

THOMSON REUTERS STREETEVENETS

# EDITED TRANSCRIPT

VZ - Verizon Communications Inc at Bank of America Merrill Lynch  
2018 Media, Communications & Entertainment Conference

EVENT DATE/TIME: SEPTEMBER 07, 2018 / 3:00PM GMT



SEPTEMBER 07, 2018 / 3:00PM, VZ - Verizon Communications Inc at Bank of America Merrill Lynch 2018 Media, Communications & Entertainment Conference

## CORPORATE PARTICIPANTS

**Matthew D. Ellis** *Verizon Communications Inc. - Executive VP & CFO*

## CONFERENCE CALL PARTICIPANTS

**David Barden** *Bank of America Merrill Lynch - Analyst*

## PRESENTATION

**David Barden** - *Bank of America Merrill Lynch - Analyst*

All right. Once again, thanks, everybody, for joining us. I'm really super pleased to welcome Matt Ellis, Chief Financial Officer of Verizon. He's been a frequent visitor to our conference over the years. Just to check that, did you have any safe harbors you need to read? Do you want to...

---

**Matthew D. Ellis** - *Verizon Communications Inc. - Executive VP & CFO*

I think we just had one safe harbor coming, yes, there we go. So we have the safe harbor statement on the screen here. It's also on our IR website. I'm assuming we'll make some forward-looking commentary this morning, so draw everyone's attention to those materials. So...

---

**David Barden** - *Bank of America Merrill Lynch - Analyst*

Should we take a moment to just read it?

---

**Matthew D. Ellis** - *Verizon Communications Inc. - Executive VP & CFO*

If you like, but I'm assuming you know it verbatim.

---

**David Barden** - *Bank of America Merrill Lynch - Analyst*

I'm looking forward to the forward-looking statements. So speaking of forward-looking statements, this conference last year was an interesting time because the first half of '17 with the launch of unlimited, kind of just -- a generally kind of crazy competitive climate, you came here after the second quarter result and kind of reiterated a view that Verizon Wireless was going to be able to grow service revenue in -- by the end of the year. You've actually accomplished that goal. You got it ahead of time. And so I'd love you to give me some insight today about what we can expect Verizon to do in the second half of '18 and into 2019 in general and then we'll kind of drill in a little bit.

---

**Matthew D. Ellis** - *Verizon Communications Inc. - Executive VP & CFO*

Yes. So good morning, everyone. Thank you for being with us today. As you look at why we were confident a year ago and as we think about the business today, it's not changed at a macro level because it's really about executing on the fundamentals and then driving the financial results. And when we say executing on the fundamentals, it's 2 major things. It's, one, continuing to provide the best network quality and being the standard by which other networks are measured. And as you saw in the first half of this year, you see most of the third-party results have -- are out now for the first half and we did very well yet again. So the network performance continues to be the cornerstone of what we do, and it will continue to be that as we go into the future. And then the second piece -- and this was really what we started to move when we went to unlimited about 18 months ago now, which is when you have the right -- you've got a great network experience, having the right offers for consumers to go along with that. And so when you get that right -- and I think we have over the past 18 months, we saw that the reason we were confident when we were here a year ago is we could see that traction flowing through. And I think it's shown up in the results since then. I mean, when you look at the second quarter numbers, we had approximately 400,000 smartphone net adds. We continue to have the industry-leading churn. So we're attracting



## SEPTEMBER 07, 2018 / 3:00PM, VZ - Verizon Communications Inc at Bank of America Merrill Lynch 2018 Media, Communications & Entertainment Conference

customers. We're retaining customers better than anyone else and that's -- that continues to be how we focus on things. So when you get the right network, you put the right consumer offers out there, we like the results we get. And so it's been -- that was where we were last year. And as we come into the third quarter this year, that's -- we see the same thing, continues to be a competitive marketplace but I think we'll continue to be successful within that marketplace.

### QUESTIONS AND ANSWERS

**David Barden** - *Bank of America Merrill Lynch - Analyst*

So I want to talk a little bit about that, the competitive marketplace. I think the second half of last year had this kind of confluence of forces, and among them was the kind of collapse of the Sprint/T-Mobile deal and there was -- it seemed like a time of repair in the marketplace after a pretty aggressive kind of first half and maybe 2016. And maybe that continued into the first half. But there seems to be this narrative that the competitive market has kind of stabilized and maybe it has at a national service level, but what seems to have happened is it's become a little bit more of a guerrilla war, where AT&T has a very specific offer in metro markets where under-index is attacking you with more aggressive promotions in New York and Chicago and L.A., whereas T-Mobile has a more aggressive promotion for elderly and military, and other people are going after first responders, where you seem to over-index everywhere. And so how are you kind of grappling with that, I think, elevated level of pressure that may be below the surface?

