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VZ - Verizon Communications Inc at Goldman Sachs Communacopia Conference

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## SEPTEMBER 14, 2017 / 12:00PM, VZ - Verizon Communications Inc at Goldman Sachs Communacopia Conference

### CORPORATE PARTICIPANTS

**Lowell McAdam** *Verizon Communications Inc. - Chairman and CEO*

### CONFERENCE CALL PARTICIPANTS

**Brett Feldman** *Goldman Sachs Group Inc., Research Division - Equity Analyst*

### PRESENTATION

**Brett Feldman** - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

I think everybody's had an opportunity to find their seats. So welcome back. Thanks, everybody, for being here at day 3 of our 26th Communacopia. I am pleased to announce that we do have dates for the 27th so you can mark your calendar. It will be September 12 through 14 of next year.

I've also been asked to inform you -- many of you have been asking for some of the materials you've seen over the course of the conference. There is a Communacopia app. We encourage you to download it, and you can access all those materials there. So thank you.

All right. Now let's get started with what we're really here for. We are very excited to welcome back to Communacopia Lowell McAdam, the Chairman and CEO of Verizon. Lowell, it's great to have you back here.

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**Lowell McAdam** - *Verizon Communications Inc. - Chairman and CEO*

Thanks, Brett. Good morning, everyone. Thanks for being up so early.

Before we start into the Q&A, I wanted to do a shout-out to our employees in Houston and in Florida. As you see in the newspaper, incredible devastation down there. But the network planning that we did has been just outstanding in supporting the people that are going through all this and the first responders. In Texas, as an example, we had less than 2% of our sites off the air. And in Florida, even with the widespread damage across the entire state and with the massive power outages that you all see, we've had less than 10% of our sites out.

We had one story yesterday around our business, where one of the community towers that we were on collapsed, and our network was still carrying calls even though it was on the ground instead of 100 feet up in the air. So the folks have really done a super job in arranging fuel and hardening the sites and those sorts of things. And we're proud as a business that also the telethon that you saw the other night, the Hand in Hand telethon, we had 4,000 volunteers from our call centers go in and take those calls. So that, along with our \$10 million donation for the hurricane recovery, we're very proud of the organization. And this is the case where reality meets advertising and reality wins out every time. And so we're proud of the network, and just wanted to brag for a second and thank our team for all their hard work.

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**Brett Feldman** - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

That's good to hear. I'm going to check with my tech team in the back. I just want to confirm the webcast is running because I noticed that the clock wasn't started. So I'll let you guys work on that.

### QUESTIONS AND ANSWERS

**Brett Feldman** - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Let's talk a little bit about the company overall. If we think about the last 3 to 4 years, you've taken a lot of steps to reposition this business. You bought in a minority stake in Verizon Wireless. You sold a variety of noncore assets, and you reinvested a lot of those proceeds in digital media,



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IoT, telemetry, spectrum and fiber. I was hoping you could walk us through the primary growth opportunities that you're positioning the company for and also expand a little bit on whether you feel like you have the assets you need to go after those opportunities.

**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Okay. Well, look, I'm excited about the industry. And if you look at the various companies, you see different strategies. And whether you look at the Internet companies or you look at the equipment suppliers or you look at the carriers, people are putting a ton of capital into this industry. We've gone through a process of essentializing our assets. As Brett has said, we've sold off some wireline properties. We've sold off some data centers. But we're also now out buying spectrum, buying fiber companies. We just announced WideOpenWest a few weeks ago. Doing deals with Corning, Straight Path and the XO acquisition, I think, set us up very well for the 5G environment. So we're investing in making the very strong network that I talked about in the very beginning even stronger and the platform for even greater innovation as we move forward. We're adding capabilities like AOL and Yahoo!, what we call our Oath properties, over the last year as well. That is positioning us to expand our addressable market from the millions to the billions. And we think there's a great opportunity to provide the mobile services. I don't think there's that any debate anymore that more and more things are going mobile and less and less things are going fixed line. And so we're positioning the company to what I call skate to where the puck is going, to be that digital media company that provides mobility services at high-bandwidth speeds to customers no matter where they are. So your question, Brett, of do we have the assets, I think any Fortune 50 company that you ask that question to would probably answer it, no matter how good you think you are today, you need to be open to looking at new options and buying new things. And that's why things like WideOpenWest when they come to expand our fiber footprint, we'll do it. But we stay on strategy. We stay disciplined. If we see something in the M&A area that makes sense to buy versus build, we'll do it. But we've also got a very healthy dose of building when you're buying 12.5 million miles of fiber every year for the next 3 years. So we like our position at this point.

