

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

VZ - Verizon Communications Inc at Deutsche Bank Media, Telecom and Business Services Conference

EVENT DATE/TIME: MARCH 07, 2018 / 1:00PM GMT



MARCH 07, 2018 / 1:00PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Telecom and Business Services Conference

CORPORATE PARTICIPANTS

Ronan Dunne *Verizon Communications Inc. - EVP & Group President of Verizon Wireless*

CONFERENCE CALL PARTICIPANTS

Matthew Niknam *Deutsche Bank AG, Research Division - Director*

PRESENTATION

Matthew Niknam - *Deutsche Bank AG, Research Division - Director*

Okay. If everybody can, please, go ahead and take their seats. Welcome, everyone, to day 3 of the Deutsche Bank Media Telecom and Business Services Conference. I'm Matt Niknam, telecom services analyst here at Deutsche Bank. We are very pleased to welcome EVP and Group President of Verizon wireless, Ronan Dunne. Ronan, welcome.

Ronan Dunne - *Verizon Communications Inc. - EVP & Group President of Verizon Wireless*

Thank you very much, great to be here.

Matthew Niknam - *Deutsche Bank AG, Research Division - Director*

So maybe just to get started, I think Ronan, it's been about 1.5 years, I believe, since you joined Verizon, 17 years at O2 in Europe. Can you give us your high-level view of the U.S. wireless market and maybe some of the bigger -- biggest surprises for you since joining the company?

Ronan Dunne - *Verizon Communications Inc. - EVP & Group President of Verizon Wireless*

Sure, but let me just start by -- let's pop up our safe harbor statement there and just guide you guys. So the first thing I noticed is that you guys spelled harbor wrong, but apart from that -- and I discovered that driving on the wrong side of the road is driving on the right side of the road. So that's 2 early observations.

I think the thing that's interesting for me, there's a couple of very distinct things about the market here and the market in Europe. The first is that those of you following Europe will know is there's more than 100 regulated carriers in Europe in a footprint that's not materially different from the U.S., so it's a highly fragmented market, national market, national regulation despite the European umbrella. So the smallest carrier in the U.S. is about twice the size of the largest domestic carrier in Europe. That's one big factor. And I think scale is an increasingly important consideration in our industry.

The second thing is that Europe is predominantly single-user plans, so individuals buy their wireless plan as opposed to the family plan or the multiline plan, which is the core offering inside the U.S. market. And I think and we'll note that -- touch on it in due course. What's interesting about that is that as you move into a converged or into an opportunity inside the home, whether that be residential, broadband or otherwise, wireless carriers like ourselves in the U.S. have stronger relationships with the household budget holder because of that family plan structure than a carrier in Europe, where it tends to be the wireline carriers are more effective selling through wireless and wireless carriers selling through wireline because many of the wireless carriers don't have that relationship with the household budget holder. So I think scale, I think the single line versus the multiline are probably the 2 biggest things apart from spelling.



MARCH 07, 2018 / 1:00PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Telecom and Business Services Conference

Matthew Niknam - Deutsche Bank AG, Research Division - Director

Okay. Yes, I've been on the wrong side of the road in London as well, so. Maybe to sort of drill it down, as you think about what's a -- maybe a more conducive economic backdrop in the U.S. for wireless, what are the some of the top priorities, I guess, specifically for Verizon wireless this year 2018?

Ronan Dunne - Verizon Communications Inc. - EVP & Group President of Verizon Wireless

So look. Again, I think -- we'll talk about 5G and other things, but -- sort of, my priorities are really, really clear. It's to continue to execute on the fundamentals. We're not waiting for anything. There are some fantastic opportunities out there, so consistently executing against those, and that's about attracting and retaining the best-value customers in the market. We have world-class churn, but we can always do better, and we will focus on that.

I think the other thing is that from a market point of view that we're very focused on is the return to service revenue growth. And we've said very clearly that we are on a clear path to that by midyear. Obviously, there's the accounting revenue recognition adjustments, but on a like-for-like basis, by midyear and showing good trends, we were just inside 3% in the fourth -- minus 3% in the fourth quarter last year and a good trajectory. So that, again, is really important.

And I think the other thing is that in doing both of those things is I have the opportunity to position Verizon to be better positioned than anyone else for the emerging opportunity that is 5G. So don't wait, execute now, drive service revenue growth, but at the same time, prepare yourselves to be able to exploit the opportunity of 5G just as soon as it comes.

Matthew Niknam - Deutsche Bank AG, Research Division - Director

It's a good segue to my next question. So your peers -- I mean, it is obviously only 4 nationals here relative to what you're used to abroad, but each have been actively investing in network, content ownership and/or bundling. It's a maturing market. How does Verizon wireless differentiate, stay ahead of the curve? And maybe you can talk to some of the competitive advantages that set Verizon apart.

