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# EDITED TRANSCRIPT

VZ - Verizon Communications Inc at Goldman Sachs Communacopia Conference

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## CORPORATE PARTICIPANTS

**Hans Vestberg** *Verizon Communications Inc. - Chairman & 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*

Well, welcome to day 3 of the 28th Communacopia. It's been a great conference, and we're really excited to kick off this third day with our opening keynote with Hans Vestberg, the CEO of Verizon. Hans, welcome back to Communacopia.

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**Hans Vestberg** - *Verizon Communications Inc. - Chairman & CEO*

Thank you very much. Great to be here.

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

You got to do your safe harbor.

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**Hans Vestberg** - *Verizon Communications Inc. - Chairman & CEO*

Yes, the safe harbor. I just want to mention the safe harbor, whatever I can say. So to have that clear with you. Thank you for reminding me.

## QUESTIONS AND ANSWERS

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

Good. All right. So Hans, let's start here a little bit at a high level. Verizon recently completed an internal reorganization into customer-centric segments, which are Consumer, Business and Media, whereas you previously have been organized by service type, mainly wireless and wireline. What are the key growth opportunities that Verizon has positioned the company for through this reorganization? And why do you believe this new 2.0 org structure, as you call it, is the right way to pursue them?

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**Hans Vestberg** - *Verizon Communications Inc. - Chairman & CEO*

So this is much more than a reorganization. It started already 2 years ago when we started with a change of the network. And some of you might remember, we talked about the Intelligent Edge Network, collapsed 4 different networks to 1, and we did this for 2 reasons given that we're heavily into fiber and the 5G. In order to deliver that, we needed a clean networks structure, so that's where it started. That both give a new potential for revenue but also was a way to taking out costs. And as I've said before, part of the \$10 billion or a big part of the \$10 billion cost plan that we announced in 2017, the whole network technology transformation was part of that as well as you have seen how we've been efficiently managed our CapEx. That was the first step.

But the second step was in this transformation was actually, when we decided to have a network with a service strategy, meaning whatever is on top of it, we need to have a customer engagement that's different. And in that, we decided for one brand value, which is across all our brands. We



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also did a process reengineering, which ultimately ended up with almost 11,000 people or employees taking our voluntary package, including some IT outsourcing for a couple of thousand more. So we did a process reengineering. All that in order for ultimate -- then put in a structure that's going to serve our customer better, and that was not technology driven. It was more customer driven, meaning that we now have the Consumer segment think about consumer. Regardless if we offer 5G Mobility, 5G Home or Fios, they have one unique way how we serve this customer.

And I think that the major impact was on Verizon Business Group where, basically, we start serving our customers, enterprise customers, large federal customers, IoT customers, wholesale customers in one way, not splitting on technology. So that was sort of a long journey. For 1.5 year, we done that.

And ultimately, think about it, I mean, we wanted to be able to grow more, so we have a front end that is different. We can take advantage of our multipurpose network as well as we can bring cost efficiency. So it should be value-accretive over time. We have already seen part of it in the cost efficiencies and the CapEx efficiency. So that was the whole reason, but it was definitely also to be able to deliver on the 5G promise how we build our 5G network.

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

Well, let's spend some time talking about 5G. You have launched 5G in 10 cities (corrected by company after the call) so far, and you plan to get to 30 cities by the end of the year with further deployments throughout 2020. The initial reviews of the 5G networks in these markets have been mixed. They've highlighted incredibly high speeds, in some cases, north of 1 gigabit, but also limited initial coverage. So my first question is how has your 5G network performed in these markets versus your expectations and versus what you're seeing from your competitors' early 5G deployments?

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**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

I think that we actually are very pleased with what we're seeing with the 5G. And I always relate to my experience on 4G where, basically, it took a year before we got some real improvements on it. Our early initial launch is on 5G Mobility. We were up to 600, 700 megabits per second. It went quickly up to 1 gig. Now we have 2 gigs on the phones. And remember, this is just the initial of it, how we use all the feature of the software, how much of the spectrum we're using is limited so far, how many antennas we're using. So there's a lot more to be brought out with it. And you're right, we are aiming for 30 markets this year, which we want to launch. And we think it's our way to build a very robust 5G network using our millimeter wave spectrum right now where, basically, all devices coming out has millimeter wave.