**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

I wanted to spend a little more time talking about network. Network leadership has always been central to your strategy, but your competitors are out there saying that they've closed the gap. We've heard you talk about fiber playing a key role in maintaining that leadership. So I was hoping you can maybe just expand on that and help us understand. What does the network of the future for Verizon look like? And how is that going to allow you to remain differentiated from your competitors who also claim they're making fiber investments?

**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Yes. Well, look, it's easy to run advertising. As I said, we had 2% of our -- less than 2% of our cell sites down. One of our competitors said publicly 75% of their network was down. So if they've closed the gap, I would just suggest they have a little bit more gap to deal with. So our view on the network of the future is what we call an intelligent Edge network. We are redesigning -- and 5G is the best example of that, Brett. We're redesigning the network to be from the cloud through high-speed fiber infrastructure to Edge computing to 5G. We think we'll still have 4G, but 5G will be the technology that delivers the highest speed and the greatest capability to the customer over the last mile. That allows us to open up a platform for incredible innovation. And maybe now is the -- without trying to make everybody an engineer in the room here, anyone that thinks about 5G as being the next generation of 4G, a consumer product, is really missing what this network is all about. 5G will have 5x faster response time in the network. So the network will respond faster than you can blink your eye. Less than 1 millisecond will be the response time. We'll have 10x longer battery life than you have today. We'll have 100x the throughput of the network and 100x more devices that can be connected to the network. And the overall capacity per spectrum will be about 1,000x more capacity. So the beauty of a 5G intelligent Edge network is you can design the network to meet whatever your specific application needs. Today, if you want data service, you get data service and you get everything the same person next to you gets. In the world of the future, if you want 10x more battery life, you can get that. If you want to do virtual reality and you need millisecond response time or automated or autonomous cars and you get millisecond response time, you can slice the network to deliver that. It's much more of an industrial-focused network than it is a consumer-focused network, although consumers will get that 100x more throughput. So just as an aside, yesterday, we opened the new Cornell Tech campus over on Roosevelt Island here, and it is focused on innovation for the digital age. So health care, smart cities, smart transportation systems. Those are the sorts of -- this is the platform that I think is going to usher in the fourth industrial revolution in this country. And today, we have the largest platform in the world for 5G. We literally have hundreds of cell sites that we have up and operating in 8 markets, moving to 11 markets. The global standards will be done, we believe, sometime this year. The chip manufacturers



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will have chips available in first quarter next year for us to incorporate that are on the global standard. So this platform is not 2 or 3 years out the way it was a year ago. It's on our doorstep, and I think it's going to be huge. So the network of the future is going to be dramatically different than today, Brett.

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**Brett Feldman** - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

You're actually running 5G trials right now in 11 cities. I know it's early, and you've talked about providing some updates later in the year, but I'm curious if there's anything preliminary you could share about them. And then just as an extension of that, you obviously have to deploy fiber in markets in order to run these, and you're doing One Fiber up in Boston. A lot of interest in whether we're going to see a lot more Bostons around the country as you prepare for a 5G rollout nationwide.

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**Lowell McAdam** - *Verizon Communications Inc. - Chairman and CEO*