Ronan Dunne - Verizon Communications Inc. - EVP & Group President of Verizon Wireless

So the first thing that I think anyone from Verizon would start with is network. Network is a compelling component of any proposition than anybody offers and our long-term and enduring commitment to best-in-class network is fundamental and foundational to us.

And if you think about network, sometimes people don't really think of it this way, but I see network as an enabling platform. It's a layer that is capable of serving right across the market, so whether that be Verizon-branded business, whether that be our relationship with the MSOs, with people like TracFone. That is an enabling layer. It's a scale asset and, therefore, optimizing the yield and return on that scale, critically important. So that's the first piece of the equation. And we're better positioned than anyone else in the market on that, both quality, coverage, capacity.

The second thing is then to build on top of that fundamental connectivity layer, and that's to ensure that we're delivering experiences for consumers and solutions for business that really embed the connectivity layer but create the value add on top. And we can do that in a number of ways. We can do that with our products and services layer so B2B with OneTalk, with security products in the public sector with creating prioritization, creating a dedicated core for public safety. So enhancing the service capability in the offering there to really embed added value in that layer, and then sitting on top of it, in consumer products like hum and other things, which then sit on top of that layer. So that way, we have a yield play on a national asset that is highly efficient. We are the lowest-cost producer in our industry. And then we have the value add layer on top.

And I think as we play into the 5G market, what will increasingly be the case is the value that's created on top of a compelling connectivity layer is really exciting, and I think, because of the way we feel of our 4G network, we will both be fast to and superefficient to accelerating that opportunity into 5G.



MARCH 07, 2018 / 1:00PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Telecom and Business Services Conference

Matthew Niknam - Deutsche Bank AG, Research Division - Director

You've got a network, obviously, that's sort of the broader platform, but do you feel like you've got the assets in place to compete effectively and maintain market leadership and maybe conversely and more -- the question I'm getting at is, are there strategic assets you don't have today that would help strengthen your positioning particularly in a 5G world?

Ronan Dunne - Verizon Communications Inc. - EVP & Group President of Verizon Wireless

So good question, and I think within that, there's things like content and various other things that are subcomponents of it. So let me kind of take it in its layers. The first thing that 5G is going to allow us to do is to provide ubiquitous connectivity. It's going to allow us to participate up and down the connectivity stack, whether that be the residential, broadband, whether it be B2B or our traditional mobility play. That in itself creates new addressable markets, is interesting. The context of that then says in that broader sense, where does content play a role?

And I think there, what we're seeing is we're seeing the evolution of various trends, and you guys are probably better-placed than me to make the bets on linear and content ownership versus -- but what is clear is content ownership is fragmenting and the way people engage with content is fragmenting and the way people engage with content is fragmenting with the combination of over-the-top and traditional linear.

I think the role that a carrier can play is really about how do we curate, how do we aggregate. That doesn't mean we won't be principal in certain elements of content. Probably, our sports rights asset is a good example of that, leveraging those across the portfolio both within the Oath business and inside the wireless business. So I don't think it's a one-size-fits-all. Is content an important consideration? Yes, it is. But I'm seeing the traffic on my network. I'm seeing our competitive position where an awful lot of content is being consumed on our network, but I'm not bundling any content at the moment, but I'm not disadvantaged by not bundling.

Matthew Niknam - Deutsche Bank AG, Research Division - Director

And aside from content, maybe from a more hard asset mix, whether it's spectrum or fiber?

Ronan Dunne - Verizon Communications Inc. - EVP & Group President of Verizon Wireless

So look, I think we're very well positioned there. I know it's always a question at these sort of events, but if you think about it in 3 buckets, so spectrum, we're using about 50% of our existing spectrum assets for LTE at the moment, yet it's carrying the vast, vast majority of our data and more than 50% of our voice. So more to go there.

The 2 other things that we're doing, and this is a consistent play, is they're backed up with fiber and our commitments to roll out significant fiber with our One Fiber strategy and our commitments with Corning and others. We are enhancing the backbone for the wireless network and, therefore, getting fiber to the cell and the fiber to the node, and that enhances the capacity of the network. We're densifying at the same time, so that the nature of the network is strong spectrum assets, only using about 50% for 4G LTE at the moment, increasing densification, which is optimizing the way we deliver that capacity in the network and it's the classic build-versus-buy. And then sitting on top of that is enhanced features that are coming all the time as we upgrade the old Alcatel-Lucent and then Nokia properties within our portfolio and increasing the capability of the network equipment.

But then, on top of that, in the handsets, whether it's the 256-QAM, 4x4 MIMO, all of these things are giving us incremental every time. So we see ourselves as very well positioned. You then layer on top absolutely stunning position in millimeter wave with the bandwidth that we have, up to 1 gig bandwidth in the millimeter wave in the 28 and the 39. I think we're very well positioned. I think from an industry point of view, the U.S. still has to sort out the mid-band tier, which is a broad piece, whether that be the CBRS and other things. And what you see in other markets is that 3.5 is becoming a kind of a norm for the mid-band.



