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VZ.N - Q3 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 third 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, Treasurer and Head of Investor Relations.

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

Thanks, Brad. Good morning, and welcome to our third 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.

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. Thanks for joining us. It's been just over a year since I had the privilege to become the CEO of Verizon. As I reflect on the past 12 months, I'm incredibly proud of the Verizon team. We made bold decisions, we dramatically turned up our collective intensity, we put our customers front and center, and we vowed to reclaim our market leadership and play to win. We have accomplished a lot, and today's Verizon is in a fundamentally better position operationally, financially and competitively.

Q3 was another proof point that this is a structurally different Verizon. Our transformation has taken root and our results show it. In the third quarter, we delivered significantly improved performance across almost all of our key metrics. Our post-paid phone net additions were up 820% year over year to 406,000, our strongest Q3 in five years.

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Importantly, we also delivered 137,000 postpaid net account additions, our best quarterly net account performance in over a decade. This is growth that pays. Every new line we added delivered revenue. There were no free lines. We now expect our postpaid phone net adds for 2026 to be 1.1 million to 1.2 million, more than three times last year's result. Overall, postpaid phone churn was 94 basis points, an improvement of 4 basis points year over year, while consumer postpaid phone churn was 87 basis points, also down 4 basis points from last year.

Year-over-year, our Q3 promotional cost of acquisition and retention once again declined, acquisition by 41% and retention by 30%. In broadband, we delivered 314,000 net adds, and our mix is continuing to shift towards fiber, which now makes up nearly half of our broadband net adds. That is a deliberate choice we have made. Putting customers at the center of every decision we make has changed how we go to market and what we are willing to sell.

Our operating philosophy is to deliver the connectivity experience, that each customer segment demands, not simply the network and technologies we happen to have available. Between fiber and FWA, we have the assets to deliver great value in broadband. But it also demands a more sophisticated segmented approach to FWA where we can't deliver the speed a particular segment of customers expects from Verizon. We won't sell it. We began to implement that philosophy earlier this quarter. And as I told the team, we should never drive for a net add metric that runs counter to our customer-first philosophy.

I'm very proud that our product and network teams have responded to our customers' need for greater FWA speed. Using our millimeter wave spectrum, we have developed an innovative solution that will enable us to deliver a 1 gig FWA product in metro areas across the country, complementing our fiber belts.

Over the medium term, it is our goal to substantially increase the number of premises we can serve with 1 gig of speed by an incremental 10 million to 15 million through FWA, and that is over and above our 40 million to 50 million fiber build.

We will begin to scale our new high-speed FWA service beginning this quarter and throughout 2027 and beyond in order to deploy the enhanced capabilities and performance our customers expect from us. Our 1,700 megahertz of millimeter wave spectrum has suddenly become a differentiated and competitive advantage. And it also has a dual benefit in that it will create substantial incremental efficiencies and capacity in our existing C-band spectrum. This is a technological breakthrough for us, with significant positive implications.

In addition to strong operational metrics, we also had a strong quarter from a financial perspective. Mobility and broadband service revenue grew 2.9%, a further improvement from the 2.8% we delivered in Q2 and the 1.6% we delivered in Q1. More importantly, we expect that Q4 mobility and broadband service revenue growth will accelerate to approximately 4%. Wireless service revenue once again improved sequentially, and we expect to see year-over-year growth in Q4.

Our Q3 adjusted EPS of $1.31 grew 8% year-over-year, and we now expect our 2026 full year adjusted EPS growth to be 7% to 7.5%, up from our previous range of 6% to 7%. Free cash flow of $7.8 billion was our highest quarterly free cash flow since 2020, growing more than 12% year over year in Q3. Consequently, we are raising our full-year guidance for free cash flow growth to approach 12%, up from our previous guidance of 9% to 10%. We anticipate our full-year free cash flow will also be our highest total since 2020.

To summarize, this quarter, we delivered our strongest third quarter line and account growth in years at our lowest cost to acquire and retain in more than three years. Our mobility and broadband service revenue growth continues to accelerate, and our free cash flow and adjusted EPS continue to grow. This is high-quality growth delivered in a fiscally responsible manner.

We are not buying customers. We are winning them on revenue positive terms and keeping them longer. When you compound stronger net adds with net account growth, sequential ARPA growth, structurally lower churn, and healthier unit economics, you get exactly the kind of operating leverage you are seeing in our adjusted EBITDA, adjusted EPS and free cash flow this quarter and in our raised full-year guidance.