Yes. So a lot, a lot in that question, so let's take that a bite at a time. So we were pretty clear when we went in to do the 5G trials that we needed to test things like, "Is line of sight critical?" Because -- I mean, you even heard some chief technical officers of our competitors say millimeter wave really isn't going to work for this. It won't work for mobility. It has to be line of sight. It's more microwave-oriented. We knew we had to test that. We had to test distance from the cell site to the consumer. We wanted to see what sort of penetration we could get, the old, "Does a pine needle deflect the signal? And is that a problem or not?" I would say, right now, Brett, every assumption that we went in to test has come back better than we had thought. I'll give you a personal example. I was in Seoul a few months ago. And we were testing the throughput from a transmitter 2,000 -- just under 2,000 feet from our location, and we were delivering 1.8 gigabits of service over millimeter wave. And we said, just for the fun of it, drive that 2,000 feet the opposite direction, get behind the building. So we had absolutely no line of sight, and the throughput dropped to 1.4. So we have seen that foliage doesn't impact it as much as we thought. We can penetrate more building structures than we thought. We can go higher in buildings than we thought. We assumed 6 floors, but we're seeing over 20 floors of elevation in the signal. So we're encouraged by it. And we -- I think the other thing that we've been surprised at, Brett, is that the computing power in the antennas are very different than anything we've seen before, right? Literally, you think about the antennas that we have on the towers today that are about 2 or 3 feet high. You have 32 antennas on the end of your thumb is the way this works today, and the processing power that the computers and the antennas can deliver has helped the signal conditioning dramatically. So we're partnering with companies like Ericsson and Intel and Samsung, and Qualcomm has been a great partner through all of this. And we're very encouraged. And I'll also say we've tested millimeter wave in a mobility environment, and it's going to work just fine with handoffs and all that, which no one knew. It was an unknown. So that's why these field tests are so important. So now on to your question about fiber placement. In order to get a gigabit that's delivered to your handset or delivered to your home over wireless, you've got to have some pretty big pipes. So we're building, as Brett said, in Boston. We've announced Sacramento. We've got a bunch of cities around the country that the cities are embracing us to come in and provide this sort of broadband service for the citizens. You've all seen the trends. More and more people are moving into the cities, and they need to have smart city applications, so smart lighting, smart parking, transportation, information services. So they're embracing us coming in. Boston led the way. Mayor Marty Walsh has been a great partner there with permitting and access to conduits and those sorts of things, and we're seeing that grow. So that's why we went out and did the deal we did with Corning for 12.5 million miles of fiber a year for the next 3 years, which Wendell Weeks, as their CEO likes to say, that's enough fiber to string to Mars. So that's what we're putting in the ground, and we think there is an awful lot of potential there.

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**Brett Feldman** - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

And it really seems like you're viewing this as a nationwide option, there's no market you won't go to with this fiber.

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**Lowell McAdam** - *Verizon Communications Inc. - Chairman and CEO*

Oh, there's no market that isn't on the table. Let's put it that way. And we've had a couple of cities that kind of went the way they tried to go in the past of saying, "Well, in order to come in, you're going to have to pay this, this, this and this." And we said, "No. Okay, next." And there's -- the other



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cities are seeing that this is a tremendous value this infrastructure can provide to them. So we have plenty of work lined up, and we're going to push this out as far as it makes sense for our shareholders.

**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

Fiber sounds capital-intensive. Do you believe you can meet your fiber goals within your current \$17 billion CapEx run rate?

**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Yes. We think we can for now. If you think about it, we've been investing for years in 3G technology and Fios build-out, and we're now repurposing those dollars to 5G technology and fiber build-out. But it's a different architecture than what we've done before. Everything we did in the past was sort of purpose-built and was built to either support a cell site or to support an enterprise. The new architectures that you see with software-defined networks and the intelligent Edge, the fiber doesn't care, and so neither do we, what service it goes over. You just -- you put it out there, it's common service, more of the way we used to engineer in our office fiber services.

**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

Got it. Late last year, you made news. You said that there was industrial logic to potentially acquiring a cable company, and it wasn't because you were talking about bundling. You were talking about potentially gaining access to fiber. And so I'm curious, are you still evaluating a potential acquisition of cable assets? Or have you moved on?

**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

No, we've moved on. And I think you saw the Corning deal, the WideOpenWest deal, the Straight Path deal is -- we've confirmed that the architecture that we see for the future is what we want to do. And when we -- we did, I guess about a year ago, go through a process of taking a look at cable companies, but the fiber infrastructure isn't there. And to -- you certainly get customers. They are great companies. No -- not at all trying to be critical, they've got a good financial model. But for the future that we see that's going to need that kind of bandwidth for customers, you're going to have to have deep fiber into the network. And to pull out a lot of coax and put in the fiber, I'd rather just put in the fiber. So we've moved on from those discussions.

**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

So you'll be building this yourself where it makes sense. If you could find tuck-in acquisitions where it makes sense, it will be balanced.

**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Yes, yes. That's -- I mean, look, this is just the classic -- we're engineers at heart. This is -- what do the facts show you? The facts show you, you can build it better than you can buy it, then you do it. I think, right now, a lot of the fiber companies, their values are a little frothy compared to what you can build it for yourself, and so that's the path that we're on. But you do see pockets like WideOpenWest in Chicago that made sense to do, and we're going to keep our options open.