**Matthew D. Ellis** - *Verizon Communications Inc. - Executive VP & CFO*

Yes, I would say it certainly doesn't feel like, from our seat, that it's been a calm marketplace for the past 12 months. I mean, it continues to be competitive. There are ebbs and flows from quarter-to-quarter but it may be as we just all got used to this level of competitive activity. But you're right. The nature of the competitive offers have evolved, but that's not really new. It's been the case for many years that they move over time. A couple of years ago, you say a lot of the activity was nationwide promotions, right. In the past 6 to 9 months, it's got a little more surgical in-house. Some of those things are done. But it's still a competitive marketplace, but from our view, the good news is we continue to do well in that marketplace. And it comes down to the fact that at the end of the day, the product is only as good as the network it's on. And so it all comes back to the quality of that network service, and that's the reason why we perform well irrespective of how the competitive intensity is and how the promos are run.

**David Barden** - *Bank of America Merrill Lynch - Analyst*

In those areas where Verizon over-indexes and you're kind of feeling a competitive impact, where is Verizon finding the net add growth? I mean, where are you under-indexing that you're actually getting or winning at the margin? And how are you doing it?

**Matthew D. Ellis** - *Verizon Communications Inc. - Executive VP & CFO*

Well, there are certain areas we're under-indexed. We've talked about some of those in the past, certainly different demographics and so on. But even in the areas where we over-index, we continue to perform well. So we've been -- I think we've been successful across a number of different areas in the past 12 months. As you see, we've taken the original unlimited offer and put layers in there. So you have the base-level unlimited and then you have beyond, and now we have the above offer. And in the past few months, we've also given families the opportunity to say not everyone in the family needs to be on the same unlimited plan, so let's give people the opportunity to select what's right for each individual family member. So as we continue to evolve the offering, I think we're doing -- we continue to perform well across areas we over-index in and under-index.

**David Barden** - *Bank of America Merrill Lynch - Analyst*

So one of the things that's been the hallmark of the industry has been as you guys, over time, have tried to expand the accordion of service price offerings, the hope has been that while you might get some trade-downs, you'll get more trade-ups. And that was really the recipe that drove the



SEPTEMBER 07, 2018 / 3:00PM, VZ - Verizon Communications Inc at Bank of America Merrill Lynch 2018 Media, Communications & Entertainment Conference

service revenue inflection for you guys and then getting the pig through the snake on EIP. So as you kind of look at this, where we are now with the kind of mix now of higher -- even higher offerings, the big buckets, and the kind of economization opportunity within the family plan, is that still the case? Are you still having kind of a net march up the value chain, which can continue to support the service revenue growth?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes, we certainly have seen that. And as we went through the start, first 2 quarters of this year, you saw that impact on the ARPA number. We've been adding connections per account. So as you bring that family on -- and they enjoy the quality of the network, they increase the interaction with the network. And then we have been -- as we've added the right offers out there, you still have a number of people who are making that decision. "Okay, I'm going to get off that metered plan and it may cost me \$20 more a month to go to unlimited, but I don't have to worry about overage and usage and what the kids are doing and whatnot." So there are still opportunities there. I don't -- I'm not expecting a massive, like, change in that number over the rest of the year, but we certainly do think that we can continue to expand the relationship we have with consumers in mobility, and we'll look to expand in other areas as well.

**David Barden** - Bank of America Merrill Lynch - Analyst

You don't expect a massive change in the connections per account or in the ARPU -- or ARPA?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

I think we'll see -- we'll continue to see some progress on the ARPA side, but certainly, the connections per account will -- should continue to increase.

**David Barden** - Bank of America Merrill Lynch - Analyst

Got it. So just on that kind of thinking about the forces at work then, the -- kind of the big change we're going to see coming next week is going to be the launch of the iPhone or maybe multiple iPhones and maybe stretched over months. I don't even know. Kind of -- as you kind of war game this, what are you budgeting for, a much more aggressive marketplace than we saw last year or an off-cycle market that's a little less aggressive? What are you budgeting for?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes. So we look at it -- we've got a few years under our belt now at doing this. So as we look at that market, we will be competitive in the marketplace. We'll do it in a disciplined fashion. We certainly believe, assuming it's another high-end device, if you're going to spend what's now \$1,000-plus on a handset that -- if that's the amount that you're going to pay, you want to have the best experience with that device if that's what you're paying. And so we certainly think we have the opportunity to do well in times like that because if you're going to do that, you want to put it on a great network.