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Let me spend a moment on a few key strategic initiatives. First, the customer value proposition we launched in mid-June continues to deliver beyond our expectations. Simplicity, Verizon One and our loyalty program are resonating with our customers. Our loyalty program enrollment is scaling quickly across our base and the customer feedback data, whether it be Net Promoter Score, overall customer satisfaction or first call resolution is moving in the right direction on every dimension we track.

All of our extensive efforts to focus on the end-to-end customer experience are paying off and showing up in our year-over-year improvements in our churn rate, our increasing postpaid phone net adds and accounts, and the simultaneous reduction in our cost to acquire and retain customers. This is a fundamentally different financial and operational model than in years past.

Second, convergence continues to compound. Our Frontier integration remains ahead of plan. Postpaid phone customers are attaching our broadband solutions, and our broadband customers are attaching postpaid phone service with both cohorts churning materially less than single product customers. And we are seeing over 55% of our new fiber broadband customers take 1 gig or more download speeds, driving significant incremental ARPA and customer satisfaction.

In Q3, our overall broadband ARPU increased year-over-year. We continue to anticipate our fiber passings will exceed 32 million by year-end. And over the medium term, we remain on track to deliver 40 million to 50 million fiber passings, with an incremental 10 million to 15 million premises covered by our new high-speed FWA technology. Our goal is to have the largest footprint in the country of premises covered with at least 1 gig of download speeds.

Third, our transformation program is on track, and it is delivering results earlier than we initially expected. The 10 transformation work streams we launched earlier in the year are producing tangible improvements for customers and meaningful cost reductions across the business. Our $9 billion cost reduction plan across our OpEx and CapEx remains fully on track, and the operating leverage in this quarter results reflects the pace at which those savings are showing up.

We are increasingly running our transformation through our newly completed AI tech stack for applications that help us better serve customers, increase our network performance, and drive cost reductions and productivity increases.

Fourth, our network performance continues to improve. Customers notice and they're voting with their wallets by staying. The spectrum we won in the AWS 3 auction is already enhancing our network, and it will enable us to further improve our capabilities and performance in key metro areas as we continue to deploy it.

Finally, AI infrastructure is becoming a real growth driver for Verizon. Today, we announced that we have signed a dark fiber agreement with Amazon Web Services valued at over $2 billion, building on the Google agreement we announced last quarter. These two contracts are a clear signal that the largest builders of AI infrastructure in the world are choosing Verizon as a strategic connectivity partner.

We now have an active pipeline of additional hyperscalers, neo cloud providers and large enterprise clients who are in negotiations to have us supply them with either dark or lit fiber connectivity. I'm also pleased to report that we are seeing momentum with numerous partners to use our network hubs for AI inference edge computing. And that momentum is already turning into signed deals.

Our first long-term contracts are expected to generate hundreds of millions of dollars in revenue over their term. We now have signed contracts for approximately $4 billion. And based on the demand we are seeing, we expect both our fiber and edge computing to add meaningfully to our future growth.

All of these revenues come with attractive margins and we will begin to see their impact in 2027. These are long-duration contracts with high-quality counterparties that leverage our fiber capabilities and existing real estate assets. The incremental capital required to deliver against these agreements is modest and success-based and tied to defined contracts. And we've locked in the fiber to deliver.

Last month, we announced a multi-year, multi-billion dollar agreement with Corning for more than 80 million miles of fiber through 2032, supporting both our fiber broadband expansion and the long-haul backbone that AI hyperscalers need. Taken together, this opportunity

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significantly extends our addressable market, our revenues and our profits, and we will talk about how it helps to drive our 2027 growth on our next earnings call.

In the past year, we have delivered on our promises and raised the bar every single quarter. Given the strength of the third quarter and our visibility into the fourth, we are raising our annual guidance for postpaid phone net adds, adjusted EPS and free cash flow, and we now expect mobility and broadband service revenue growth to be in the upper half of our 2.5% to 3% range.

We are growing the right way through healthier customer relationships, stronger network performance, disciplined execution, lower costs with revenue positive net adds and now account growth. In many ways, we have redefined how we compete with a new business model for the mobile industry. When we put our customers front and center, the aperture for growth at Verizon opens substantially.

We believe that the momentum we are seeing in Q3 will continue. Our leading indicators, churn, net adds, customer satisfaction, network performance, broadband cross-sell, cost out execution, and our hyperscaler pipeline all point in the same positive direction. This is a multi-year story, and we are just getting started.