MARCH 07, 2018 / 1:00PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Telecom and Business Services Conference

So I think we're very well positioned. I think we have a good slew of assets, but the way we built our 4G network and the strategy means that we have a much more natural segue to the investment case in 5G than, I think, some of our competitors.

Matthew Niknam - Deutsche Bank AG, Research Division - Director

Okay, we will get into that in more detail, but maybe to start, let's sort of go to the existing LTE business. It's been 1 year since you introduced unlimited at a time when many would say the state of competition in U.S. wireless was really accelerating, but things seemed a bit more subdued this year, at least from the analyst point of view. Can you comment on the latest you're seeing thus far? And how competitive intensity has changed and evolved over last year?

Ronan Dunne - Verizon Communications Inc. - EVP & Group President of Verizon Wireless

Sure. So I think all of you will recognize that kind of the fall in the holiday season in -- at the end of 2016 was a highly intense competitive environment. And some of you maybe have heard Matt Ellis, our CFO, use this anecdote, which I think he stole off me, so I'll tell it briefly is: This idea that we were showing up in the market selling bananas on our cart, and the other guy is showing up, selling oranges on their cart. And the customers were saying, "I know your bananas are the best bananas in the market, but what's the exchange rate between bananas in your cart and oranges on their cart?" I.e., a metered plan versus unlimited. So we try to solve the problem by -- everybody gave the customer a free apple. That's the way we did it. So we said, "Don't worry about the plan, here's a free apple."

What we did is we changed the equation. We said "Look, we'll put oranges on our cart. Now you've got the best quality oranges on the cart." Customers immediately recognized it and said, "I understand now that I've got a like-for-like offering, except that Verizon does it better so I get unlimited on the best network." And that moved the model from a competition point of view and moved the, what I would describe as the, distraction of "it's all about the device." We're in the business of selling our services and how those enhance solutions for business and experience for consumers. So I think that step-change of us participating in that unlimited market changed the context of competition.

The second trend that I think is important is the relationship between the upgrade cycle, device replacements and churn has changed fundamentally as people's hold time on their device has extended. So this idea that, with probably all your models, 2 or 3 years ago was you got a 24 months spike, you rebuy the customers loyalty at the moment, that they get a subsidized device on an upgrade. That's not the way the market works anymore. So people are separating their decision from this moment of replacement because they're extending the replacement cycle. And that is, again, changing the nature of competition in the sense of all focused on device.

And that same trend is also one of the reasons why we see more opportunity potentially for growth because what's happening is people, instead of replacing their handset every 23 or 24 months, or saying, "Well, maybe I'll add a wearable," or, "I'll add a connected device," like a tablet where the first generation were -- tended to be Wi-Fi only and now they're cellular and Wi-Fi. So I think the shape of the market has changed, and as a result, which I think is good for consumers, people are focusing on the services and the experience they're delivering, rather than focusing on just accounting other people's hardware.

Matthew Niknam - Deutsche Bank AG, Research Division - Director

Any updates you can share just in terms of the quarter itself and how you've been performing?

Ronan Dunne - Verizon Communications Inc. - EVP & Group President of Verizon Wireless

Brady would shoot me if I give you updates on the quarter. So look, I think the thing I would say is that we're seeing the sort of behaviors that we would expect. The first quarter tends to be a lower-activity quarter, overall. It tends to be a little bit of swapping out of people who got stuffed during the holidays in the fourth quarter and a little bit of swapping out of that in Q1. There doesn't tend to be any significant device launches. So



MARCH 07, 2018 / 1:00PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Telecom and Business Services Conference

we'll have the S9, obviously, towards the back end of March, but it's generally a quiet quarter and then the momentum tends to build across. So very much business as usual.

Matthew Niknam - Deutsche Bank AG, Research Division - Director

Got it. Okay, okay. One last one just on postpaid phone, specifically just around cable MVNOs. That's, I think, a big sort of threat that's looming. You maybe have a little bit of a side benefit being the sort of wholesaler to cable, but how do you sort of assess the threat there? And think about, in the context of Verizon having returned to volume growth last year and now you've got a big headwind that will pick up with additional launches, how do you sort of assess that threat in '18?

Ronan Dunne - Verizon Communications Inc. - EVP & Group President of Verizon Wireless

So look, I would -- I kind of break it into 2 parts. Without underplaying the role that the MSOs can play, it's a highly competitive marketplace already. It's not like somebody just showed up and said, "Hey, let's make wireless competitive." So we compete every single day, and that's a good thing. So I don't think it fundamentally changes the game.