**David Barden** - Bank of America Merrill Lynch - Analyst

The counterargument to that is that the more expensive handset, the higher your monthly installment payment plan, the less budget you have for the kind of connectivity part of it; so the more expensive the phone, maybe the less expensive the service plan. Those 2 things go together. Do you have evidence to back up, like, the idea that "I'm going to pay a premium to have a premium experience on a premium phone" relative to "I have a finite budget and I need to fit phones and service in the..."



SEPTEMBER 07, 2018 / 3:00PM, VZ - Verizon Communications Inc at Bank of America Merrill Lynch 2018 Media, Communications & Entertainment Conference

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

We've not seen any evidence of customers trading, "I'm going to pay more for the hardware, and therefore, I have to pay less for the connectivity." I mean, that's not -- I've not seen any data that suggests that that's going on. We see typically the opposite when customers are saying, "I'm getting a high-end device. I want high-end performance on that device," and that means putting on the best network.

**David Barden** - Bank of America Merrill Lynch - Analyst

I wanted to kind of just back to something I wanted to ask on the service revenue side. Philosophically, where do you guys stand on fees as a service revenue driver? We've got Sprint and AT&T raising fees. We've got T-Mobile kind of getting rid of fees. I haven't heard much from Verizon on it, so far.

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes. I mean, I don't think our philosophy has changed significantly over the years. We -- and I don't think you can look at any individual line item of the billing to the customer. I think you have to look at it in totality and say, "Okay, here's the level of service we're going to provide," and we think it's a great level of service. And over time, I think that's been borne out. For that level of service, here's the net amount that we think that should cost to provide that level of service. Now there's different ways you can slice and dice how you get to that total revenue piece, whether it be the upfront cost, whether it be monthly cost, whether it's on the service versus the hardware and so on, but it's about the total revenue that you're charging for the experience your customer is getting. And I don't tend to think of the individual line items as much as the overall revenue that we're looking at.

**David Barden** - Bank of America Merrill Lynch - Analyst

So my takeaway from that is connections kind of continuing, fees as an option, service revenue growth kind of continuing. Kind of talking about the handset or the kind of subscriber side of it, the change this quarter versus, say, last quarter first half, we now have Charter fully in the market. They now have the iPhone, which they didn't have at the launch. Have you felt their presence in their -- in the porting, in the markets in which they're in, L.A. or kind of second, third-tier markets yet?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes, a little bit, but it's just like the other -- look, we've been in the wholesale business for 20-plus years now. And over that time period, being the network operator has typically been a good place to be. And so we've had numerous relationships with wholesalers over that time period. It's typically worked out well for us, and we just view these as another wholesale relationship. If that -- those -- the MSOs are going to offer a wireless product, we much prefer beyond our network where we monetize it in the wholesale revenue line, as opposed to the -- maybe the retail line. But it's -- we're still monetizing the network, and I don't have all the cost around the retail side to the business as well. So as I say, it's a relationship we've been happy with so far and -- but it will create some change between the retail line and the wholesale revenue line.

**David Barden** - Bank of America Merrill Lynch - Analyst

I think -- maybe you're in a position to answer this, but Charter's launch seem to kind of take a lot of the playbook from the Comcast launch. And Comcast has been fairly open that the success that they've seen has been largely from the by-the-gig customer as opposed to the unlimited customer. And there's a debate out there as to whether that's a function of a lack of effort or rope-a-doping, the unlimited business for the time being as they just try to burn in and get experience with the model and they're happy to take maybe smaller customers, maybe higher profit margins with the by-the-gig product and that they could, when they choose, become much more aggressive on the unlimited side. Why do you think we're seeing what we're seeing from the cable industry, not really having made a dent in the unlimited market yet? Could they, should they, will they?

SEPTEMBER 07, 2018 / 3:00PM, VZ - Verizon Communications Inc at Bank of America Merrill Lynch 2018 Media, Communications & Entertainment Conference

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Well, I'll come back to -- so first of all, they're probably in a better position to answer that question than we are but...