**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

All right. Let's talk a little bit about the wireless market right now. Earlier this year, you launched your first-ever unlimited plans for 4G, and that was a move that, I think, caused a lot of investors to worry about the health of the wireless sector. So my first question will be, what's your view on the health of the wireless industry right now?



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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Look, I -- if you -- sort of back to our first question. If you look at the amount of capital that's moving into mobile, if you look at how every company -- every Internet company is trying to get deeper ties to mobile, that is going to be the center going forward. So I don't view this as unhealthy in any means. I think there's great opportunity here for us, and we should continue to push it.

**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

Can you talk a little bit more about how your unlimited plans have impacted your business relative to your expectations?

**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Yes. So as you look at the history of the industry, we've been able to take costs out either faster or roughly equal to how pricing has come down, and we made no secret from the beginning. We weren't wild about unlimited plans because of the potential impact on the network. But again, without going too deep into network technology, we've -- the industry has been developing capabilities to put in place to manage capacity. You hear it called throttling or now you see different services that will provide 400 or 700 or 1080p services, so the video will put a different load on the network. So we resisted this for a long time. And while we were doing that, we put in place the things that would help us take cost out of the network and provide that service better. So by the time we got to February this year, we felt pretty comfortable that the network could handle it. And if you look at RootMetrics and J.D. Power, we continue to have, by a significant margin, the best network out there. Now one of the consequences of that, that's been positive is the cost reduction. It's a much simpler plan for consumers. So we see more buying services online and servicing online. Our call-in rate has dropped dramatically. And our churn is at the lowest point that it's been in my career at Verizon, and I've been on the ground since day 1. So there has been a significant amount of cost come out of it as well. But it has -- we're not saying it didn't add more capacity to the network, it did. So -- but overall, the trade-offs, I think, from an overall customer satisfaction and our financials have been strong. We feel fine.

**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

What portion of your base has moved to unlimited?

**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

We're about 60% now, I think.

**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

60% of your base?

**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

On network managed services, it's 60%. We have not disclosed our actual numbers on unlimited. And thanks to our IR folks in the front row here.



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**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

One -- another question here on unlimited. You actually tweaked the pricing recently. You originally had one plan for this, and you decided to go with effectively a lower-end plan and a higher-end plan. And I'm curious. How much of that was driven by what you were seeing in the market? And to what extent was it related to the network because there's some network management features associated with these plans?

**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Well, it's a little bit of a setup, in my view, for 5G, Brett. Every customer doesn't need unlimited service at 1080p. Most of your handsets really don't have the capability to discern more than 400 or so. So we said when we first came out in February with unlimited that this was a promotional plan and we would adjust as we go forward. I think unlimited has got a lot of legs, as we call it, from a marketing perspective, from our ability to offer different types of plans. We just came out with a new loyalty program called Verizon Up that we can tie to the services that you buy from us. So I think there was some concern from investors that unlimited was just going to be a race to the bottom, and we think you can dimensionalize this in a lot of different ways and differentiate from competition, not only on network quality but some of these services. And you're starting to see that. I mean, AT&T's bundling DIRECTV, and T-Mobile is doing Netflix. And we're doing more with sports, and we'll be integrating with our Oath properties as we go forward. So there's lots of dimensions you can add an unlimited plan.

**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

Yes. I was going to -- sort of be a follow-up question which is that your brand has always really been about network quality. And I'm curious, as the industry evolves, do you think that, that should continue to be the primary association? Or do you think you need to attach other identities to the Verizon brand as well?

**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Well, the way I described this to my team is our persona in the marketplace should be like a diamond, and you can turn it around and see different facets of it. The biggest draw is going to continue to be network quality. And I've been around the industry a long time, Brett. Every time you are about to move to the next generation, there's a little bit of a stacking up of the network. Back in the analog days, everybody got so they had similar networks. Then we went to digital. And -- but then when you make the jump like we did from 3G to 4G, it was a huge differentiator because certain companies were willing to invest in the network and make 4G matter and others held back. And I think we're on the same threshold right now. We're the only one that has the spectrum. We're the only one that has hundreds of cell sites out there, and we're going to push this one hard. So differentiation of the network is going to be the cornerstone for our business for years to come. That doesn't mean we aren't going to add a lot of other capabilities, like our Oath properties.