So I think, for us, it's actually meeting our expectations, and we are gradually increasing our footprint every day. We're so early in the cycle as we were first in the word with 5G Home, we were first with 5G smartphones. So of course, we are in the beginning of it, and seeing the evolution of the technology is actually very encouraging.

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

And when do you expect consumers to be able to experience your 5G network on a nationwide basis?

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**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

I think that how we are building is we're building in the right way. So remember, we want to give the best experience all the time. So our 4G network, as we all know and in third party sort of tests with RootMetrics, J.D. Power, we're coming out as #1 in all of them. So it's important to keep that up. At the same time, the millimeter wave is so significantly much more powerful when you do 5G and you do the 8 capabilities, which I guess we talked about last year.

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So -- but ultimately, any spectrum will be having 5G in the future. We're going to turn that on when our customers are ready for it and the market has the ecosystem for it. So we have not said exactly when and how. We have kept it a little bit to ourselves, and we're going to continue to do that. But don't assume that we will not have national coverage. That we'll have. And we're working with that daily right now. So we're just going to turn it on when it's right time in the market, and it's -- we actually have significant improvements for our customers when it comes to the 4G network.

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

As a start, those are the things you have to do in order to make sure you can deliver that best experience, and you say your fiber deployment has been a big, big part of that. I believe you're pacing about 1,400 new route miles a month. Do you need to ramp this pace and your CapEx in order to maintain the leadership you have in the market right now?

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**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

So 1/4 of the whole Intelligent Edge Network was, basically, all the way from a data center to the access point, we have 1 unique network with redundancy. And then, of course, in between a lot of fiber to the access point, and then you decide it's 5G, 4G or fiber to the home or fiber to the curb or fiber to the enterprise.

In that, of course, the fiber deployment for us was extremely important. And you're right, we're now up to 1,400 route miles a month. I think that it might be peak month that we're higher, but we're almost hitting the level we think we need to do in the next couple of years in order to build all these places we're building.

So no, there's no peak in that right now. I think we're having a fairly short time period built up, enormous launch project to deploying fiber. So that's inside the CapEx envelope, has been there for a while.

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

Some of the fiber providers have noted some difficulties getting fiber deployed at a municipal level. It sounds like you're not hitting the same barriers. What is it? Are the communities more welcoming of your approach?

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**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

I hope so. No, I don't know. But of course, we have ramped up over 2 years for -- beginning with the large commitment together with Corning and Prysmian when it comes to fiber. And then after that, we are ramping up our structure for doing this, and I think we're in a good spot right now.

There's always challenges when you go and dig the streets or something like that, so I'm not taking that away. But clearly, I think we have a very good team right now executing. And we are going from basically 0 route miles a month to 1,400 route miles a month right now. So I think the team is doing a great job. We push them all the time. That's not sitting here and being satisfied. We want to do even more, but I think this is the level we think is what we want to sustain the level on, maybe some peaks up and down.

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

You talked about the goal is to deliver the best experience on 5G. And if you think through what experience has meant to the various Gs, coverage was what people really look for in 3G. It's consistency of speed I think is really what it was in 4G. What are you trying to deliver in 5G?

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### **Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

I think that in 5G, there's so many factors of 5G, so it's a little bit difficult to say. But ultimately, it has to be good coverage, but it also have to be superior experience compared to 4G. Because 4G is reasonably good today, I'd say. But if you think about maybe you have 50 to 70 megabits per second on the 4G network today, when you're going to get 1 gig is, of course, totally different experience what you can do with it. And remember what we saw in the 4G era, an enormous innovation coming with that coverage and that speed. It's going to be with same with 5G for sure when all the developers are going to understand what it can do with it.

But in our case, as we have said before, we see multiple use cases on the same infrastructure, which, well, that's not the case historically that you have different type of use cases on the same infrastructure. And for us, on the 5G infrastructure, we have the 5G Mobility, of course, which is, of course, where we today are the strongest in this market. Then we have the 5G Home, which is just an addition to us with the same infrastructure that we're building already. And then you have the 5G mobile edge compute, which is an enterprise which basically we're not into today. So you can see that on the same multipurpose network, we are getting 3 -- 2 business cases we didn't have before.