The second thing I would say is that the nature of the way the MSOs are coming to market is they're looking to complement and, I would say, reinforce their core businesses, rather than, essentially, an assault on the wireless business. This is more about their business and their relationship with customers and enhancing. And I've seen that in markets across Europe.

And as you rightly say, the third component for us is that we have the participation through the wholesale arrangement that says we're also participating. And I think as Matt has said as well publicly, is we're not giving up our fair share to the MSOs, and therefore, we're getting the benefit of 100 customers coming in and giving less than our fair share out. So from a net-net point of view, that's a good position to be in.

Matthew Niknam - Deutsche Bank AG, Research Division - Director

You touched on service revenue growth and an improving trajectory in 2018. So the industry moved to unlimited. Obviously, Verizon sort of went there as well early last year. Most of the industry, I would say, are kind of leading with these kinds of offers. So in that context, how does Verizon monetize incremental data usage and traffic growth on wireless networks?

Ronan Dunne - Verizon Communications Inc. - EVP & Group President of Verizon Wireless

Okay. So I think there's really 3 or 4 layers to this. So the first thing is -- and there's 2 sides to this model. I'll come back to revenue in a second, but one important thing to understand is the nature of the growth in traffic since we went unlimited is different from what we've seen previously. So we broadened out the time shoulders of when the network is busy, and we broaden out the geos in which the network is busy. So from a yield point of view, this is giving us an even better yield on the network and on the network investment because we're selling more of the spare capacity that we had in the network. That's the first and important thing to say.

Then if I look at the revenue side, I would give you, really, 3 trends. And I touched a little bit on one of them earlier. So we're still acquiring new customers and new accounts. So account growth is important, but what we're seeing is the participation in those accounts is growing so people are adding either more lines, more wearables, more connected devices. And I think there's plenty of opportunity there. The average household is significantly increasing the number of connected devices.

And I think the third piece is that, that same investment is supporting a substantial component of the investment case for addressing the residential broadband market. So those are 3 elements of how we continue to see monetization from essentially an unlimited environment.

MARCH 07, 2018 / 1:00PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Telecom and Business Services Conference

Matthew Niknam - Deutsche Bank AG, Research Division - Director

Maybe it's a good segue into the 5G discussion. So very top-of-mind, we just came off Mobile World Congress a week ago. You've mentioned planning launches in 3 to 5 markets later this year. Can you help us think about how 5G tangibly changes the addressable market of revenue opportunity? We know about fixed wireless, but bigger picture, we hear so many use cases. Can you maybe help us think a little bit more tangibly about how this changes your opportunity at Verizon?

Ronan Dunne - Verizon Communications Inc. - EVP & Group President of Verizon Wireless

So again, if I start on the cost side, my cost of delivering incremental capacity, which is in a 5G world, it's the most efficient bearer that we've had ever. So that's important. So if you were -- if the backdrop is that there's continued demand coming for our service, which I think is a really positive from an investment-case point of view, is the more efficiently we can deliver that, the better. So just on a like-for-like basis, I would, given how I've built my 4G network, the fact that I have fiber to the node and fiber to the cell is I would deploy 5G anyway to give me incremental capacity and reduce my overall cost of production, that's the first piece.

Then I think in B2B, and we're early in some of the standards development, needs to deliver additional elements before all of these cases. But a lot of the space that we were seeing is kind of nascent to some of the IoT space, the telematics space, some of the edge computing type capabilities that people have been talking about. 5G starts to bring those from being, very often, niche case to, potentially, mass deployment. And one example which we've touched on in conversation before is an idea of smart cities.

Smart cities is something that's been talked about for a long time, but the cost of deployment has maybe been -- but one of the examples where the edge compute capability and the smarts in the network, if you think about surveillance in a big city and the idea that a really effective surveillance would have facial recognition and other things in the cameras, they may cost \$5,000 a piece to deploy. If we're able to take that and put it in the edge and do that compute there, the ability to say, actually, there may be \$100 cameras, and I can deploy 5 or 10,000 of them and deliver the same experience, that changes the economics for deployment.

And I think in a number of examples, what you will see is the end cost to deliver at scale, which may be device-based or deployment-based will be changed by this ability to change the balance of what's done in the network versus what's done at the endpoint. And I think if you take that as a concept and deploy it, you can then start to see a ton of use cases where the existing model is interesting but not necessarily scalable and suddenly it becomes.

The other is latency, and again, the idea that you're going from hundreds milliseconds to low double-digit milliseconds of latency, again, starts to say is deploying of services where you were previously constrained by where you could get fiber or wireline, you can now deploy. Or even where it's a like-for-like substitution, you create more flexibility in the deployment by doing it wirelessly.