**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

Investors debate a lot about the spectrum position, which you mentioned, because we always have just enough information to be dangerous. So we look at your spectrum portfolio, we divide it by your subscriber base, and it looks like the lowest ratio. You've got the biggest base. You've got all these unlimited customers now. How do you get comfortable that you have the right spectrum resources?

**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Yes. I think one of the things we have to do a better job at is to educate our investors about how network management has changed. I think our investors are sort of in the 2005 to 2010 architecture, and there's been so much change in how you densify your network, how you deploy small cells, the things that you can do in software. You hear a lot of the buzzwords of software-defined networks. All of those things make managing the network and the amount of spectrum you need go down. We've proved time and again -- and we had a sell-side analyst event, I think, in May where we did a deep dive on Chicago and showed how by placing these small cells with a much denser fiber network, too, by the way, just to tie that in,



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you manufacture capacity at a much better rate than you could buy spectrum at the AWS auction. So we've been relaxed about that from the AWS auction. I know there's a lot of angst around there, especially those that want to sell us more spectrum. But we love the position we're in. And now with 5G, with the XO spectrum and when we close the Straight Path auction, we will have a very large chunk of millimeter wave spectrum, which you'll be able to deliver these very high-bandwidth speeds. So our network portfolio is great. That doesn't mean we won't dress up in a few places here or there. But as far as needing to do massive purchases, we don't really even have to participate in the next upcoming auction.

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**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

Let's talk a little bit about digital media business. So you closed the acquisition of Yahoo!'s operating company earlier this year, combined it with AOL, and you've renamed that Oath. First, can you just give us an update where are you in terms of the integration? What have you achieved? What's still to come?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Yes. We like that business the more we look at it. And I've done a lot of acquisitions over my career, and you see the Oath assets fitting very nicely with the Yahoo! assets. The Yahoo! team has tremendous technical capability. Their product development group is really exciting. Their data analytics team is extremely strong, they're in places like Israel and around the world. They've got just tremendous capability. And the AOL team has great sales capability, great ad tech capability. And I think they're both really happy to be with each other. Their -- the one advantage of the delay because of the breach within Yahoo! is the teams got to know each other better, and we were able to develop a very strong integration plan. And Tim Armstrong and his team under Marni Walden's leadership have moved through that very well. We've taken a lot of the cost synergies out of the business. And now we're putting together some content deals that we like that will not only play across the Oath assets but play across mobile and play across Fios as well. So we're excited about the possibilities. There's a lot of work there. I mean, we want to go from \$7 billion in revenue today to about \$10 billion by 2020, but we think there's a lot of interest, a lot of excitement.

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**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

Any time line on those big content deals?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Well, I wouldn't be surprised if sometime before the end of September you hear about one of them anyway.

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**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

Okay. I want to come back to that financial objective you set, going from \$7 billion of revenue to at least \$10 billion of revenue by 2020. What do you need to get right in order to get to that level? Because that's obviously a meaningful amount of growth.

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Yes. So I think the platform piece is the first one. Tim is going through a period of sort of decommissioning and then reinvesting in certain platforms. The teams, I'm going to be out with them next week in Sunnyvale. The teams have got a great product portfolio, and moving content between the different applications is going to be important, whether it be Yahoo Sports or Yahoo Finance or the news piece. So we have to get those right. And then I think the -- one of the keys for me, Brett, is making that matter on the mobile side and on the Fios side. And we can see -- we do a lot of work on strategy. We see how the strategy should play across the assets of Verizon. But until customers start voting with their wallets, those are theories at this point. So that -- I think that's what we have to get right going forward.



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**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

That's a question that we get a lot, which is this natural synergy, if there is any, between a networking business and a digital media business. And when we had Randall Stephenson up here, the way he essentially articulated it was, we used to monetize our network through usage, and now you can monetize the intelligence that network provides by doing addressable advertising. When are you going to know whether there's a real synergy there or not? And do you have to have that synergy for Oath to fit into the company?

**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Well, I read Randall's comments on that, and I think they're -- I think our heads are in the same place. The data analytics between the network and Oath for us is something we think has tremendous value. And the advertisers that come and visit with Tim Armstrong and his team, they think there's a lot of value there. It's a very competitive industry. I'm not quite as bullish on the CPM increases as Randall might be. I hope he's right. But I do think that today, whether you're on the website or you're on your phone, better targeted ads is going to be better for the advertisers and better for consumers. The thing I like about our position, Brett, is I used to think, originally, 5 million Fios Video customers was a big number. And then I thought, okay, 115 million wireless customers is a big number. We ought to be able to make that matter. Now when you look at 1.3 billion users across the globe, you really change your mindset. And I think if we -- we ought to be the ones that make that work with that sort of addressable market. There aren't very many companies that have that.