And then, of course, any new G is handling data better. So if the data growth continue as is, which we believe, everybody is using networks more, of course, 5G is more efficient to handling data throughputs than 4G. That means that the cost per bit is going down for us. So for that reasons, 5G is important as well.

So if somebody would ask me, if I -- you didn't have the business case on 5G. I would do it for the cost and, of course, for the -- being the leading technology. But we have so many more business cases this time.

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

I want to get into this, but before we do, I do have one more question about building the network, and it's a spectrum question. You have, by far, the most high band or millimeter wave spectrum for supporting data-intensive fiber applications, like 4K streaming video or virtual reality. But some of your competitors appear to have more low mid-band spectrum that is better suited for quickly achieving broad 5G coverage. What is Verizon's spectrum strategy? And to what extent do you think you might need more mid-band spectrum to maintain your network leadership?

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### **Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

So first of all, we're in a quiet period for certain bands in the spectrum because there's an auction. So I will be a little bit cautious about exactly different spectrum. And -- but remember, I always say that I don't start with spectrum. I start with data growth I have in the network then have different solutions for it. One is adding more spectrum. Another is adding new softwares. A third one is to densify the network. That's how you handle an experience for your customers. Like take the example at some of the AWS auctions, Verizon decided not to participate. We densified the network instead. One of the most important features in Release 16 of 5G NR is, for example, DSS, dynamic spectrum sharing, where you are agnostic for technology on the spectrum.

So you need to take choices and do a ROIC, which, I would say, the Verizon engineers were fantastic on deciding which is the best one to do it. So -- and we have all the spectrum we need to have national coverage and do the millimeter wave. So there's no doubt about that, to launch that in a really good experience for our customer.

Over time, of course, C-band is an interesting spectrum, but it's not up for grabs at the moment. So I guess we'll work with the assets we have, and we're happy with those. And we will launch with those, and we're going to have a good network with it. But remember, we always do a very prudent evaluation between the densification, buying spectrum and then putting in more software features, more antennas, intelligent antennas, things like that.



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

All right. So if we think about these use cases and we look back to the launch of 4G, it was really coordinated with ramping consumer adoption, smartphones, which were being subsidized and the early adoption of online video. And so there was a pretty rapid migration from -- of consumers from 3G to 4G. The key benefits of 5G, such as gigabit speeds and millisecond latency, seem to have fewer immediate benefits to consumers, and they're also upgrading their handsets less frequently. So what do you think is going to drive adoption of 5G with consumers? And how do you intend to encourage or incentivize consumers to upgrade?

**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

And so first of all, we push the envelope basically 2 years on 5G. The initial plan was to have 5G in the world around 2020. We launched the 5G Home in 2018. So of course, we have also moved much quicker in the infrastructure world than all the innovation around it, in the ecosystem from infrastructure to handsets. I still believe that every G historically at least that's when higher churn rate on phones is coming and more innovation is coming. I think that with the enormous throughput, latency and speed we see on 5G, I definitely see a lot of new use cases for consumers.

But at the moment, much of the design of 5G is for enterprise as well. So innovation on the enterprise side is going to be huge. When you think about it, you can actually take away the cables and actually do wireless environments where you have a factory or a retail or something like that. So sometimes we think about -- so we spend equally much time thinking about innovation on enterprise and 5G mobile edge compute as we do on 5G Home and 5G Mobility.

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

Well, can you elaborate that? How do you see enterprises leveraging 5G? And also, when?

**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

Yes. So I would say that myself, our problem is 40, 50 of the biggest company in the U.S. in the way of discussing what are the currencies 5G is giving, what can you do with 5G and discussing with these different either finance companies, retail companies or health care companies, all of them then sort of rethinking how they do a factory, a hospital by having a private 5G network, having a mobile edge compute, so all totally wireless connected factory robots. All of that is possible in 5G.