Matthew Niknam - Deutsche Bank AG, Research Division - Director

If we take -- step one, I guess, has been fixed wireless, which we talked about. Can you maybe give us any update on how you're tracking towards this target of 3 to 5? I know we've heard Sacramento, but how are you tracking towards the other four-ish markets, I'd say? And any color you can share on the go-to-market strategy?

Ronan Dunne - Verizon Communications Inc. - EVP & Group President of Verizon Wireless

Well, I won't share any color on go-to-market strategy, otherwise, I think other people will be scribbling and passing my notes to people. But what I would say to you is I have no intention of simply turning up. This is about creating a new experience for customers, otherwise, why bother? So the opportunity is really to understand how the deployment of this technology allows us to do things differently. We went out, and we did a lot of work, the biggest trial in the marketplace anywhere in the world, to understand the use cases, to understand the realities in deployment, to



MARCH 07, 2018 / 1:00PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Telecom and Business Services Conference

understand how we best set up the network to deliver the experience but then also to focus on how we deliver great experiences in the home. And what I would say is that it's a fascinating place, transformational.

We have the opportunity from a market in which you hid your CPE to an environment where people want to put their Apple and Google and other devices in the middle and admire them. We're transforming the home environment at the moment and it's a great opportunity for a residential broadband truly wireless offering to be part of how you create that transformational experience. So we're very focused on, not just showing up and saying, "Hey, we do gigabit broadband speeds as well," to offering something that is part of transforming the experiential inside the home and whether that be security, whether it be content consumption, whether it be that interface with voice, whether it be other elements. There are lots of opportunities.

So it will take time, the 3 to 5 markets we said is that's really going to the initial commercial launch, getting out there, getting it in front of the customer, getting not just the technical use cases but the real experiential and then driving through as we go to 5G in our, in 2019, and we'll be driving that hard. So I'm -- look, I'm excited about it because it's a great opportunity to take what Verizon does well, which is deliver great network experience and apply to it. What is my ambition is to turn connectivity into possibilities for everyone and everything and get people excited about the experiences it delivers.

Matthew Niknam - Deutsche Bank AG, Research Division - Director

What's the time line to get to the -- you talked about 30 million homes over time. Any sense of time line in terms of how you expect to ramp there? And then maybe a question you may be able to better answer is the criteria you used to select these markets, anything special about?

Ronan Dunne - Verizon Communications Inc. - EVP & Group President of Verizon Wireless

Yes, that's a great question because I made the point earlier about the way we look at how we deploy the network and how having done it facilitates the rollout of 5G. So there's a top down, and there's a bottom up. The first thing we do is we start with the customer, oddly, rather than with the network assets. Start with the customer. We look at the addressable market, both mobility and residential broadband in the market. We look at what the competitive set is. We look at the availability of other technologies. We look at our market share. We look at others. So we do our proper market assessment and there, we say, okay, there's an exciting market. Then we look at the network, and we look at what we've got there. We look at the topography. We look at the mix between single-occupancy dwellings and MDUs and then we look at the network efficiency and then, by putting those 2 pieces together, you get that sweet spot of "Oh, it's a fantastic market opportunity." And the great news is the guys have built the network such as we're almost there already. So those, oddly enough, will be top of the list.

Matthew Niknam - Deutsche Bank AG, Research Division - Director

Okay. Maybe let's shift to 5G mobility. This is another interesting topic, one of your peers has actually talked about launching mobile 5G in a dozen markets later this year -- launching, I didn't say offering service with handsets. Others have talked about nationwide mobile launches in 2019. At Verizon, how do you think about the time line for mobile 5G rollouts? And are there any structural reasons why your rollouts schedule may be different from some peers?

Ronan Dunne - Verizon Communications Inc. - EVP & Group President of Verizon Wireless

Yes, good question. So kind of just linking to the answer to the previous question is, so this is an integrated network and market strategy. It's not like I have a network 5G fixed wireless deployment, I have a network 5G mobility deployment and I have a marketing strategy. It's one single integrated strategy. So that's the approach that we're taking and building.

So we're already assessing the markets that we'll go to. We're leading with 5G mobility and then we're looking at the optimization of the 5G fixed wireless opportunity because the core investment case is the 5G mobility case, to be crystal clear, because it's a low-cost bearer, it gives us massive



MARCH 07, 2018 / 1:00PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Telecom and Business Services Conference

incremental capacity, therefore, we would be deploying 5G mobility even if there wasn't a single city in the U.S. that gave us the 5G fixed wireless. So it's an incremental opportunity on top of a core business case that works.

So from a timing point of view, there's no reason why our position will be different from others in the sense of we're taking a different strategy. I think because of the assets we hold, there's every reason to believe that we can be first. Substantial investment in fiber already, great assets in millimeter wave. I think for 2018, the reality is the constraints will be the availability of NR radio. Whatever anyone tells you, that will be a real physical constraint. There may be well some devices out there, but there won't be handsets in 2018. And certainly, having spoken to everyone from chipset manufacturers to device manufacturers at Mobile World Congress and I'm sure as soon as I finish my meeting, my competitors were in the next meeting and the next meeting, so I think it's pretty clear is you might get some engineering samples of some things that might get into the market as POPs or other things at the back end. And then what you will see is you will see devices appear from the middle of 2019.