**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

You're in a market now that's dominated by Google and Facebook. Do you feel comfortable that you have the assets and capabilities that you need to go up against them?

**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Look, I mean, we don't need to -- we're not here saying we're going to slay Google. So let's -- we have to keep our targets in mind here. But that market -- when you look at Facebook's numbers, Google's, that market is growing pretty well. We don't need to get very many percentages of that to hit that \$10 billion number that we talked about. And Tim knows that his target is closer to \$20 billion in the time that goes after that. And so the advertisers are looking for an alternative, and I think our approach to delivering video and having that content available on your mobile device and a lot of that -- a lot of those other content deals will be focused more on Oath than they will be on wireless. So I think there's some real opportunity there.

**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

Your original video business is the Fios business. You have 4.7 million Fios Video customers, which makes you a pretty small company actually. And I believe you said here at this conference that linear video is dead. So how do you think about...

**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

I earned a lot of friends after I said that.

**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

So the question is, what are you doing to reposition your video business for more a streaming-centric world?



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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Well, I think that's where 5G and over-the-top come in. Because even in the markets where we have our Fios footprint, from Washington to Boston, the preferred method -- the preferred architecture for us is going to be that last mile being 5G. So whether we offer a linear package or we offer an over-the-top package, look, the numbers all show that over-the-top is gaining ground, and the 300-channel bundle is under assault here. So I may have been premature when I was up here a couple of years ago saying that, but I still see it that way. And I think the point for our investors is we're building the network that doesn't care. If you can get broadband, I don't care whether a customer goes over-the-top or buys a linear package, and we'll be able to provide either one to them.

**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

The numbers also show those over-the-top products don't look like they make money. So what would be the rationale for having that type of product?

**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Yes. Well, I mean, if it -- the customer today, what we see is they are more sticky if they have video and we get better penetration in those markets where we have video as well as broadband. I think that is -- you're seeing that trend change. If you look at our numbers, we used to have more video -- slightly more video adds every quarter than broadband. That's flipped now. I mean, we're 2:1 broadband to video. So I think the point is, Brett, we want to have the network that people can provide whatever service they want on it. We'll make a lot of those services available through us. But the main driver of the financial engine of Verizon is going to be the network.

**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

So if we think about that strategy to potentially take 5G as residential broadband service anywhere in the country, you're comfortable taking that in as a stand-alone service and if they want video, you have it but you're not necessarily doing this because of bundling?

**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Yes, absolutely. Look, I think it's -- the logic for us is in order to -- 4G is going to be around for a long time. Think of that as the base layer. We're putting in fiber and small cells to manufacture capacity for 4G. When you build a 4G small cell, you get the right footprint for a 5G small cell. So then, your network can handle pretty much anything. Whether it's a smart city application, an autonomous car, gaming, virtual reality, health care, whatever it is, you let the customer do whatever it is they want on the network. We'll innovate, and we'll provide services. For example, telematics, we've got the platform that rides on that. We've got the application that rides on that. We can take that application anywhere in the world and deploy it profitably. That doesn't mean we have to. And so going into Albuquerque or whatever city we choose to go into with 5G doesn't mean that we're going in providing Fios service and doing things the way we've done in the past. Again, this 5G network is going to be very different than what we've done in the past.

**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

And if I think about what you just said, the idea that when you build a 4G site, you're essentially creating a 5G site. That implies that the incremental cost to you to deploy 5G is very low.

**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Very low.



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**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

That would imply that you can go to market with a very attractive price versus the incumbent broadband providers. Is that a fair assumption?

**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Yes. Well, if you look at the history of the company, whenever we've gone into a market, we've gained 35%, 40% market share in a reasonably quick period of time. Frankly, the factor that held us back was the cost of taking the fiber into the home and all the labor associated with the work inside the home. Now we'll mail them a router and say, "Here's how you turn it on." So it's not -- it's a very different cost structure for us.