We have not yet captured the full multi-year benefit of the $9 billion cost transformation. We have not yet fully scaled our new consumer value proposition. We have not yet begun to recognize significant revenue from our AI Connect business, and we have meaningful additional capacity to return capital to shareholders through both our growing dividend and incremental buybacks. Each of those is a tailwind into 2027, and we look forward to sharing our 2027 outlook with you at our next earnings call.

I'd like to thank all of our employees. Your efforts to satisfy our customers are inspiring. The customer first mindset, the operational rigor, and the urgency you are bringing every day, that is what is showing up in our results. And to our shareholders, we are hyper-focused on earning your confidence with continued execution. Over the past year, we have delivered a step function improvement in our competitive positioning and our financial profile, and we believe the trajectory from here is even more compelling.

And with that, let me turn the call over to Tony.

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

Thanks, Dan, and good morning. Our third quarter represents another key milestone in our transformation as we continue to see the benefits from our efforts reflected in our operational and financial results. This starts with our significantly improved performance in both postpaid phone and postpaid account net adds. Growing both lines and accounts is important to us, and we delivered our best account growth in over a decade.

Postpaid phone net adds are almost 900,000 better than in the same period last year, with broad-based improvement across our Consumer and Business segments. This gives us significant flexibility to deliver on our increased guidance of 1.1 million to 1.2 million postpaid phone net adds for the full year and do it in a fiscally responsible manner.

Continuing our momentum from the third quarter, we also expect to have positive account growth in the fourth quarter. Our investments in the customer experience and innovation are working. Customers love our Simplicity plan. We are writing high-quality business, and we're pleased with how it's driving both account and lines phone gross adds. This successful launch delivered 266,000 consumer postpaid phone net adds in the period. This represents our best third quarter performance in five years.

The strong uptake of Simplicity enables us to accelerate our plan for volume growth in a meaningfully more cost-effective way compared to the more seasonally aggressive offers that we've historically relied on. In fact, our cost of acquisition in the third quarter declined 41% year-over-year.

The subsidy-free, flexible and transparent nature of Simplicity has allowed us to win customers in a financially disciplined manner. We are also winning across customer groups where we have historically under-indexed.

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We also had solid performance in mobility for Business with 140,000 net adds in the period. Enterprise and small business customers continue to have strong demand in the period, and we returned to growth in the public sector. Together with our lower cost of acquisition, we are reducing churn while spending less to win and keep customers.

For the second quarter in a row, we drove year-over-year improvements in retention with the overall cost of retention declining by 30%. Our continued focus on micro segmentation, our disciplined approach to upgrades and our customer-first focus all contributed to this result. This approach contributed to lower third quarter upgrade volumes year-over-year and, consequently, lower equipment revenue.

Notably, upgrade volumes were down over 20% from the prior year. Additionally, with the success of Simplicity and our focus on giving more choice to customers, we expect the trend of lower upgrades to continue in the fourth quarter.

In broadband, we continue to take share and we've now added over 1 million customers year-to-date. Similar to mobility, we're taking steps to improve the overall customer experience, including simplifying our fiber pricing. We are looking to compete more on our value proposition and less on promotions.

Our third quarter fiber net adds reflect sustained demand for our products while also driving towards better customer lifetime values and margin performance. Our fiber build is on track and we continue to expect to end the year with over 32 million fiber passings. We continue to see a shift in the net add mix between fiber and fixed wireless access. We are focused on growing our FWA base and further segmenting the market.

We see opportunity to meet the rise of AI-based applications and are bringing gigabit speeds to more and more consumers and businesses. We are scaling our MDU program, which will enable us to deliver fiber-like speeds over an FWA connection.

Overall, our operational results continue to outpace our expectations. We are very pleased to have added nearly 1.7 million mobility plus broadband subscribers in the first nine months of the year and are confident that we will finish 2026 strong.

The improvements in our volumes in the third quarter are reflected in our financial results. The benefits of providing better business and cost savings efforts continue to drive adjusted EPS growth and strong free cash flow generation. Additionally, in the quarter, we saw our mobility and broadband service revenue growth improve as volumes continue to scale and promo amortization headwinds moderate.

Total revenue for the third quarter was $34.3 billion, up 1.5% year-over-year. Similar to last quarter, mobility and broadband service revenue growth of 2.9% was offset by lower equipment revenue, which was down 9% from the prior year as we drove significantly lower upgrade volumes. Additionally, wireless service revenue was just over $20.9 billion. We continue to expect to return to wireless service revenue growth in the fourth quarter.

Our improving revenue profile and cost efficiency work continues to drive strong profitability. Our third quarter adjusted EBITDA was $13.8 billion, up 8% year-over-year. Our adjusted EBITDA margin of 40.2%, up 240 basis points year-over-year, is our highest reported and demonstrates the power of our business transformation.

