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VZ.N - Verizon Communications Inc at Goldman Sachs Communacopia + Technology Conference

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OVERVIEW:

Company Summary

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PRESENTATION

Michael Ng - *Goldman Sachs International - Analyst*

Great. Good morning, everybody. Welcome to the Verizon fireside chat at the Goldman Sachs Communacopia + Technology Conference. My name is Mike Ng. I cover telecom here at the firm.

And it's my absolute privilege to introduce Dan Schulman, who is the CEO of Verizon. Thank you so much for being here, Dan. It's an absolute pleasure.

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

Thank you, Mike.

QUESTIONS AND ANSWERS

Michael Ng - *Goldman Sachs International - Analyst*

So Dan, I was hoping we could just start out with a big picture strategy question. It's been just under a year since you became CEO, and you've led an incredible operational and financial turnaround of the business. Could you talk a little bit about what surprised you the most and how that's shaped how you think about the company's longer-term strategy?

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

Yeah, sure. First of all, it's great to see you, and thanks for having me. Thanks, everyone, for being here. I'd also reference the Safe Harbor that was up there that I'll be at least talking about the future a little bit and that always involves risks and uncertainties. So I just wanted to point that out. It has been a year. Time flies when you're having a good time. And I would say, in general, I'm pretty pleased with the progress that we've made. It's a big company. That often take time to turn around.

There are four things that I really wanted to emphasize when I came in. The first is I want the company to stop being overly engineering focused and really be obsessed with our customer. And I told them I'd measure our success on that on two things, was churn going down because for the last three years, churn has been going up and I wanted to see churn come down. And I also want to see our net adds, especially on the postpaid phone side, go. And if that happened, I figure we're starting to make progress being customer-obsessed.

The second thing is I really felt like the culture at Verizon needed shaking up. We really needed to start to play to win. I'm a pretty intense guy. I'm very impatient, and Verizon's a big company, it's bureaucratic, it's hierarchical, it's process-oriented as opposed to results-oriented is very risk averse and we were moving very slowly.

And I was tired of the company being more pay than predator in the market. And so I basically have a mantra there that every single day matters. I mean we have almost 100,000 people in the company. We should be doing amazing things every single day. And that intensity, I'm beginning to see that in every meeting that I go to.

The third thing was I really wanted to redefine our business model. I wanted to become the most efficient telco in the world. On month two, we cut almost 13,000 people. I said what people thought were ambitious OpEx and CapEx targets, they're really not that ambitious, but $5 billion in OpEx savings, $4 billion in CapEx savings, and we'll exit the year with over $5 billion in OpEx savings on a run rate basis. And I see plenty of opportunity in '27 and '28 to continue that.

I also felt like we really needed to break through like traditional business model. The business model of most of the carriers, including Verizon, it's very subsidy focused. That's how you win customers, that's how you retain customers by giving away handsets. And I felt that really did not need to be the case that we needed to redefine the rules of competition and that we could win in the market but be very fiscally responsible, and I think you're beginning to see that happen. And finally, the fourth thing is we need to have real serious returns to our investors.

For the past five years before I became CEO, our stock was down something like 30%, 35%. We have gone from first in market cap, the last end market cap, our forward PE was one of the lowest, not the lowest in the industry. And you've seen -- and if you look at our adjusted EPS, free cash flow over the last 5 years had compounded at negative 1%. This year, we've guided now to 6% to 7% for adjusted EPS. 9% to 10% on free cash flow.

Our revenues will go from 1.6% in Q1. Do we think there'll be 4% on mobile and broadband in Q4. And we're likely to do 3 times the amount of postpaid phone net adds that we did a year ago. So I would say, in general, I'm pleased with the direction of travel. There's a hell of a lot more that we need to do to reach kind of my expectations, but we're kind of on the right track right now.

Michael Ng - *Goldman Sachs International - Analyst*

Great. That's a fantastic overview. You talked a little bit about the subsidies. So I was wondering if you could talk about Verizon's consumer go-to-market strategy. The company has got -- undergone a reboot with simpler plans, right, Verizon Simplicity, Verizon One and new loyalty plan. So could you talk a little bit about some of the things that Verizon has done to improve customer centricity and how that has actually translated into improving operational KPIs.