So I think what we want to make sure that we do is, in our network deployment strategy is, be ready to access those markets just as ready as the -- just as quickly as the devices are available. And look, there would be noise at the back end of this year about the PR-ing and the whatever-elses. To be really, really clear, I'm not building a PR network. I'm building a network that's worthy of Verizon. Every single customer out there knows the best-in-class services delivered by Verizon, and we will do exactly that in 5G like we have in 2G, 3G and 4G. That's the one thing you can be absolutely certain about. Everything else could be fake news.

Matthew Niknam - Deutsche Bank AG, Research Division - Director

Okay. I had to follow up on that. Millimeter wave is where -- that's kind of been the base or foundation initially for 5G. How do you think about scalability though? And the reason I mentioned that is because I could almost assure you the 2 presenters following you have talked about more broad national rollouts, leveraging what used to be high-band but maybe is now more mid-band type spectrum. So if millimeter wave -- and I assume your holdings in your small cell deployments are probably more concentrated into larger urban metros. How do you then think about leveraging your current spectrum or maybe additional spectrum to take this more nationally?

Ronan Dunne - Verizon Communications Inc. - EVP & Group President of Verizon Wireless

Sort of, I think the industry globally agrees that there is a complementarity to millimeter wave, which is brilliantly positioned for metro with a mid-band. And generally, the mid-band has now been described as 6 gig and below, so it's a pretty broad swath. And there's 2 key factors here. So yes, any carrier in the world says if there's an opportunity to acquire spectrum, you always are interested in it. Why? Because you do the build-versus-buy equation and it's a pretty well developed map, and that hasn't really changed just because 5G arrives.

So I think we'll all be looking at -- so whether it be access to the unlicensed spectrum, whether it be enhancements to carrier aggregation, whether it be the acquisition of new spectrum or whether it be the redeployment of existing spectrum, there's a number of opportunities. But I don't think any of us, really at the end of day, disagree with that a combination of the ultrahigh frequencies and a mid-band is the optimum balance of coverage capacity for national scale.

Matthew Niknam - Deutsche Bank AG, Research Division - Director

Okay. What happens to LTE as 5G gets rolled out? I mean, I just -- I asked if there's still CDMA that's around as well, but I asked it in terms of maybe life cycle of your existing legacy networks. How do we sort of think about this phase out, potentially, of CDMA or of LTE as you sort of move more and more traffic onto 5G?

Ronan Dunne - Verizon Communications Inc. - EVP & Group President of Verizon Wireless

So this CDMA business case is simple. I can reduce the cost of my devices because of the chipset that's in there, and I can enhance the voice experience that customers get with HD voice on my Voice over LTE network. So that's a customer upgrade as much as it is a refarming of our



MARCH 07, 2018 / 1:00PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Telecom and Business Services Conference

network. And again, sometimes in these conversations, we lose sight of what's in it for the customer. So we're focused on enhancing the customer experience. There is a massive opportunity to enhance the experience that customers have by putting more of them on 4G LTE devices that have the latest chipset in them, that have the latest capabilities like 256-QAM, et cetera, et cetera.

So there's an upgrade cycle for experience for customers already before you go to 5G. 5G will have 2 benefits. It will increment the use cases that are available. A lot of those will be B2B, but the thing to think about B2B is that they will ultimately, most of them, be B2B2C opportunities. So think about our market as less it's B2B and it's B2C.

Think about 5G as probably the enabler that starts to really deliver on this B2B2C proposition as more of our business customers' end use cases, which touch their customer are enhanced by 5G.

And I think the other thing to think about is on day 1, when you put 5G mobility in place, you lift traffic off the 4G network and you enhance therefore capacity and the offering that's available in the 4G. So I don't see them as one replaces the other. I see them as complementary to each other and a better experience on both layers because you have the 2.

Matthew Niknam - Deutsche Bank AG, Research Division - Director

Where are you -- and just one last follow-up on that. CDMA, I mean, have you quantified or talked about how many users are still there and maybe an opportunity to begin decommissioning that.

Ronan Dunne - Verizon Communications Inc. - EVP & Group President of Verizon Wireless

No, so what we have said is more than 50% of my voice traffic is on voice over LTE. And I think we have the highest percentage of pretty much of any carrier in world on that, so we've driven hard on that, and we continue to drive it. That does give us the opportunity about the refarming of that CDMA spectrum and how many carriers we need as the amount of traffic on that. But CDMA was built as a great experience, so the transition will be one that's driven by customer, rather than driven by any other technical requirement.