We saw improvements in both Consumer and Business as we continued to write profitable growth. We are also continuing to make great progress on our $5 billion operating cost efficiency program and expect to meet our goal for this year. Our efforts on cost of acquisition and retention drove our lowest net equipment subsidy in two years.

We are also making meaningful strides on network modernization, copper decommissioning and advertising and marketing spend to optimize our expense profile. As we look ahead to 2027, we expect to drive further efficiency gains in our cost structure.

The Frontier integration is also on track to deliver over $1 billion in run rate operating cost synergies by 2028. Our third quarter adjusted EPS of $1.31 was up 8.3% year-over-year and reflects our continued progress on profitable growth. We now expect adjusted EPS to grow 7% to 7.5% for the full year.

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As mentioned, our cash flow generation remained very strong in the period. Cash flow from operations was $29.9 billion for the first nine months of the year, up over $1.9 billion or nearly 7% year-over-year. We continue to benefit from working capital improvements due to our ongoing cost efficiency work as well as lower upgrades. Capital expenditures were $11.9 billion through the end of the third quarter. We are on track to meet our full year guide of $16 billion to $16.5 billion inclusive of success-based capital related to AI Connect.

The net of these resulted in free cash flow of $18 billion, up 14.3% for the first nine months of the year. We expect this to be an industry-leading result, and it represents both the strength of our year-to-date results and the operational momentum of the business. With this strong result and the underlying performance of the business, we are now raising our free cash flow guidance to approach 12% growth for the full year.

The strength of our cash flow allows us to execute on all aspects of our capital allocation framework, which remains unchanged. Our first priority continues to be investing in the business, and we remain on track with our mobility and fiber builds.

Further, customers are already realizing the network performance enhancements being delivered by the AWS 3 spectrum licenses we won during FCC Auction 113. We've also continued to execute on our deleveraging plan in the period. Our net unsecured debt to consolidated adjusted EBITDA ratio at the end of the quarter was 2.3 times, which represents a 0.2 times improvement from the prior quarter. We remain on track to reach our target leverage range during the 2027 timeframe.

Lastly, year-to-date, we've returned $12.8 billion of capital to shareholders, up 49% year-over-year. This includes $8.8 billion of dividends and $4 billion of share repurchases. We remain committed to growing the dividend and delivering enhanced returns to our shareholders through share repurchases. We continue to expect to repurchase up to $4.5 billion for the full year.

To summarize, our third quarter results demonstrate our continued progress in delivering for our customers and our shareholders. Our transformation continues to progress, and we have good momentum heading into the fourth quarter and beyond. We've added nearly 1.7 million mobility and broadband subscribers this year, a major improvement year over year. We're driving improved retention. We're drastically reducing our cost of acquisition and cost of retention.

We're driving some of the best account growth we've seen in years, and we're doing all of this while producing record-high margins and strong free cash flow. We continue to execute on all four pillars of our capital allocation framework, delivering improved shareholder returns, while investing in the business to ensure our network excellence. And we are well positioned to capture future growth opportunities, including within our AI Connect business.

Our plan is working, customers are responding positively, and we're driving meaningful returns for our shareholders. We're pleased with the progress we've made, and there's more to come. We are playing to win.

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. As a reminder, we would ask you to please limit yourself to one question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) John Hodulik, UBS.

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John Hodulik - *UBS AG - Analyst*

Can we talk about pricing and volumes in the postpaid market and continue with that commentary? It looks like you've got some nice momentum on the volume side, both from accounts and gross adds. Can that continue as we look out into '27? And can you talk about what's resonating with customers that you're seeing such strong demand?

And then on the pricing side, I think you guys have talked about some potential room for targeted price increases as churn came down. Can you just talk about your overall view on sort of pricing power in the industry? Thanks.

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

Hey, John, it's Dan. We obviously had a good strong quarter on both lines and accounts. That's the first time we've had that kind of account growth in over a decade. But the thing that I'm most proud about in the quarter is kind of the way that we did it.

I always tell the team that our business model is a multivariable equation, that solving for just one variable is insufficient and it's not acceptable. And net adds are easy if your cost of acquisition goes way up and you give away free lines.

I don't consider free lines to even be net adds. I think they're churn waiting to happen. And this quarter, if we operated in the same way that we did a year ago, we could do multiple hundreds of thousands more net adds, if you give away free lines and free phones.