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

Yeah. I mean, I think we're still relatively at the beginning of our journey of being customer-obsessed. Look, I've thrown billions of dollars back into our end-to-end customer experience. Last quarter, we hit an all-time high for customer satisfaction in our Consumer division. But everything from the time you walk into a store until you get your first bill, when you call customer service, everything -- I want everything to be.

I know it can't be this, but I want everything to approach perfection. And that's hundreds of things we need to do. But that's why you can create real competitive differentiation. We have an initiative inside the company. We call it, Every Customer has a Name. And it basically means like we treat you with respect, we treat you like you're a family member like you're a friend, and that matters to people. And I'm beginning to see. Churn will be going up for three years in a row. Now churn is coming down year over year. I expect that to continue.

And like our simplicity plans that we put out there, our new value proposition, we spent six months in deep customer research before we put those out into the market. I wanted to look at three things. I want to look at like what were customers telling us they want it in the market, what might competitive response look like and what might our financials look like. And what I told the team is like when we put something in the market, I don't expect to see our financials dip. And then we tell everybody don't worry in a year from now, they're going to go like, I want to see continued improvement in all of our metrics, and we spent a ton of time talking to customers doing deep financial modeling around it.

And what we saw when we launched is maybe the best launch of a new value proposition that I've been a part of we put in the market immediately, we saw our net adds go up. We're off to a good, strong start through the quarter right now on our net adds. A lot of it due to our new value proposition. ARPA, for those new apps is accretive and going up. And the interesting thing about simplicity is there is no subsidy on that.

And we are winning in the market and not having to give away free phones to go and do that. So that's a big deal when that happens. It's a fundamental change in our business model. Our cost of acquisition is at 3-year lows right now, and that's been going up year-over-year-over-year, and we're now seeing that go down consistently as well as our cost of retention as well.

Michael Ng - *Goldman Sachs International - Analyst*

Great. And just on postpaid phone -- postpaid account, excuse me, net additions, the company has guidance for postpaid, phone accounting additions of $750,000 to $1 million -- sorry, I think those are phones. It's phones, not accounts, excuse me.

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

I'll keep you on it.

Michael Ng - *Goldman Sachs International - Analyst*

Thank you, Dan. In the second quarter, you had the best quarter for consumer postpaid phone nets, so the company is making great progress. So could you talk a little bit about the full year target and the expectations for the rest of the year?

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

Yeah, clearly will be at the top end of our guidance for that. The quarter is off to a good strong start. Well, not really off to. It's ending on a good, strong start. And I think the things to point out on the postpaid phone net add side.

Number one is, obviously, we're doing well in driving net adds. But this quarter, for the first time in at least three years, will it be positive phone net accounts, which is a really important element. It will be the first time in a long time that we've had good phone net adds, but good phone net accounts as well. And are the way that we're competing now is fundamentally different than a year ago. Every single net add coming in right now has revenue associated with it.

I don't really understand this counting a net ad is a free line. I know a lot of people do it, but from my perspective, bringing in a free line doesn't really count as a net add in my view, does add to revenue growth it's churn waiting to happen. And so from my perspective, like if we're going to win a customer, it's got to be real. It's got to be because of our value proposition. There needs to be revenue associated with that line or that account coming in.

So our basis of competition is different. Every account coming in on simplicity, which is the majority of our net adds. There's no subsidy associated with it. And so I'm feeling pretty good about the way that we're competing. I mean if we compete in the same way we compete to the last year, like our net add, we'd blow through it, but a lot of them would be free line that is not what we're going to do. We're going to bring in quantity and quality at the same time and at a low COA, cost of acquisition.

Michael Ng - *Goldman Sachs International - Analyst*

Great. At the beginning of the discussion, you talked about the focus on getting turned down and 2026 has always been described as a more churn reduction led subscriber growth year. Could you talk a little bit about what's driving the churn outlook in a little bit more detail?

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

Yeah. I think churn is one of the most important metrics in our business model. I think the business model, and I say this all the time inside the company, it's a multivariable equation. Like you can't be successful on one thing and think that you're doing well. It's easy to drive net adds if your cost per acquisition goes way up, like give away free phone.