**David Barden** - Bank of America Merrill Lynch - Analyst

You're the supplier.

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

But look, it comes back down to what I said earlier. Being in the U.S. market, being a network operator has typically been provided a better outcome than not being a network operator and offering a wireless service. So I expect them to continue to create new offerings as they continue to gain experience in the space, and we look forward to seeing what they do.

**David Barden** - Bank of America Merrill Lynch - Analyst

One of the things, I think, that surprised people again in the second half last year, in addition to the kind of much more quiet competitive climate, relatively speaking, was Comcast coming into the market and Sprint coming back to life, and AT&T going from decline to growth. And all of a sudden, the postpaid net add market just expanded. And Comcast and Charter, they will come into the market and they didn't really have a huge negative effect. And frankly, AT&T and Sprint were able to come back as well. And T-Mobile gave up some share, but it's just the market expanded. Is -- the question, I guess, is, is that smart market expansion a step function, where we went from 3 million postpaid net adds a year to 4 million postpaid net adds a year and that's where we are and that's where we're going to stay and now we have to divvy up the pie between whoever's at the trough? Or could that number keep going up maybe as those 60 million prepaid customers in the country, credit quality goes up and prices are converging, and offers are getting more compelling?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes. Well, certainly, you do have a shift as the industry has moved from a subsidy model to device payment model. And then you've moved to unlimited as well. So the postpaid -- the difference between postpaid and prepaid has reduced substantially. And so I think that's giving people who are on prepaid previously an easier path if they want to come over to postpaid. But look, the overall size of the market, we continue to look at. I don't think it changes drastically from the trends we've seen over the last 2, 3 years. Certainly, as we think about 4G, where we've been in the 4G market for a while now, and the real -- we see the next step function change will be when 5G mobility starts to come. But over the next couple of years, I would expect the trends on 4G to be fairly similar to what we've seen the last couple of years.

**David Barden** - Bank of America Merrill Lynch - Analyst

And just talking to churn, obviously, churn has been kind at record levels -- record low levels of late. Can that continue as you're starting to see some of these more targeted attacks in some of the areas where you're over-indexing?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Absolutely. Look, I think you'll see the churn number move up and down to some degree within a certain range. But the reason why it's been at that level, I'll come back to what I said earlier, when you -- despite everything else we hear, the network quality still matters to people. And when you're looking at the best network quality, I think our results speak for themselves. And then when we get our customer offerings right -- and over the past 18 months, we've done a good job of that. When you do those things, you both attract new customers and you also do a good job of retaining existing ones. So you should expect to see us react appropriately when there are target offers at certain parts of our base because we



SEPTEMBER 07, 2018 / 3:00PM, VZ - Verizon Communications Inc at Bank of America Merrill Lynch 2018 Media, Communications & Entertainment Conference

enjoy the long-term relationships we have with lots of our customers, and we want to give them a reason to stay. So -- but I would expect to see us continue to lead the industry in churn.

**David Barden** - Bank of America Merrill Lynch - Analyst

So another thing we -- last year, I was really hoping to extract from you was -- at the time was kind of the fixed wireless broadband plan. And I think that at the time, we didn't appreciate that, that was changing because of the timetable of standards and a few other things, which, I think, we do understand better now. And we've got now the 4 markets that we're going to need kind of pre-standard fixed wireless broadband deployment. And we're sitting here in L.A., which is going to be one of them. What is that going to look like? Can you tell me when and how you're going to launch 5G in L.A.?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

I could.

**David Barden** - Bank of America Merrill Lynch - Analyst

Yes, really?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Look, as you think about this initial launch -- so first of all, where we are today versus where we are a year ago, our excitement level is as high or higher than it was a year ago. But I think what's changed drastically is we've got a lot of people more comfortable that, yes, the technology really works and, yes, this can be transformational. So as you think about the 4 city launch, as you mentioned, it's on the proprietary standard. And so within that proprietary standard, there is a limited amount of network equipment and customer-premise equipment, the routers and so on. And so the intent of the launch in those 4 cities is to give us a chance to refine the customer proposition in a commercial model to stress the network and the -- where we have the -- those network equipment onto that -- the proprietary standard. At the same time we're doing that, we're starting to deploy the network on the global standard. And so the next piece that will happen with respect to fixed wireless after the launch in the 4 markets this year is we'll then be waiting to get to the CPE equipment with the global standard chip in, which should be at some point next year and then it won't just be in those 4 cities. It will be beyond those 4 cities as well. So as you think about the launch this year, think about it in terms of, yes, there's -- because it's on the proprietary standard, the volume of equipment is not significantly large but it's about refining the customer experience, stress testing the network in a real, live consumer environment such that we have a level of knowledge as we move into the global standard next year that really nobody else will have that same level of experience.