That's why I'm so proud of the Q3 results, because not only were our postpaid net adds up nine fold from last year -- in fact, when we presented that to the Board, they questioned whether that was a typo or not. And our postpaid net accounts, best in a decade.

But the quality of all those were exactly what we wanted. No free lines. Every single line and account came with revenue. And the cost to acquire those net accounts and net lines were down 41%. Postpaid churn continues to come down, it's down 4 points.

I think we can continue to do year-over-year declines as I look ahead and I think we can even do better than where we are. But cost of retention was also down 30%. And if you remember, last year, churn rose every single quarter.

And I said a year ago that we were no longer going to be prey, that we were going to stop losing market share, and that was true this quarter. And we did all of that in what I think was a very fiscally responsible manner. I mean we're competing the right way to win in the market.

We aren't competing on promotions or free phones or subsidies, which, by the way, to me, gives no one in the market any competitive advantage. Anybody launches something against us, we can respond in two hours. And if somebody tries to hit us, we hit back harder. There's no competitive advantage gained.

The way to gain competitive advantage is to make sure that you look at your overall end-to-end customer experience, your value proposition, the strength of your network. Because there, you can create sustainable and lasting competitive advantage.

And clearly, our value proposition is resonating with our customers. Simplicity, Verizon One, our loyalty plan, as Tony said in his remarks, our customers love it, and we're seeing it in all of our results. What I really like about it is for that segment of the market, it's ARPA accretive. And as we look ahead, we expect to see net account growth in Q4 as well.

In terms of pricing, I've always said like, I'm not against taking up pricing as long as we add value to that. In the past, we took up pricing without adding any value to customers. And eventually, that comes back to haunt you.

Your churn starts to go up, you lose the trust of your customers. We've added a tremendous amount of value in the last year, and there's potentially room for us to adjust that price-to-value equation by increasing pricing as well. I think we're in a place where we can start to think about that.

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

John, just to add a couple of things. Our gross adds were up 11% in the quarter, and that's driven by new to Verizon. And Simplicity being subsidy-free and transparent for customers, as Dan mentioned, allowed us to win a fiscally responsible way. And across segments where we've under-indexed, for example, in single-line and two-line accounts, we performed extremely well.

And we also delivered very strong margins in the quarter as well. Our EBITDA margin was over 40%, 40.2%, and our reported EBITDA was the highest that we've reported. So we're really proud of that and doing it in a responsible way.

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

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

Operator

Frank Louthan, Raymond James. Mr. Louthan, please check the mute button on your phone. And we've had no response from Frank.

Michael Ng, Goldman Sachs.

Michael Ng - *The Goldman Sachs Group, Inc. - Analyst*

I just had two on Verizon AI Connect. First, great to see the momentum in that business. Could you talk a little bit more about the pipeline and the opportunity for the future hyperscale and neocloud deals that you talked about in prepared remarks for both distributed compute, but also edge?

And then second, anything you could share as it relates to the details of these deals? For instance, how long are the typical deal wins? And anything you could share as it relates to the expected cash margins? Thank you.

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

Thanks, Mike, for that. I'll start off and then maybe Tony can add. I guess the way I would put it is AI Connect is a real business for us and a tremendous opportunity, and we're seeing that momentum. Customer demand across dark fiber, lit fiber or edge compute locations is exceptionally strong. I mean, obviously, it represents a significant growth opportunity for us and a large new and it's a rapidly growing TAM for us, addressable market.

As I mentioned, we already have approximately $4 billion of signed deals, and we're just getting started on that. And that includes hundreds of millions of dollars of revenues from our edge computing locations, and we're just scratching the surface there.

Obviously, with the explosion of agents right now, the need for distributed inference computing, move from GPUs to CPUs, like the assets we have for that edge computing are exactly in the right place, and we're seeing a ton of demand for what are scarce assets.

From a financial point of view, these revenues come with attractive margins because of the demand and the scarcity of that, and we will begin to see their impact in 2027. There's no change to our 2026 CapEx envelope. And as I said in my remarks, we'll see some modest success-based CapEx associated with AI Connect in 2027.

We are clearly an attractive option and partner for the most demanding of customers. We know how to build networks. We have assets in place. We are amongst, if not the best-in-class, in terms of service and performance.

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We have a solid balance sheet. And we now have plenty of supply because fiber itself is a scarce commodity as well. We're obviously really pleased to be partnering with Google and Amazon and others. And this is going to be an exciting new growth vector for us over the years to come.

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

Yes. And just to add to that, on your question on the deals themselves, the deals are very customer specific. So no two deals are alike. So it's very much to customer specifications. As Dan mentioned, we're very happy with the Amazon deal that we announced this morning.