So like you can drive a lot of net adds. But that doesn't work for me. You can take churn down, if you take your cost of retention way up, like I want to see our churn come down and our cost of retention come down. And you're seeing that cost of retention is coming down double digits churn, I think, was down 5 points year over year in the quarter. I expect to see our churn continue to have year-over-year improvement as we go through the rest of the year.

And basically, churn for us was of self-inflicted wounds. We've been raising prices for the past 3 years before I came in without added value. And I'm not against price increases. I think price is a very important component of value, but you have to add real value if you increase prices. And so the first thing I told the team, and they wanted to do another price increase as soon as I came in, as I said, nope, like, stop that because it's a short-term win.

Like your revenues go up in the short term. And it looks like you're running, but you're not because your churn continues to go up, and it's a short-term win and a medium to long-term disaster when you go and do that. And so we stopped raising prices immediately, customers notice that. We invested a lot into the end-to-end customer experience because customers fire companies all the time when they have a terrible experience. You may not know about it, but all of a sudden, there's a disconnect because they didn't understand the promotion, and it was too complicated.

They heard one thing in a store, saw another thing on their bill, heard another thing when they call them to customer service. And my view on that is like let's fix our end-to-end process. And then let's put out a really good value proposition in the market, track new segments, make sure it's fair and honest and now what we're beginning to see is a very sophisticated modeling going on, very sophisticated segmentation, really listening to what a customer needs, satisfying it the right way. And so hopefully, you'll continue to see churn improvements and at the same time, see our cost of retention go down.

Michael Ng - *Goldman Sachs International - Analyst*

It's a great segue to talk a little bit more about the Verizon Simplicity plan, very competitive price for the 1 to 2 line value segment. Maybe talk a little bit about what areas of the value segment that you think Verizon has the biggest opportunity and why? And then where do the market share gains in the value segment actually come from? Is it prepaid? Is it somewhere else? Just would love your thoughts on that.

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

Well, we're very focused on segmentation right now. As you know, I'm a very big believer in the power of what AI can do inside our company, not just in terms of productivity improvements or increases in customer satisfaction, but radical changes in our value proposition that we can put in front of consumers on small businesses and eventually get to segments of one like we have over 300 data points of information on every single individual customer before the advent of AI, it was impossible to correlate all of those things, but now we can start to put together very sophisticated value propositions for ever smaller segmentation.

Simplicity really was aimed to go after more of the 1 to 2 lines where we have been losing the youth market in which we were disproportionately low in share. And then Verizon One was all about convergence, and going after actually the more high-value customer base. I'm really pleased with what I'm seeing. I suppose it started off strong and it's continued strong. Our port ratios have improved dramatically from where they were. I think we're taking share in that youth market now.

And as I mentioned, ARPA as a strong base migration is well under what we modeled. And so I think there's kind of an upside as a result of that. And it has radically redefined our business model in terms of how we compete in the market. We've separated out mobile pricing from device and we give customers optionality on what they want to go do, but they have a simple, fair, honest mobile price, and then they can figure out how they want to either bring their own device or have different financing options for a new device that they want to go that way. So in general, I'm pretty pleased with the segmented approach that we have and certainly the metrics are well exceeding what we initially forecasted.

Michael Ng - *Goldman Sachs International - Analyst*

Great. And just on that device piece, we're very close to the announcement of the new iPhone. You spoke a lot about device subsidies. Is Verizon getting away from device subsidies completely? Are they being more selective? Maybe just talk a little bit about how device subsidies and financing fit into the new value prop?

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

Yeah I think, on Verizon and actually the mobile industry had a belief system that the only way you could attract customers or retain customers were by giving away free phones? And that kind of became dogma. And everybody just -- probably everybody in this room just kind of accepted that, that was the way that it was going to be. It's just not true. And we are putting that right now.

You can separate out mobile from device. And I don't think there needs to be that that's for a value from the MNO industry to the OEM industry, the way that it was. I think we're going to work very closely with all of the OEMs. I think there are ways we are growing again. I think there are ways that we can grow our volumes, and we're pretty much the customer of any OEM.

And I think we can grow our volumes together, but in a fundamentally different business model approach. You're not going to see phones on us even with new launches, that's just not going to happen because it doesn't need to happen. Customers are keeping their devices longer. New devices are coming out. We'll be competitive in that.

