites are in place at very low Earth orbits that you've got 1,000 gig down, 100 gig uplinks, it takes five to seven years for them to scale out that. And when they do, maybe they take their beam size down from hundreds of miles to 25.

In suburbs and in urban areas, but let's just call suburbs right now, the ceiling for them before they degrade service is 10 to 40 homes passed per square mile at the lowest Broadband speed, at 100 meg. If they try and compete against FWA at 300 meg, that ceiling drops to 5 to 20 homes per square mile versus what we can do is anywhere between 500 and 2,000. So we're like 100 times to 1,000 times more efficient. Our speeds and our capabilities are much higher.

And it's basically not possible because of physics, not because of execution, but because of physics, for satellites to effectively compete against the terrestrial network in either Mobility or Broadband in urban and suburban geographies, which, by the way, is where like [a vast majority] (corrected by company after the call) of our revenues are. Satellite does have a TAM, for sure. It's probably somewhere between 6 million and 8 million homes in the US, but it's in primarily very rural geographies, where building out a terrestrial network just is cost prohibitive. It doesn't pencil out.

I would also say -- although you didn't ask this question, but I've read it in speculation out there -- that there is no backdoor to our MVNOs in any structure. And we think that satellite is very complementary to our service. We want to work with the satellite providers, primarily through the JV with T-Mobile and AT&T. But there is no reason that we can seek to extend an MVNO to any satellite player, and there's no way that anyone can get access to our MVNOs as well.

So I hope that answers your question.

John Hodulik - UBS AG - Analyst

Yeah, that was great. Thanks, Dan.

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

You bet.

Colleen Ostrowski - Verizon Communications Inc - Senior Vice President

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

Operator

Your final question will come from Michael Ng.

Michael Ng - Goldman Sachs Group Inc - Analyst

Great. Good morning. Thank you for squeezing me in. It was great to hear about the Mobility and Broadband service revenue accelerating in both 3Q and 4Q. I was just wondering if you could talk about whether or not that 4% is a good starting point for how we might think about

2027 in Mobility and Broadband service revenue growth, just given that it seems like you're only picking up momentum from here. Thank you.

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

Yeah. Thanks, Mike.

Clearly, our anticipation is that the second half accelerates nicely. As Tony mentioned, our Wireless service revenue will turn positive. We're seeing a number of structural capabilities. Our volumes are growing. Our new accounts are growing. Our net adds are accelerating. Our ARPA is increasing; we anticipate it turning positive as well.

We're going to be lapping pricing in Q4. Given what we're seeing on the new model around subsidies, which are going down pretty dramatically, promo amortization is going to turn from making a headwind to a tailwind for us next year we layer in AI Connect revenues.

With that, we continue to see our cost of acquisition and cost of retention go down. Our cost cutting is on track and is a multi-year process. So there's a lot of positive momentum that we see. We'll talk about 2027 when we report our Q4 results. But as I said, the second half of 2026 will be better than the first half, and we see 2027 being better than 2026 as well.

Michael Ng - *Goldman Sachs Group Inc - Analyst*

Thank you, Dan.

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

You betcha. Thank you.

Colleen Ostrowski - *Verizon Communications Inc - Senior Vice President*

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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