And on the Google deal, we've already -- we're already processing orders for fiber, so we're moving along there. And as Dan mentioned, these are very good margin deals for us, and they'll start layering into the results in 2027. And it's growth on top of our core business as well, which is really important for us, and we're really excited about the potential.

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*

So I'm curious if you could discuss your latest thoughts on the potential impacts from a possible LEO and Starlink entry into the core mobile business. And if there's any developments on how you're looking at strategic alliances with LEO constellations in the category and whether or not you would offer an MVNO to LEO constellations, including Starlink.

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

Thanks, Mike, I'll take that. First of all, I appreciate the question and the concern. I'll just start off by saying my operating philosophy in general is to be very thoughtful, analytical, and to never take anything for granted. I always have my eyes wide open. Clearly, the tech and the wireless landscape is rapidly evolving, and we need to rapidly evolve along with that.

That's why I've been so demanding from everyone at Verizon. I mean I just don't want us to get incrementally better. I want us to leapfrog, I want us to think about not improving by 10%, which is great, but that we improve by 10 times. How do we do that in months, not years? And I'm pushing hard on everyone. So that we can shape the market and not react to it. And I want to be sure that we're always in a position to play to win.

I also operate under the assumption that everything SpaceX says they will do, they will do, and that they will execute flawlessly. That's my operating assumption on it. I think to assume anything else makes no sense from my perspective. And everything that we've seen so far, all of their announcements, everything we're hearing in the market, and I'll talk about that in just a second, is, so far, the path that we've basically predicted that they would do.

We always knew that they needed a terrestrial network to have any chance at providing a competitive service. I don't really need to rereview the satellite beam physics, but just suffice it to say that without a terrestrial network, their addressable market for broadband services is relatively small.

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It's in very rural areas. And their service just can't compete with the terrestrial network. In suburban and urban areas where like [a vast majority](Corrected by company after the call) of our revenues are, we're somewhere between 100 to 1,000 times more efficient than they are. And when you think about wireless, it's even more difficult with them to compete on a satellite basis.

So I think that SpaceX realizes this, and they're exploring a potential path to creating a terrestrial network. It's not surprising. They said it on their call. So I think we should take it quite seriously. And from what we see and what we hear in the market, because there are no secrets in the market, we know exactly what they're going to do.

We know what their RFIs are. We know who they're talking to on towers. We know who they're talking to put terrestrial equipment in place. Like inside the industry, we know exactly what they're thinking about doing it. And if they build a terrestrial network, it will basically look and feel like every other network, right? There's no magic wand.

There's no secret sauce. There's no shortcut. There's no radically lower structural cost advantage. If they build one, they're going to look at 65,000 to 80,000 macro sites. They're going to need backhaul, some combination of fiber and maybe some satellite. They're going to need RAN.

They're going to need a tremendous amount of spectrum. And assuming that's the case and assuming they try to go do that, it's going to take a minimum of four to six years to fully build that out. It's going to cost hundreds and hundreds of billions of dollars, I assume somewhere between $300 billion and $0.5 trillion over the next, like, seven or eight years.

And then they need to build retail, customer service, back-office systems, et cetera. And all of that gets them basically the same network and saving capabilities and same cost structure as what we have today. And then sometime over the next four to six years, they have the possibility of becoming the sixth, not the fourth, the sixth competitor in the market.

And frankly, at that point, welcome the opportunity to compete against them. It's very hard to throw a punch against something that doesn't exist. But once they come into the market, we will be ferociously competitive. We already have America's best network in terms of coverage, performance and reliability. We already compete against three.

I mean two of our competitors out there offer free wireless service, and we are not only competing extremely well, but we're now holding share and beginning to gain share. And you can sure, over these next three to five years or six years, we're not going to be standing still.

I mean four to five years from now, we will be two to three generations better than where we are today. We'll have high-speed broadband, gig-plus coverage across the country with our millimeter wave, which has now become this tremendous advantage for us with 1,700 megahertz of millimeter wave, 2 times that of any of our competitors.

We'll put that and deploy that we are ahead of most people and already experimenting with what 6G applications will look like. We are going to have a host of AI-enabled new value propositions using our data, our information, our AI tech stack to create new products, new services to be able to play into edge computing and all of the applications around that, whether it be robotics or agents.

In three to five years, most of our base will be fully bundled and we will be massively more efficient and massively more optimized in terms of our cost structure. And of course, AI Connect is going to be a major business for us.