Then of course, we know that in today's world, these are already existing infrastructure. So it's a little bit more slow moving in the -- for enterprise to make a change of the utilization. And that's why we also talk about it will take the 2022 before it's any significant revenues coming from that side. But it's now when you do the design and the work to prepare with these enterprises, and I would say that this is a very exciting area for us because we have an enterprise, you have -- we are already in with all these customers. We are coming with, I would say, a tremendous transformation with 5G mobile edge compute. And as I have said before, we're going to launch our first 5G mobile edge compute centers in this year, fourth quarter.

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

So is it fair to say that the enterprise opportunity in 5G is as important as in consumer? Or is it maybe even more important?

**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

I wouldn't rank them. Remember, they're on the same network, on the same equipment. That's what is important for you as an investor to understand. I don't build one separate 5G Home network, another 5G Mobility network and a third 5G mobile edge compute. It's the same radio base station. It's the same virtualized network we're building, and the same fiber going to them. And that was our thinking already 2014, '15, '16 when we start

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to do. You cannot start today, hey, I'm going to build all this. This is taking time, design, and of course, we have legacy network that we need to change. So -- but you can say that, on the mobility side, we're already there. We have a very big market share, and we just need to see that our customers like us, continue to like our network and our performance.

5G Home, also, of course, is a big upside for us because that revenue we're not into outside the Fios footprint that we're here. And then in 5G mobile edge compute with enterprises, growing the connectivity today with the customers, but we're not into a 5G platform connecting to a compute, storage, cloud solution at the edge, whatever.

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

All right. So let's talk about 5G Home, which is your fixed residential wireless product. You've now launched that in 4 markets, kind of beta markets. And I believe you have plans for broader rollouts as you get into the later part of this year.

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**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

Yes.

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

What do you see as the key value proposition of 5G Home? And how do you intend to differentiate the service versus cable operators who have already outlined the path to get to 10-gigabit speeds?

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**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

I think that the value prop is very clear. It's a totally different way of delivering home broadband. And first of all, it's a self setup. It should be quick. It should be possible to have choices with any over-the-top solutions you have. That's what we're striving for.

So of course, a big portion of the cost to do home broadband today is, of course, digging the last mile to the house and all of that, having the engineers coming to you. We want to rethink all that. We want to make it much more simple that you yourself do the self setup. You get the signal into the house. That should be fast. It shouldn't be weeks planning and having people waiting for when the engineers are coming. We want to rethink all of that, and then we want to give optionality. Hey, you want an OTT service to take whatever you want instead of having a bundled package?

So we rethink -- we think that's where the market is going. That doesn't say that we don't like our Fios business. We like our Fios business as well. But this is creating optionality and a new way of thinking on how we do 5G Home or 5G -- or home broadband.

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

All right. Let's step back, actually talk about your 4G business, which is the #1 wireless business in the country right now. You've grown your wireless service revenues on a year-over-year basis for 5 consecutive quarters, driven by both ARPA and subscribers. Despite this momentum, you recently lowered prices on your Unlimited plans by \$5 per month. So why did you make this pricing move? And to what extent was it influenced by the competitive backdrop?



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**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

I think that you mentioned yourself, we are coming from a position of strength. We have 5 good quarters on the wireless business. We are actually -- I have to say I'm very pleased with the -- our Consumer team, in Ronan and his team with what they have done on Unlimited. They're constantly continue to innovate and give our customers a great experience. That has led us to continue this journey.

Remember now what we've said before, roughly 50% of our customers are on Unlimited, and that means that 50% is on metered. What we're doing with this move is, of course, making the path for our customers to come into Unlimited easier. So they can start getting in there because we have a journey on 4G and 5G on Unlimited that we want to bring them into. So this is part of a much broader, longer thinking how we work with our customer base and seeing that we actually delight them with these type of solutions.

So it's like not a -- that it's a competition we need to lower price. This is the way for us to continue to see that our customer has a great journey and an easy journey from the metered plan to the Unlimited plans, and then they can move up when they want new experiences. If they want 5G, they move up on the ladder in Unlimited. So it's a very well-orchestrated way of working with our customer base, and they are happy with how we serve them.

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

The migration period after you make these adjustments can sometimes be a little lumpy. Is there any help you can give us in terms of thinking about the next couple of quarters, what it might do to financials or subscriber trends?