**David Barden** - Bank of America Merrill Lynch - Analyst

And so again -- so is this going to be a TV ad that says, "Hey, L.A., we've come to you with 5G. Come -- talk to us." I think you've talked about it starting out as a white glove experience. Like how are you going to go get customer 1? And what is customer 1 going to get? Do you have to go to the top of a building and install an outdoor antenna? Is this going to be an indoor CPE exercise? There's been a lot of questions about what's really going to happen. How does this deployment really look?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes. Look, there will be -- initially, you should expect more of a white glove service to -- as we say, it's part of refining that customer experience. So we'll be more white glove at first than what we ultimately expect to evolve to. In terms of the equipment, we expect a lot of it to be internal to the customer's home. There will be some cases where an external antenna will make more sense, but we'll do that on a case-by-case basis. And in terms





SEPTEMBER 07, 2018 / 3:00PM, VZ - Verizon Communications Inc at Bank of America Merrill Lynch 2018 Media, Communications & Entertainment Conference

of how do you go get the customers, look, we have a large number of relationships with customers already, long-standing relationships based off high-quality network performance. And what we'll be offering with the fixed wireless is how do you bring that experience or use to that high-quality experience use with Verizon and mobility into the home. And so we're not starting from scratch in terms of relationship with the customers in those 4 markets or any other part of the country.

---

**David Barden** - Bank of America Merrill Lynch - Analyst

So within the context of this year where there's not a lot of kind of 5G build actually happening, you're coming in at around \$17 billion. There's a conversation out there that in order to have a real build-out in 2019, which, I guess, you've hinted -- I've heard from [Bryce], it sounds like some time in the spring, we're going to hear more about what the real game plan is, that there's going to have to be a big step-up in order to deliver on your promises. And I guess, could you kind of comment -- if we're not spending anything on 5G now and we're spending \$17 billion and we want to spend a lot more on 5G next year, what are we going to be spending next year?

---

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes. Maybe we haven't got the -- we've been clear enough in the messaging. There is significant amount of 5G spending going on in 2018 within that \$17 billion number, right. So certainly within the 4 cities that we'll be launching the fixed wireless later this year, obviously, there's been spending. But there's been 5G-related spending in other markets, too. And remember, a lot of what we've been doing with the fiber deployment, yes, it supports densification of 4G, but it's also preparing markets for 5G. And that fiber deployment hasn't just been in our traditional ILEC footprint. It's been in numerous cities across the country, too. So if there's a misconception out there that the \$17 billion this year doesn't include any 5G spend, I would say that is not an accurate reflection of where our money this year is being spent. So as you think about -- and we're not going to give guidance on '19 today. But as you think about that transition...

---

**David Barden** - Bank of America Merrill Lynch - Analyst

You can do it. Go ahead.

---

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

As you think about that transition, it's not as big a step. And look, as you go back over the history of the last 10, 15 years of Verizon, as we've transitioned from one technology to another, we've moved the capital spend, but the capital intensity stayed fairly consistent. There's no reason why 5G should be significantly different from when we did Fios, when we went from 3G to 4G on the wireless side. You change the individual line items you're spending on. You reduce the -- what you're spending on the older technology and create the space. The good news with 5G -- 4G to 5G is I've got a lot of interoperability of assets. Remember, we did 3G to 4G. It was essentially a complete overbuild. We went from CDMA to LTE, right. So the change this time is very different from when we did 3G to 4G.

---

**David Barden** - Bank of America Merrill Lynch - Analyst

So let me talk about -- or ask about -- maybe scoping that a little bit. So I think you guys have been pretty clear, like, at least the top 50 markets are kind of targets for what, I guess, you're calling internally the ultra-wide band 5G. I want to talk a little bit more about the distinction between that and other things. But as we think about the spend that you've done, like you've kind of prepositioned spending, are there markets that are 100% 5G-ready in that top 50 and some that are only 10%? Or are they all kind of 60% ready? How do we think about that in terms of what does ready mean and what does it take to get them ready?