So we are more than ready to compete on our network, on our value prop on our service and much more. And there's no reason to think that with the same network, same cost structure, that we won't be very successful by continuing to grow our business and compete strongly.

I do think there is a role for satellite, for sure. In remote areas, it's a great service for those customers. And I do think there are ways that we can work together, either directly or through our JV, with satellite providers, to provide a complementary service and a differentiated value proposition.

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I will say, and I'll repeat it again, that there are no back doors to any of our MVNO agreements. And I see absolutely no benefit whatsoever to extending an MVNO deal to any satellite provider. I don't buy into the idea of this prisoner's dilemma. That's ridiculous.

There is no benefit to Verizon extending an MVNO deal. And we look forward to being able in four to six years to finally punch back, and we'll punch back hard when that happens.

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

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

Operator

Sean Diffley, Morgan Stanley.

Sean Diffley - *Morgan Stanley - Analyst*

Thanks very much, team. And that was very clear, Dan. I wanted to hear your thoughts on where you see fixed wireless fitting into the broader equation in the next three to five years. You mentioned hit some speed standard issues, I guess, intra quarter. Maybe just double-click on that. Walk us through what those are. You mentioned a kind of 1 gig fixed wireless product in metros, if you could elaborate? And do you guys have enough spectrum to scale where you want to be in this business?

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

Yes. Okay. Those are a lot of questions. Let me try and get as many of them as I can. First of all, on broadband, fixed wireless access and convergence. So we continue to take share. We did 314,000 FWA and fiber net adds.

We've done over 1 million year-to-date. We have 17.4 million broadband subs in our base. We have strong ARPUs. We actually have growing ARPUs in our broadband service, were up year-over-year in Q3. And we're seeing no discernible impact from any alternative providers.

So broadband and convergence are going to be key priorities for us. There will be substantial growth drivers in both the short and the medium term. The strong consumer demand, really pleased with the uptake of Verizon One. And increasing demand for higher download speeds. I think that will just continue to increase with what's happening with AI.

And I would just point out, when I was talking about satellite, their physics get even worse as you have higher and higher broadband speeds to serve. The congestion happens much quicker at that -- at those levels.

So there are two implications that became very clear to me. One is we need to be way more sophisticated and segmented in our go-to-market approach. Like I want to assure we sell consumers the right service to meet their needs versus selling what we have available in our network.

If a customer needs 1 gig of speed and we can only offer them 300 meg, we shouldn't sell the service. It's just going to be something that disappoints the customer. And a customer need is always going to supersede any internal metric, from my perspective.

And then the second implication was like we need a much wider footprint in which we can provide 1 gig or more of speed. And that really was the genesis of our millimeter wave solution. How can we take this massive spectrum holding that we have, 1,700 megahertz of spectrum, that was largely underutilized, and turn it into a competitive and differentiated advantage for us? Not just against competitors, but in serving our customers as well.

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And our goal now with this new service, and we trialed it and now we're having operational success with it, we'll start to roll it out this quarter and into '27, and beyond, is to have the nation's largest high-speed footprint with a medium-term target of 50 million to 65 million prems passed with 1 gig or more of download speed.

People ask me like, are you still comfortable with the 8 million to 9 million of FWA by 2028? The answer would be absolutely, we are. But the truth of the matter is now that we have high-speed FWA offer, we'll go well beyond that now, because we have a lot more capabilities, we have a lot more capacity to do that.

And clearly, another obvious ancillary benefit is it makes our entire network more efficient. It offloads C-band capacity. It gives our network more capacity and runway. And it significantly alters our spectrum positioning. And by the way, that rollout, which will start in Q4 and, again, do it market by market in '27, and beyond, is much more cost efficient than rolling out fiber, significantly so. There's no right of way, no digging, no permitting.

And so we would expect to see our broadband pickup throughout 2027 and beyond on both fiber and a revamped high-speed FWA service. I think you'll see broadband convergence be a substantial growth driver for us. And these new solutions provide technological competitive advantage that others don't have.

And when it comes to like spectrum in general, I think there's a lot of thought around spectrum, obviously, a lot of speculation. You got upper C-band coming in the first half of next year. That's 160 megahertz speculation. Will SpaceX be a part of that or not? Remember on that, that that will take four to five years to clear. And you need different equipment associated with that.

So even if SpaceX, and I'm assuming they bid in it. I'm not sure one way or another what we will do, given our new spectrum position, but say they get some spectrum, they can't deploy that for four or five years. I mean it's just -- it is spectrum that is, I think, reasonable spectrum, but it takes quite some time to clear.