What we are keen to get customers on to, the best experience HD voice, the best devices to give them the best mobility experience, whether that be voice or data. So that is part of the strategy, but it's customer-driven.

Matthew Niknam - Deutsche Bank AG, Research Division - Director

Maybe a question that -- maybe a question for Hans, but I'm going to ask it to you as well. Tax reform. I mean there's significant cash savings from tax reform. Does that change at all how you think about the timing of network investments in fiber rollouts? And I know you guys have been pretty clear around the '18 budget being set at \$17 billion, but there are bigger bonus depreciation benefits that go beyond '18, so.

Ronan Dunne - Verizon Communications Inc. - EVP & Group President of Verizon Wireless

Look, my observation on that is it's a significant impact, but the first question you've got to ask yourself is, in the conversation a month beforehand, was Verizon talking about being constrained in its either ambition or its investment? The answer is no, it wasn't. So we had a very clearly articulated strategy. We made significant commitments to the rollout of fiber and other things. So we've been putting our money where our mouth is for quite some time and have never shied at investing against the opportunity to build out the network or do other things. So it's not surprising that there wasn't a whole series of unserved clear business cases and needs.

So I don't see it as a change to our strategy because I would question anybody whose strategy is fundamentally constrained by tax policy because we take playing the long game here. So I don't see it as a fundamental change. Is it an enhancement to our cash flow capabilities or debt service



MARCH 07, 2018 / 1:00PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Telecom and Business Services Conference

capabilities or flexibility? Of course, it is. But is it changing our fundamental philosophy which is to invest fast and first in building a superior network experience that's the basis of giving an enhanced experience to customers? No, it hasn't.

Matthew Niknam - *Deutsche Bank AG, Research Division - Director*

Cost structure has been a big area of success at Verizon wireless, I would argue, particularly in the context of a top -- some of the service revenue pressure you've seen in recent years. As you look forward, where do you see the biggest opportunities for incremental cost savings in the business?

Ronan Dunne - *Verizon Communications Inc. - EVP & Group President of Verizon Wireless*

So this is \$10 billion over 4 years. Yes. And so I think...

Matthew Niknam - *Deutsche Bank AG, Research Division - Director*

And the bulk of it's coming you for quite a while.

Ronan Dunne - *Verizon Communications Inc. - EVP & Group President of Verizon Wireless*

I think Hans and myself have probably signed up for a good proportion of that. What's interesting there -- the first thing to say -- and those of you who follow Verizon will know this even before I arrived. The one thing that we have is an exemplary track record in business transformation and cost focus. That's why we are the lowest-cost carrier in our marketplace. So the focus has always been there in Verizon.

What I think are the really interesting areas are the enhanced capabilities of the equipment we're deploying in the network now. The optimization of that strategy means that, actually, we can get more for the same or more for less on the network side. So we've said that, while we're not reducing our network investment, the bang for our buck that we're getting means that we can save some money on deployment on the network side.

And I think the other area is in the area of delivering to the customer, so driving more of our traffic online to digital but also more of our service experience. So we're investing in AI, machine learning, supporting enhanced customer service. We're seeing more of our customers use our digital channels for service. So our focus is on enhancing the personalization and customization of the experience for our customers, which drives higher satisfaction but by automating it allows us to make it high quality replicable services at a lower cost to serve.

So actually, you'll see the migration from voice in the call centers and other things. That will be a significant driver where we're driving the customer -- behind the customer behavior, and yet, it's also a significant driver of efficiency within our business. So it's a genuine win-win. And I think with J.D. Power in the last month or so but for the first time, what they saw on their survey was consumers channel of choice is digital. That was the first time that they said to buy mobility services. Digital was their preferred channel.

Matthew Niknam - *Deutsche Bank AG, Research Division - Director*

Have you talked about what percentage today in terms of Verizon wireless transactions are digital?

Ronan Dunne - *Verizon Communications Inc. - EVP & Group President of Verizon Wireless*

Yes, so it kind of depends on how you define transactions, but in an environment where unlimited, people are coming less to check their balances and other things. If you're talking about paying your bill, adding a line, changing your plan, whatever else, it's almost half of those transactions are now digital transactions. If you look at pure purchase transactions or whatever, the benchmarks are still in Europe, where it's kind of 20s or a little over 20%, mix. I think across the industry overall, our best estimate is about 10%, and we're higher than that. That's what I'd say.



MARCH 07, 2018 / 1:00PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Telecom and Business Services Conference

Matthew Niknam - Deutsche Bank AG, Research Division - Director

So if we put this together, you talked earlier about service revenue trajectory inflecting positively. Obviously, the \$10 billion, we'll call it cash savings between OpEx and CapEx over 4 years. How should investors -- let's focus on the OpEx part, how do investors think about the trajectory for wireless margins? And I mean, I bring this up in the context of newer competition, initial 5G launches, which may or may not serve as bigger headwinds this year.