SEPTEMBER 07, 2018 / 3:00PM, VZ - Verizon Communications Inc at Bank of America Merrill Lynch 2018 Media, Communications & Entertainment Conference

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes. Each market is different for a number of reasons. Those markets that we've densified for 4G are certainly more ready just because of that commonality of assets, the underlying infrastructure, the fiber in the ground and so on.

**David Barden** - Bank of America Merrill Lynch - Analyst

In the densification effort, you've talked very clearly about New York and Chicago historically, where you kind of had AWS-3 deficit. Are there other markets where you would kind of have to say, "We've densified?"

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes. So you think about some of the locations where you've had large events like Super Bowls, for example. And we talked a bit over the past couple of years when the Super Bowl was in the San Francisco area, the amount of small cells that we deployed in the downtown San Francisco area for all the pregame events and so on. So that would be an example of where we've gone in and done a significant amount of densification. And there's other cities like that as well. The other piece is each city is different in terms of how quickly you can actually do the work. The regulatory processes and so on differ by city. So there's a number of factors that mean each of the -- whether it's the top 50 cities, top 100 cities, they're at a different stage of how close they are to being 5G ready or not. But we're making progress in all of those as we go forward. So you should expect to -- as we head into '19, we will have significant amount of activity on 5G.

**David Barden** - Bank of America Merrill Lynch - Analyst

And the -- just kind of talking about the vendor readiness for this, and I guess, I asked you -- I kind of asserted that I thought springtime might be a time when you would kind of have more information. I kind of feel like there's a moment in time when Hans is going to want to stand up and say, "Look, here's the plan. I'm the new CEO. I'm owning the plan," and that will be contingent on what the vendors can make available to you. When -- is that fair to say? Should we expect sometime in the spring, Verizon's going to have the master plan for the 50 cities and we're going to have a big day, we're going to talk about it, and we're going to know what the plan is? Because I think people are waiting to kind of hear when and how big the plan really is.

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes. Look, we have the -- we certainly aren't waiting for the spring to have the plan for the first 50 cities or whatever, but there's a number of moving parts in there. As you say, a big piece of being able to launch is you need the network equipment to be available in addition to us just having the ability to install it, but it has to be available. And then you have to have the devices that go on it, whether that's in home device, whether it's a smartphone, whatever else. And obviously, there's -- all of the partners we work with, whether that's on the network side, whether that's on the customer equipment side, there's -- they're all making tremendous progress and there -- but there's a fair amount of fluidity right now from a timing standpoint when everything will come. And so while we certainly have our internal plans, we'll talk more about them when we think there's a little more definition to exactly when everything's going to happen.

**David Barden** - Bank of America Merrill Lynch - Analyst

And just kind of wrapping up on the spending question. I think that there's been a sense that there's a shift at Verizon in terms of the budget of spending from [divided income] macro and small and fiber and such and that the budget has kind of shifted a little bit to fiber and small and that the macro spend, which has been kind of the anchor tenant of Verizon's network advantage for a long time, maybe is starting to slow down. Is that a fair characterization? Or do you remain kind of -- do you believe you're kind of the coursing speed on macro remain?



SEPTEMBER 07, 2018 / 3:00PM, VZ - Verizon Communications Inc at Bank of America Merrill Lynch 2018 Media, Communications & Entertainment Conference

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

I'm assuming when you say slow down, you mean the spend on macro towers, not the network advantage.

**David Barden** - Bank of America Merrill Lynch - Analyst

Correct, correct.

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Okay, yes. Look, as we've -- as you think about the macro towers, it's largely about coverage. And so we've done coverage. And so are there areas that we still do some amount of macro towers? Absolutely. But it's not just something that's changed this year. It's been over the last 2, 3 years we've really changed and had more of a focus on densification. And you're going to want to do densification. We talked earlier about some of the marketing campaigns being more surgical. Well, densification is the network build version of that, right, where you get to be more surgical. You don't just blanket a whole area with more capacity. You're able to come in and put additional capacity right where you need it. In L.A., for example, there's certain places we had more capacities. Other areas that the -- a lot of the initial coverage build still provides a very good network experience. And so you're not adding additional stuff. But -- so that shift from the majority of spend on macro to now more of it on fiber and small cells isn't really a 2018 shift. It's something that's been going on for at least the past 2, 3 years.