**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

If we take a look at your guidance for this year, this is going to be the second consecutive year where your earnings have essentially been flat. And the biggest headwind to that has been the decline in wireless services revenue, which has a variety of factors behind it. There's some pricing adjustments. EIP math factors into that as well. Do you still feel comfortable that your wireless service revenue will be able to stabilize on a year-over-year basis as we get into the second half of next year?

**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Yes. So let's talk about the revenue side of that and the cost side of it, Brett. So we shared in the same May sort of time frame how unlimited and EIP and some of the other pricing plans changes that we've made have put pressure on revenue, and we've seen the dilution. And we predicted that, that would flatten out around the middle of the year, and then we'd begin to see less dilution in the second half of the year and then some accretion in 2018. And we feel we're absolutely on track for that. So that has gone well, and I'm encouraged, frankly, by the discipline that there appears to be around promotions for the iPhone. So there's nothing that I think would take us off of that. On the cost side of the business though, we're very focused there. When Matt Ellis came in as our CFO about -- almost a year ago now, he got very involved in our Lean Six Sigma work that we use to redesign processes. And we've done a pretty good job of taking costs out, but I'd say also avoiding costs as we've gone through this year. But Matt and I have decided that we see a real opportunity to take hard dollar cash out of the business, and we've set a target of taking \$10 billion of costs, hard cash out of the business in the next 4 years, so '18, '19, '20 and '21. And our goal is we'd be able to fund our dividend through cash savings in 2022. So we're implementing a very rigorous process around zero-based budgeting combined with our Lean Six Sigma process, and we're confident. Now I know everybody's going to want to update their spreadsheets on Verizon, and that's -- we're not here to do too much of that with you. A lot of that, it'll take time to bring out of the business. It'll be more back-end loaded. But \$10 billion of cash out of the business between OpEx and CapEx over the next 4 years is a target we believe we can deliver.

**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

So if we think about the targets around cost savings, we think about the guidance you've just given -- reiterated around stability in wireless services revenue, what type of earnings trajectory should investors be expecting out of Verizon? And do you think you can return to earnings growth as early as 2018?

**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Well, I think we'll wait and talk about 2018 when we get to 2018. And we'll talk about capital and earnings and that sort of thing then, Brett. So I'll punt on that one until we get into January.

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**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

I had to try.

**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Yes.

**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

You currently have almost \$120 billion of debt. You've got a dividend you got a track record of growing 2% to 3% annually. You recently increased it. Can you help us think about what the company's capital allocation priorities are going to be as you go forward and execute against this plan?

**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Yes. It really doesn't change for us. We've been very consistent under Ivan and during my 6 years on the job as well. Our view is that you have to keep investment in the network to be relevant as an infrastructure provider in this country, especially where you have all the innovation going that we have. We know our investors, the majority of them, hold us -- hold our stock because of the dividend. And we're out in front of investors all the time, and that message gets reinforced and our board was very comfortable. I think it's the 11th consecutive increase that we've had in dividend in the last -- that we announced just last week. And then even though there was some movement by the rating agencies in what counts as debt and what doesn't and we decided we're just going to continue to run the business the way we run it. We're planning on paying down debt just the way we said we were going to. So that may be evaluated a bit differently because of asset-backed securities and all the other things that they do to figure out your rating, but we're still running the business exactly the same way. We still plan on paying down debt, paying dividend and investing in the network.

**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

All right, well we have time for one last question. And it's a standard one I've asked you a few years in a row now, which is, when we have you back here next year, what successes do you want to be talking about? And what do you think will be the key growth opportunities you'll be focused on as you look into 2019?

**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

I think the big focus for us as a company is evolving the network, and that means making 4G as efficient as we can so that we can continue to offer the services customers want at a profit. There probably will continue to be pricing pressure in the industry, and it's a competitive -- very competitive industry right now, but we're positioned with the network assets. And by taking cost out of the business, we think we can still deliver substantial financial returns to our customers. The dimensions that I want to add are to make Oath matter as a media business. They've got great assets. They've got a great team. We see opportunities to make that matter to the rest of our business and then to push the technology envelope forward through things like 5G. We've invested more than any other company. We will have more experience than any other company. And when we begin that fourth industrial revolution, we think we'll be at the forefront of providing those services.

**Brett Feldman** - Goldman Sachs Group Inc., Research Division - Equity Analyst

Great. We're out of time. Lowell, thanks for being here.



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**Lowell McAdam** - *Verizon Communications Inc. - Chairman and CEO*

Okay. Thank you all.

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