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**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

It's a little bit early to say. It was a little bit more than a month since we launched it, but we can say we're pleased with the development so far. And of course, you can always have, in the beginning, some consumers on a metered plan that's moving to an Unlimited and it has some impact to it, but we have not changed the guidance for the full year. So that tells you a little bit. But it could be some things.

But we wouldn't do it if we didn't feel that it was very important and accretive for us over time. We feel it's absolutely the right financial move to do, and we always do disciplined move when it comes to these type of things.

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

All right. So Altice USA recently launched an Unlimited wireless service, predominantly in the New York market, with plans costing as little as \$20 to \$30 a month for unlimited, which is less than half of your entry-level plan for a single line of \$70. How do you intend to preserve Verizon's premium pricing as cable operators get more aggressive with their wireless offers and as you potentially see new entrants, such as DISH?

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**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

I think we have lived in tough competition for many, many years, and we continue to do so and now coming in new entrants. We just need to stick to our main strategy. We build the best network. We see that our customers are getting value for the service we are giving them. Not only that, we're working with how we can add things to them, like we did with Apple Music, et cetera. So we will continue to work with that and see that our customer really feel that they are getting the value for what they are paying us.

So I think there's going to be competition. There are different segments of the market, of course, as well. And we have our segments, which we are serving right now. We are serving other segments through MVNOs or through MVNOs with cable, or MVNOs with prepaid customers. So we are working the whole value chain but in different places. So I think we can compete well, and we will continue. But we respect all competition, the first here. And we are humble for it, and we need to fight every day to continue to have a leadership position in the market.



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

Do you still intend to eventually charge a \$10 premium for 5G? I know it's waived right now.

**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

Right now, we are waiving the \$5 or the \$10. Over the time, we will -- we are working to see how we're going to position it. But I think that in order to get the -- as we are building the 5G, we are building the 5G as it's meant to be in order to get all the 8 currencies. We believe there's going to be a value for having all of those together with the handset, say, in the market. And there's a value to be had there for our customers and for us. And I think we want to keep that out there, and I think it's a different plans for Unlimited where our customer can make choices.

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

I think one of the reasons...

**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

Remember also, we are the only one that you can make choices. In an account with 4 lines, you can do mix-and-match, however you want to do with them. You can have 1 on a kids plan. On the lowest plan, you can have 1 phone on the highest plan. So we give the maximum flexibility for our customer, which is we're unique in this market to do. So we will -- I think that's our compelling -- you can pick and choose as you want.

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

I just want say, I think one of the reasons the Altice launch got this kind of light airplay at the conference is that it's caused investors to start thinking about the relationship between cable companies and wireless carriers. And as of right now, you have a fairly significant partnership with both Comcast and Charter. How are you thinking about that? Do you see all Altice out there with a more aggressive price? Do you think that there are mutually beneficial ways you can evolve your existing relationship with them so that maybe they get more value out of the MVNO and maybe you get more value out of some of things they could bring to the table?

**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

This is a typical model in many markets around the world. I mean definitely, at least one yourself, it's mainly a very beneficial relationship to this. I mean I think about us, our main strategy is network-as-a-service. Sometimes we do all the way ourselves with the connectivity, the platform and the handsets, which is our Consumer business. In other cases, we have MVNOs on the network. Ultimately, we want to use this multipurpose network to have the best return on investment and actually build the best network. So we believe these customers, the MVNO customers, are important customer for us. And we work with them as any other enterprise customer to see that we are mutually beneficial of the relationships. So we think it's an important part of it, and we are happy with the relationship. And hopefully, the cable operator as well.

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

Okay. I think sometimes people forget, you're not just a wireless provider. You actually are also one of the largest providers of telecom services to businesses. Okay. So I do want to ask you about that. For your business really across the category, business wireline revenues have remained under pressure even in a relatively strong economy. And so I guess the first question would be, are you seeing anything that is starting to improve the trajectory of those revenues, maybe the way customers are revisiting their network architecture? And do you have any thoughts on whether the economy is impairing that?