**David Barden** - Bank of America Merrill Lynch - Analyst

So maybe shifting gears a little bit, too, this distinction between the ultra-wide band 5G, which is 1,000 to 1,200 megahertz that you have in 28 Ghz spectrum to something that looks more national, right, because I think that there's an acknowledgment that it's not a coverage strategy. It's a not a national coverage strategy. And in order to have a national coverage strategy, you need mid-band. And I guess the question was, what is the strategy for acquiring mid-band? Because I think there's a sense that as you probably kind of sense it, there's kind of a low-grade concern in the debt markets about the total amount of telecom debt that exists today. And after several years of Verizon kind of hovering at a certain gross debt number, you've started to repay some of that debt finally, and there's a little bit of pleasure that the debt market is taking that. And if we're kind of facing a -- I'm speaking for the debt market right now. But I think that there's a sense that if we're in another kind of round of spectrum chasing and the debt repayments kind of have to get put on hold yet again that there's just a frustration with that. Do you -- so -- and that's a long-winded way of asking, like is there a budget for acquiring mid-band spectrum. And if mid-band spectrum goes for beyond that budget, can you operate without it?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

As I think about the spectrum that we may or may not acquire in the future, spectrum is one part of building out the network and providing a return, right. And just as we have in 4G, we had the opportunity to spend more money on spectrum or spend the money instead on densifying the network, we've said we've crossed that threshold. And now it makes better sense to spend more money on densifying the network. So ultimately, it's a balance between the different ways that you can create the capacity, whether that be what we've done in 4G or as we move to 5G. As you talk about mid-band spectrum and 5G, the ultra-wide band and the reason we're calling it that is we want to make sure people understand that you could launch 5G in a fashion that is, yes, you're using Release 15 of the standard. But unless you pair it with the appropriate amount of spectrum, you're not truly going to get the functionality that 5G truly brings. So that's the reason for using the -- that descriptor. Now as you say -- as you think about mid-band, remember, we have a good amount of mid-band spectrums today, and there's a good chunk of it that's still not being deployed against the 4G network. As you move into Release 16 and Release 17 of the global standard, we're going to get to the point where the standards will include the ability to use the same spectrum for both 4G and 5G to dynamically allocate it between the different technologies. So we certainly see a path, over the next few years, to have in the mid-band spectrum that we have today to execute our 5G strategy. Now as we've always said, we like spectrum, an important part of the wireless business. We're glad to see the FCC continues to look at ways to find -- bring more spectrum to market and help the overall ecosystem develop in a broader sense as it can. So we've participated in secondary market purchases. Obviously, Straight Path is the most recent example of that. So we'll see how our spectrum ownership evolves over the next few years, but we're



SEPTEMBER 07, 2018 / 3:00PM, VZ - Verizon Communications Inc at Bank of America Merrill Lynch 2018 Media, Communications & Entertainment Conference

comfortable that with the mid-band we have, as the technology evolves over the next 2, 3 years, that we have the spectrum that we need to execute on our 5G strategy.

---

**David Barden** - Bank of America Merrill Lynch - Analyst

Let me ask maybe one last question on that, which is that, I think, a lot of us have met with Ed and talked to him about kind of -- Ed Chan, the head of the wireless strategy for 5G. And he's expressed a strong enthusiasm for the kind of, call it, 3.5 to C-band -- or CBRS to C-band spectrum. And the rules in the CBRS seem a little weird, the power. It seems much more of a venue-centric kind of spectrum band today. C-band seems like it could be very interesting. It will take time, and there's a finite amount of it available. There's also other people who've expressed interest in it as well. How important is it to own that spectrum as a solution? Can you really be a successful wireless company without that mid-band spectrum, which is emerging as the global standard in that 3.5 to C-band zip-code?

---

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes, we can. We absolutely can or confident, as I said earlier, that the mid-band we have will allow us to do what we want to do. However, always what we do is we look at the options on the table. And does that allow us to build out our network, create the capacity in the network that you'll be then be able to generate a return on versus the alternative options out there? So sometimes, we look at some spectrum availability and we say, yes, that makes a lot of sense. And you're seeing us do things like in the 700 auction a few years ago, AWS-3. And then other times, we look at it and say, "You know what, I'm not sure that actually is going to help us get what we want to." We didn't really participate in the 600, for example. So I think you look at each one on a case-by-case basis and you say, "Does this help me achieve our long-term goals," knowing that you have an existing portfolio that you believe can get you there. So then if you were to acquire something else, it's okay. That helps you get there more efficiently than what you were going to do. It's what you have today.