And we'll evaluate our spectrum needs. We always look at build versus buy. We look at densification alternatives. I'm really pleased with the network efficiencies that our guys have done in terms of improving our network capacity. And now we have the ability to put our millimeter wave spectrum to use.

I mean it's early days, but it is a technological breakthrough, and it's very exciting. We have basically 2 times that of our competitors. I like the way our millimeter wave spectrum is laid out. It's a real competitive advantage. It will offload C-band. And it reframes the way that we're thinking about our spectrum needs.

The good news is, as Tony has pointed out, is we have plenty of flexibility. We have very strong free cash flow. Our balance sheet is in really good shape. We'll hit our leverage targets early next year. And our priority is to invest in our business, then keep growth in our dividend per share, pay down debt, return to our leverage ratios and return capital to shareholders.

I think at the end of the day, as I think about all the things the team has done, all the work they've done around creating some innovative solutions and capabilities, is all of a sudden our spectrum position is suddenly in a much better place than we expected and there is a robust pipeline of upcoming spectrum auctions beyond '27, that give us additional flexibility.

So all in all, the picture has changed quite a bit for us. We have a lot of flexibility. And we'll be thoughtful about how we approach the market.

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

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

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Operator

Greg Williams, TD Cowen.

Gregory Williams - *Cowen and Company LLC - Equity Analyst*

Great. Thanks for taking my questions. Just had one on the rise of agentic AI and the talk about use and potential impacts on ARPU?

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

I'll take that one. I guess. Look, clearly, we are entering into the age of AI, of agents, I think AGI, depends on who you talk to, is one to three years away. I mean it's clearly upon us. Quantum hitting shortly thereafter, robotics through that. All of these things are going to fundamentally change the face and nature of every single business.

And I'm pretty excited about the opportunity that that affords us. We have an opportunity to dramatically improve our productivity and our cost structure. We are already utilizing AI to increase customer satisfaction, whether that be fixing issues before they even pop up to customers, and our network through our customer service. It's going to open tremendous new TAMs for us.

AI Connect, talking in six months, we've already signed up almost $4 billion of signed contracts. There are going to be all sorts of new value props that we develop using our data, our network infrastructure, our quite extensive customer relationships and our trusted brand. And so, you're going to see a very different Verizon going forward with all sorts of new adjacencies opening up for us.

Look, I think as I look out over the next couple of years, there'll be something like 8.5 billion people in the world, but I think there could be at least 100 billion agents. There is going to be an explosion in data traffic, and our network will become a scarce and crucial asset. And we will price it as such. You'll see different pricing plans.

You'll see us take advantage of our national fiber network backbone to be competitively differentiated. Consumers and agents will need a trusted and safe and secure environment to protect against fraud and to protect their privacy.

And we'll be sure that we won't allow agents to access our platforms unless we're 100% certain that it's truly a customer and not a rogue agent, and that the purchase decisions that that agent is doing are aligned with what a customer is giving them permission to go do so.

I do think purchase decisions in wireless are complex. They have to do a lot with coverage and quality, speeds, family plans, perks, loyalties, converged bundles. It's not a straight to straight price comparison. And I do think that's possibly a huge opportunity for us to deliver agents to our consumers to sell more. You think about our bundles.

Our bundles are always better than any stand-alone offer out there. And you can imagine how much more bundles, of how much more subscriptions we could get utilizing agents who can go and find the right password, which is typically a lot people don't change because they don't remember their passwords.

And so I think there's a huge opportunity for us to drive incremental revenues, for us to be able to utilize Verizon dollars, our new loyalty structure with agents so they can go out and purchase things with that. And so overall, I see a tremendous opportunity, and it is something that we are doubling down on to take full advantage of everything going on with agentic commerce, but with AI in general.

I'd say just to wrap up, I think there are really like three big takeaways for the quarter. I mean, obviously, our results were really strong for the quarter. And what I'm most pleased about is the momentum that we see as we're going into the fourth quarter. As Tony mentioned, we're off to a strong start. And we have strong momentum going into 2027. Second thing is that AI Connect is now real.

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In six months, we have $4 billion of signed contracts. It's a large and growing TAM, and we have strong momentum in that. And finally, this technological breakthrough with millimeter wave is now a real substantial strategic asset and competitive advantage for us, and all our relative spectrum position has flipped, and our goal there now is to be the largest high-speed provider in the country at the lowest cost. And when I say lowest cost, it's to deploy.

So thank you, everybody, for your time. We appreciate it, and look forward to conversations in the future. Colleen?

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

That's all the time we have. 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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