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### **Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

Yes. I think that, first of all, you're absolutely right. We are on the sort of the traditional core product in wireline, we have a sequential decline there over time. And that would continue for a while, and that's just how it is. Legacy connections, et cetera, are coming down in price. That's just the nature of the technology. So you're going to see that. I think that what we see right now is a little bit, if you're an enterprise, think about what you have, and then you see 5G at the same time. The excitement over 5G mobile edge compute and what you can do with that and the band in all of that are great things. But the transition takes some time. And I've been in B2B in all my life. It takes time, but when you're there, then it's a great place to be.

I don't see any major movement short term right now. I more see that the excitement over 5G and what we can bring to the table that we didn't have before is making our positioning in front of the largest corporation in this country, for example, and in the world, to be honest, in a totally different place with the fiber we're doing in the U.S. and the 5G we're doing, we have totally different position to do business with enterprise. But as I said, that's a little bit more slow-moving business. Enterprises have installed base, and they take a little bit longer time to make this. But I'm confident that this is the absolutely the right thing for us.

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

Unlike some of your peers, you have not looked to evolve into an integrated communications and media company. But video consumption is the primary driver of growth in mobile and fixed broadband usage, and video products are increasingly being bundled with mobile services. So why have you decided to sustain a model focused on connectivity? And what is your content strategy?

### **Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

I think that any company around, you look into that to have as a company and how you can leverage that best and how you can sort of give value to all your stakeholders all the way from customers to shareholders, employees and society at large. And of course, our conclusion was that we think that we are best equipped to really leverage the best network and continue to partner with people rather than us managing it. Others might have qualities for doing that. We don't. We think we're best handling the network. And we can partner with anyone and actually not needing the owners' economics. We can make value with -- I mean, remember, we have many more than 100 million wireless subscribers. We have a Fios footprint. I guess that any content provider would say, "Hey, I want to be part of that journey." That's why we, for example, spoke with you with YouTube TV, et cetera. But we are changing the game from how it was before because we believe we come with a really good asset. That was our main strategy of not being into the linear TV or something like that.

On the content side, because we still have content, we -- our super channels, as we call them, Yahoo! Finance, Yahoo! Sport, Yahoo! Entertainment, Yahoo Mail, et cetera, all of them are over-the-top. We think those are very exciting for us and accretive, and they have done a great job of repositioning all of them. But that's where we're going to be.

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

Do you have visibility into improved revenue trends in the Media Group?

### **Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

I think that the new team has been there 4 quarters as long as I've been there. I think they've gone from quite dramatic declines in revenues to base that are very, very small. They have been very prudent on cost. They have taken out a lot of cost, at the same time, starting to invest in new areas, if it's Yahoo! Sports or Yahoo! Finance. And we see a good increase on usage on them and subscribers.

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So I have a lot of confidence in that team. They have done things in a shorter period than I expected, to be honest. And they are in a good place. That is not an easy business. There's a lot of competition. There's a lot of large competitors. But so far, so good. And we are aiming high and seeing that this is really continuing to be a good story and come into growth over time.

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

And is that ultimately the contribution? You expect that Media Group growth?

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**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

Yes. I think, no, first of all, they should contribute to the bottom line, of course, as well. And then remember also that what they're contributing more with the -- a skill set that is so important for Verizon in the future. They have AI, ML resources. They have data center. The whole network is going to be virtualized. It's going to be data centers. Their resources and confidence we have in Verizon Media Group is serving the whole Verizon. I don't think that any carrier in the world has that type of resources in-house. So that's also very important for us, that we're getting value of that. But ultimately, it's also the same that we are bundling it and having -- we add now Yahoo! Finance, Yahoo! Sports coming into our Fios offerings. So we are seeing that we're actually using this asset in the best way.

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

Does that in any way complicate discussions you're having with other media-oriented businesses who are looking to maybe partner with you to use your 5G network to reach consumers? Because you do have some presence in the media space.

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**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

No.

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

All right. So you have completed all 3 phases of your Voluntary Separation Program. And I believe you've achieved \$4.1 billion of cumulative cash savings since your \$10 billion cost program began in 2018, which Lowell announced here, actually.

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**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

Yes. Not by me, I guess.

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

What are the key areas where you see opportunity to take additional costs out of the business? And why do you believe you can achieve this while ramping in investment in 5G?