---

**David Barden** - Bank of America Merrill Lynch - Analyst

And your commitments to the debt markets about delevering and kind of reaching kind of pre-Verizon-Vodafone deal levels, do those limit what you can do to acquire spectrum or do other things?

---

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

I think we've been clear with the debt market. Since 5 years ago, the -- we have -- we made that commitment. We continue to have that goal to strengthen the balance sheet. We talked about that a lot at the start of this year with -- when tax reform came along. But we also said to both the debt markets and equity markets that, "Look, we're not afraid to -- if the appropriate activity comes along, to go ahead and do that." And if that means it differs when you would otherwise get to -- back to that leverage ratio, if it makes sense for the long-term strategy of the company, we're not going to do -- we're not going to pass it up just so that we can get to some shorter-term number if it means that the company is not as well positioned for the long term as it could be.

---

**David Barden** - Bank of America Merrill Lynch - Analyst

So as we kind of get to the end of the conversation, I just wanted to touch on something that came up in the Journal this morning. I assume you expect this question but it sounds like there are some conversations internally about Oath and kind of its direction and where -- how that thing needs to be structured. I think Lowell has been clear that they haven't really talked about spinning it out, but it does sound like there might be some restructuring conversations, rumors that Tim Armstrong is going to leave, which wouldn't, I think, necessarily surprise a lot of people. But could you kind of give us a sense as to what is the Oath game plan right now?



SEPTEMBER 07, 2018 / 3:00PM, VZ - Verizon Communications Inc at Bank of America Merrill Lynch 2018 Media, Communications & Entertainment Conference

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes. So look, I'm not going to comment on rumors that are out there. We have no personnel announcements to make. I'd say not just Lowell's comments, but Hans was on television a couple of weeks ago and he was very clear that our commitment to Oath hasn't changed just because he stepped into the CEO seat. Our commitment is as strong today to Oath as it's ever been. And look, when you look at what's going on in Oath, there's a lot of activity on the integration and the team is making good progress there. We should have the integration of the adtech platforms completed by around the end of the year. And that's going to increase the efficiency of us going to market and working with partners versus the day where they come in, they have to interact with us across multiple platforms, which is -- creates a level of inefficiency. So there's a lot of good work going on there that's really setting the foundation for what we expect to do with the business going forward, and we still feel very strongly there's a great opportunity there. In addition to that piece, the other piece that's been significantly valuable is there's a lot of strong technology skills within that business. And to some degree, they were potentially a little underutilized within just that business. We've taken those -- that very strong skill set and applied it across the total Verizon business and getting significant value out of that, too. So we continue to be very committed to Oath and think there's a significant opportunity for us there.

**David Barden** - Bank of America Merrill Lynch - Analyst

So just 2 quick follow-ups. Number one is the original goal for that business was to take it from a \$7 billion, \$8 billion business to a \$10 billion business by 2020, I think. Is that still on the table?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

It's still on the table.

**David Barden** - Bank of America Merrill Lynch - Analyst

Got it. And then with the kind of finalization of the integration, Lowell has been kind of cognizant of the fact that the comps in the business have not been in their kind of steady state, and that's why we haven't seen a lot of financial information or transparency around the business so we can kind of think about it and model it, look at it in margin contribution terms. If that's going to be done by '18, are we going to see this unit kind of broken out and kind of modelable and transparent in 2019?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes, we're looking at that. I mean, we want to make sure when we provide additional details, it's something that provides value to people who's looking at that data and it's something they can expect to see on a consistent basis and it helps understand the whole story and what we've been going through the integration. It's just been difficult to get comfortable that we can provide users something that had the right amount of context around it and made it -- help them understand the business. So -- but that is certainly the goal as we go forward to get to that point where we can provide additional transparency.

**David Barden** - Bank of America Merrill Lynch - Analyst

Matt, thank you for joining us. Appreciate it. Good luck with the rest of the year.

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Thank you. Great to be here again.



SEPTEMBER 07, 2018 / 3:00PM, VZ - Verizon Communications Inc at Bank of America Merrill Lynch 2018 Media, Communications & Entertainment Conference

**David Barden** - Bank of America Merrill Lynch - Analyst

Thank you so much. Appreciate it, Matt. Everybody, next up in the ballroom will be CBS, and then upstairs will be the 5G infrastructure investing. Thank you.

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2018, Thomson Reuters. All Rights Reserved.