Ronan Dunne - Verizon Communications Inc. - EVP & Group President of Verizon Wireless

So I think what I would describe is you should expect a broadly stable environment there. We have the opportunity to continue to drive the top line growth. We will continue to be very, very focused on bottom line. But do I see significant shifts out of the kind of the norms? I don't really. So I think it's -- I would describe it as a stable environment out there. And I think that, if we can be growing the top line in a stable margin environment, that sounds like good news to me.

Matthew Niknam - Deutsche Bank AG, Research Division - Director

Okay. We talked a lot about 5G. Are there other growth opportunities for Verizon wireless that investors may not be considering or that we underappreciate?

Ronan Dunne - Verizon Communications Inc. - EVP & Group President of Verizon Wireless

So look, one of the things that I think -- again, my experience from Europe on this is, when I was running a carrier in the U.K., I set up a mobile advertising business called Weve then made it an industry model. It took 2 years to get that cleared in the EU and then bought it back about a year later from my competitors. So the area of information and deep analytics and enhancing the way we can deliver experience to customers complemented by the size and scale of the data set that our partners in the Oath business have, I think it's a really interesting opportunity. You're talking about 1 billion eyeballs there around the genres of sports, entertainment, news and personal finance. But it's such a big audience serving across those genres with a lot of brands.

I think this opportunity for carriers whether it be in 4G or 5G is to really -- are in by knowing and understanding our customers and by simple and easy to do business. We really earn their trust and end up being their partner to their digitally engaged lives by giving them more opportunities to leverage the information that we have about them to put them in a position to get the most out of their services, their relationship with brands and other things, I think that's something that the Oath business is very focused on. And I think our relationship with Oath is very complementary to that, but I also think we can be a benchmark inside the Oath portfolio for a best-in-class relationship, which also enhances their opportunity with carriers around the world.

And I think all of us, getting closer to our customers, curating those experiences, it's the value on layer on top of connectivity that I think is the one that's almost the underdeveloped one in our relationship with our customers. That's what I'm really excited. Because if I give better personal experiences, allow customers to get closer to the brand that they choose and get those services and experiences, then you really are driving this B2B2C model where the consumer at the end of day is the one that benefits from taking the friction out in the system.

Matthew Niknam - Deutsche Bank AG, Research Division - Director

Is that something that's an '18 or near-term opportunity? Or you maybe need a little bit more integration, you could say, between Verizon Wireless and Oath?



MARCH 07, 2018 / 1:00PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Telecom and Business Services Conference

Ronan Dunne - Verizon Communications Inc. - EVP & Group President of Verizon Wireless

So some of the things that we're doing is the way we're looking at, for example, sports writing content at the moment. So you would've seen at the opening of the NFL season, the fact they're taking the game in London and putting it out there and getting on across the platforms pretty much the same audience as you would've got for linear. So it's evolving the experience. And some of it is test and learn, but what you'll see is you'll see us come to the market differently over time. But yes, we'll do things in 2018, but this is a play out over time.

I think, more broadly, even if we didn't have Oath in our portfolio, I would be saying based on my experience in Europe, you need to get closer to your customers, you need to be more engaged with information. The fact that we have best-in-class assets in Oath means that we'll be able to do that better and faster.

Matthew Niknam - Deutsche Bank AG, Research Division - Director

Okay. Maybe if we tie this all together, if we're sitting here a year from now, what do you think we'll look back on as key milestones for Verizon in 2018?

Ronan Dunne - Verizon Communications Inc. - EVP & Group President of Verizon Wireless

So I would probably put them into 3 things. In a very positive sense, I would like us to be saying we do what it says on the tin. So we have delivered by executing ruthlessly on the opportunity that's there, on the fundamentals and really driving best-in-class performance in our 4G business, have positioned ourselves to be seen clearly as the ones who are going to deliver in a 5G world.

And look, all these things take time, but the focus -- ruthless focus on the customer, this is about creating value above the connectivity layer by delivering the best-in-class connectivity. And I think we're only scratching the surface of the opportunity.

So the business that meets its customer needs better than anything else is the thing that I will spend every day focused on, and I think it's the thing that ultimately makes the difference between price and value. Price is what you pay, value's what you get every single day. This thing is the remote control for your life. People are focused on the value and utility they can get out of that. We need to be the indispensable partner to that ambition on behalf of our business and consumer customers. If we do, they'll thank us with their loyalty.

Matthew Niknam - Deutsche Bank AG, Research Division - Director

Ronan, this is great. Thank you very much.

Ronan Dunne - Verizon Communications Inc. - EVP & Group President of Verizon Wireless

My pleasure, thank you.



MARCH 07, 2018 / 1:00PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Telecom and Business Services Conference

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.