Fourth quarter is always a little bit more of a promotional period. But I don't think we need to be anywhere in terms of what we used to be. I'm a very competitive guy. We have metrics out there. We've committed to them. We will meet those metrics. But the basis of competition, not just at Verizon, but I think inside the industry is shifting and will continue.

Michael Ng - *Goldman Sachs International - Analyst*

Great. Last earnings call, Verizon mentioned that simplicity is ARPU accretive, which is a little bit counterintuitive, but I think it's because simplicity is subsidy free, so there's no promotional or impact. But could you talk a little bit about ARPA. What's Verizon outlook for ARPU growth? Will it grow in 2027?

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

I always like to think before I answer your questions. So I guess to the first thing you said, yes, I believe ARPU will grow in '27 year over year. Yes. It could grow as soon as fourth quarter, that's a possibility in terms of year over year ARPU growth. It's been growing sequentially this whole year.

We said that our wireless service revenue will be flat this year, which by math means that it will be up, and it will be up year over year from everything I can see in the fourth quarter as well. In general, our mobile and broadband service revenue has gone up every single quarter. As I mentioned, it started at 1.6% in Q1. I think we'll exit around 4% in Q4. ARPA, whether you look at simplicity being ARPA accretive.

You look at Verizon One, which is a great converged offer. But the interesting thing on Verizon One is that over half of our customers are upgrading to a gig or more speed, so that's driving ARPA up as well. And so I think there's like a really kind of good engine evolving inside the company right now. You've got net adds growing, you've got net accounts growing. You've got record low COR and COA happening, and you'll start to see ARPA growing like that is sort of the magic formula when you can put all that together along with good unit economics cost controls around that. And that's clearly the direction and momentum that we're on.

Michael Ng - *Goldman Sachs International - Analyst*

Great. I'd like to shift to a discussion around broadband. The market has obviously been very dynamic over the last several years. Could you just talk a little bit about the competitive state of the market how you think Verizon is positioned to sustain subscriber growth across both FWA and fiber?

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

Yeah. I think we did something like around 350,000 broadband net adds last quarter. We're really taking share, and we're having a good quarter around broadband as well. And I think we'll continue to go do that. We have a really good value prop out in the market around both broadband and convergence.

In my home, Mike, I think broadband is broadband, like customers don't really kind of go, I'm doing FWA. I mean they have no idea what FWA is or fiber, I mean, a little bit more on fiber, they have an idea of that. But it's basically what's your download speed and what's your upload. And increasingly uplink and upload will be more and more important in the AI age. And so I think whether it be FWA, which, by the way, we have more open for sale than we've ever had.

We're also doing some really interesting experimentation around our spectrum holdings, everything from low band up to millimeter wave and which I think has the potential to unleash a lot more capacity for us. It's early days. I'm not going to talk a lot about that right now. But I think we'll have a ton of room and capacity on FWA. And on fiber, we'll do at least 32 million homes passed this year on fiber, well on our way to our 40 million to 50 million homes over the medium term. So broadband is a real important element of our connectivity seems to be doing quite well for us right now, and it should be a growth driver going forward.

Michael Ng - *Goldman Sachs International - Analyst*

Great. I know that Starlink has been on a lot of investors' minds. So maybe a two part question. Number one, could you talk about Starlink satellites impact on fiber and FWA, the broadband business? And then I was just wondering if you could share your views around the potential threat of a Starlink mobile direct-to-consumer service? How viable do you think that is? How is Verizon planning to respond, if at all?

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

Well, we've seen no zero discernible impact on our broadband growth from any LEO, low earth orbit satellite provider, including Starlink. The more I dive into the physics of satellite -- and I'm deep into the physics satellite because I want to understand it inside and out, the more convinced I am whether it be broadband to the home or direct-to-device that satellite is a complementary service and even over the medium to long term, not a direct competitor. They just can't compete without a terrestial network in urban and suburban where, call it, 95% to 98%

of our revenues are. We're 100 times in some cases, 1,000 times more efficient than they are. And there is a place for satellite, and it is in the very rural where -- and it's a market, it's a distinct market.