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**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

I think -- good question. No, we said already when I came in from the beginning when I was rounding the network that we -- and remember, it was legal reason, et cetera, we couldn't do this because we had a joint venture with Vodafone, so we couldn't share assets in the same way we can do



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right now. So of course, we saw big opportunity for bringing down costs and actually getting more output of it. So -- and the network team is on the journey and doing great job, and they have probably 2 more years of what they are going.

At the same time, the way of collapsing units supporting our customers where we have duplication in many places also giving me possibility to do efficiency. And then adding to that, we did a voluntary program last year and -- which was 10,400 employees leaving us, also gave us a chance to work differently. And we helped organization by doing a voluntary. So instead of reengineering the process first and then seeing that we can have less people, we actually took -- asked the people, they want to leave, you leave first, and we'll fix the process. And the last 3 quarters, we have been performing well, even though we have almost, yes, in 1 year, 17,000 people left in the company. So I can see that, but remember, we do it all also in order to prepare us to be able to grow because that's how we build the network, that's how we set up the new go-to-market because -- in order to take advantage of the assets we have.

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

And so you ended the second quarter with net debt-to-EBITDA just over 2 turns. So it declined to 2.1x. So you've done a good job with that. And you're almost within your target range that you laid out at your analyst meeting, which is 1.75 to 2.

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**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

That's correct.

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

So since you're almost in that range, how would you prioritize incremental cash flow once you're there?

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**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

Yes. That's a future statement, safe harbor or something. I think that, first of all, we have said it all the time. And we actually did it in our Capital Markets Day in early this year. We outlined our priorities. Number one, when it comes to our capital allocation goes to investing in the business. That's the CapEx we're doing. That's the number one.

Number two, we put our Board in a position to continue to do healthy sort of contribution of dividend to our shareholders. I think recently, we announced our 13th consecutive year of increase of dividend, which is a way for us to show the sort of appreciation of our shareholders.

And lastly, we are working with our debt because we want to get back to the range of 1.75 to 2 of unsecured debt that we had pre-Vodafone. And as you said, we're close to that right now. I have a great team on the treasury department working this every day. And the rates are also changing everyday here, apparently. Ultimately, we will come back and have conversations over the time, but these are the 3 priorities we have right now, and we're just going to continue to execute on that. And then the day when we are in the range, we will probably have a conversation about it. We're not there yet.

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

There are 2 other things that investors speak a lot about in terms of what you could do with that cash once you've achieved the target spectrum, and you alluded earlier that you're always interested in looking at spectrum. So I guess I'd be interested in understanding where that is in the pecking order also relative to the other thing, which is buybacks. So where would you have to be as a company to say, "We are satisfied that we have made sufficient investment in the business, including potentially in spectrum, such that buybacks really would seem to be the logical use of additional cash."



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**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

Yes. It's a little bit premature to take the discussion right now because we are not -- we still have our 3 priorities. We want to see that we're ending up in the debt ratio that we have established, and we want to begin. And when you then have projection whatever you want and need to put into the business, we can have a discussion about it. But it's -- today, it's premature to have a discussion about that, but it might be in the near future.

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

All right. I also have a long-term question. See how far I get out of this one.

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**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

You're trying. You're trying. You're doing well.

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

All right. Given your guidance for this year, it calls for low single-digit percentage growth in adjusted EPS once you make some accounting adjustments for things that are not recurring, do you believe that Verizon can sustain similar earnings growth after this year? And if you think about it longer term, what do you see as really being a driver? When do you think 5G is the principal source of earnings growth for Verizon?

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**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

I think that we -- first of all, long term, we have said that we want to achieve GDP plus growth. I think that's with a healthy growth long term. When it comes to next year, I think that we will come back to the guidance on next year. Then we have been fairly explicit on the 5G, when we say we will believe that's going to have an impact on us. I mean 5G Home and 5G Mobility, 2021; and 5G mobile edge compute, 2022. So we stand by that. And -- but we will come back in the beginning of next year and do the guidance for 2020. But right now, we're executing 2019, and we have a long-term North Star how we work with it. And then we're going to -- just going to chop that down in 2020, and then we come back to the market and say, "This is how it looks in 2020."

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

All right. Hans, thanks for being here.

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**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO

Thank you for having me. Thanks, guys.

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