But it will never pencil out for us to build a network out there, and it's very complementary to what we do. I mean, today, Starlink offers 400 megs, to a home for broadband for $130. Just to give you an example, we offer 500 meg where you get broadband at 500 meg and mobile for $70. So we are a better service at half the price. And that's just because we just have so much more efficiency in urban and suburban.

I do think satellite will be a very valuable partner with us. And we are clearly looking forward to working with all of them in providing enhanced value propositions, but I would say it's going to be complementary. And even though you didn't ask the question, we see absolutely no advantage in extending an MVNO to any LEO provider nor are there any back doors whatsoever to any of our existing MVNO relationships. So we see satellite as a partner. And I do not see it as a viable competitor in the medium and even longer term.

Michael Ng - *Goldman Sachs International - Analyst*

Great. In the last 5 minutes, I wanted to squeeze in two more questions. One, very exciting kind of new business with the hyperscale fiber deals that you guys are doing. There's a $1 billion-plus deal with Google to provide dark fiber connectivity, linking data centers. So could you just size the broader opportunity within data center interconnections, what is Verizon's key competitive advantage in this business?

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

Yeah. Sam, I'm actually really excited about the AI infrastructure opportunity for us. I mean, look, we're just kind of fortunate on this. We are in the right place at the right time to be a part of one of the greatest capital expenditure things around AI infrastructure that we've ever seen in our generation. It opens up a quite large TAM addressable market for us.

It's growing quite rapidly, and we have the right assets in place and experience to take advantage of it. I mean compute, the demand for compute, you hear that from Sara yesterday. I mean it's insatiable. And at first, it was how do you tie racks inside the data center and then how do you interconnect racks inside a data center. And now it's basically how do you connect data centers together to provide ever greater compute.

And for there, there is absolutely the need for dark fiber connectivity. We've been the leaders in both metro and long-haul fiber build. We have a lot of dark fiber capability. We just did a big deal. We announced it yesterday with Corning.

I mean fiber is in short supply as well. And we have now got a full supply of that. I'm really happy about that deal. It's a good one for both our companies, but it enables us to do all the build that we need to without being supply constrained because the demand for that interconnectivity is quite large, and we'll continue to build on that drumbeat of announcements that we had. There's also a big demand for inference computing.

So that's basically computing at the edge for low latency applications, robotics, gaming, autonomous driving, remote surgery. And as we decommission our central offices, take copper out of them, which, by the way, is great cost savings or some real opportunity. But they're power-ready already permitted, and we have thousands of them to be able to deploy. We're already signing up deals where people are coming in. We'll talk about some of those at our next earnings call, but that ability to take advantage of what were decommissioned central offices and now can be inference edge computing is tremendous as well.

And so it just opens up a brand-new vector of growth for us on top of a growing connectivity business. So will be more and more specific about that. But you'll start to see revenues and noticeable revenues beginning next year on that.

Michael Ng - *Goldman Sachs International - Analyst*

Great. As we wrap up the session, I was just wondering if you could tie it all together for us and talk a little bit about key focus areas as a rise in transition from the turnaround to playing more offense as we wrap up 2026 and head into next year.

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

I mean, I think it's a new Verizon right now. Clearly, we are playing to win in the market, and I think our results are beginning to demonstrate that. And I clearly feel like this new business model, this new financial model is clearly taking hold right now. We have a ton of cost opportunities still to be more efficient. But as I always say inside the company, no company cost cut its way to greatness, those cost cuts are just about being more efficient, enabling us to invest back in our business and return value to shareholders.

And I see a lot of continued opportunity for that as we go into '27 and '28. And we have increasing momentum every quarter right now. And so you're beginning to see that. I mean the difference between our financials a year ago and our financials this year, our night and day difference. And so I'm pushing the team very hard.

I am far, far from being complacent about where we are right now. In fact, I'm probably more intense than I've ever been on it, but it's because I see the opportunity in front of us. And I want to grab it. And so we have good momentum, but a lot of work to do, a lot of progress to still make, but we have very high aspirations and I want to aim for those.

Michael Ng - *Goldman Sachs International - Analyst*

Great. Well, Dan, thank you for participating in our conference. It's been a privilege to have you on stage here.

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

Thank you so much, Mike, and thanks, everybody.
