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# EDITED TRANSCRIPT

VZ - Verizon Communications Inc at JPMorgan Global Technology, Media and Communications Conference

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## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

**Jennifer Nason** *JPMorgan Chase & Co. - MD*

**Philip Cusick** *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

## PRESENTATION

**Jennifer Nason** - *JPMorgan Chase & Co. - MD*

Good morning, everybody. So welcome to the third day of the Annual JPMorgan TMT equity conference. I'm Jennifer Nason, Global Chairman of Investment Banking at JPMorgan. So I hope you've all found the first few days productive through all the presentations, that you've been able to attend, one-on-one meetings and the keynote speeches. And while this is the last day and we're drawing to a close, it is my great pleasure to introduce you to our keynote speaker this morning to kick things off, Hans Vestberg, Chairman and CEO of Verizon Communications.

So Hans has been CEO at Verizon since August 2018 and Chairman of the Board since March of this year. Hans previously served as Verizon's CTO and President of Global Networks from 2017 and, in, those roles, had responsibility for further developing the architecture for Verizon's fiber-centric networks.

At Verizon, he continues to focus on delivering seamless experiences for customers of the network assets consisting of the country's leading 4G LTE network; the largest 5G testbed in the U.S.; the nation's biggest residential fiber network; a global Internet backbone and undersea cable network carrying much of the world's Internet traffic; and finally, fiber assets in 45 of the top 50 markets in the U.S. So please welcome Hans Vestberg and JPMorgan's own, Phil Cusick.

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

Thank you.

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**Philip Cusick** - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

Thanks, Jen.

Thanks for joining us, Hans.

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

Thank you for having me.

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**Philip Cusick** - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

So you're coming up on about 1 year running Verizon...

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

Correct.

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## QUESTIONS AND ANSWERS

**Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

But getting there. Can you just give us your vision of the next 5 years and how we should think about the company from here?

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

Yes. I will start with something much closer to me. I will start with a safe harbor statement. I guess you don't want me to read it, but it's important to my legal team, so there you have it. Now you can take it away.

Okay. I think that I have been in Verizon for quite a while right now, and I think it all started with the transformation of the network. As some of you know, we were running our different networks for different units due to legal reasons. Due to joint ventures with Vodafone, et cetera, we decided to collapse that network to make 1 horizontal network. Two really important pieces in that transformation: one, to actually address new type of services for our customers, you need a seamless network; secondly, to take out cost. That was a start to where I see we're going in the future.

The second part of that was what we decided for in November to change our go-to-market because suddenly, our customers becomes even more important in this transformation when we come with 5G and fiber, et cetera, and not addressing them in technology. So that's when we defined the 3 groups: the Verizon Consumer group, the Verizon Business group and the Verizon Media Group. In between there, we have basically the network, the IT and products serving these 3 units. And if you think about them, where we position ourselves for the future, we also -- from a sort of position of strength, we also took out some 10,000 or almost 11,000 employees in order to create a much stronger and new ways of working in the company. When we have that now, we actually can address the market with totally new services. We can, in some cases, partner. In some cases, we can do all the way ourself, going from connectivity platforms and through applications.

So that's where I see we're going, and that's why I also articulated in our investor meeting in February that we think long term that we can deliver GDP-plus growth based on those assets and how we're transforming.

So we took the best network already in the market to make it even stronger. And on that, we can leverage and partner in the areas we want to do. And I think that's where we want to go. You have seen proof points of it. We just agreed with YouTube TV to be an option for our customers.

We are creating options for our customers that few others can do. We have the best network and the platform, and we can have different-type options for our customers wherever they want to go and how they want to consume content or whatever else it can be.

That's where I see us going in the future, and we're going to build on that and do more. And I have high ambitions for the team and my groups that they can actually leverage on that structure the cost efficiencies as well as the go-to-market.

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**Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

You started with the network. Let's continue there.

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

Yes.

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**Philip Cusick** - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

You're building fiber in 60 cities around the country. I think it was 2 years ago Lowell announced that, and he was here right around the time. And everybody said, 1,700 strands, that's crazy.

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

Yes.

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**Philip Cusick** - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

Talk to us about what you're building and what the sort of multiple use cases are.

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

Yes. We have our financial discipline in the company, and we're always looking to ways best to build ourself, rent or acquire. We -- that work, we do constantly.

Right now we have found out that given that we have a multi-customer environment, the best way for us is build it ourselves. So we are building fiber right now. We announced in the second and in the first quarter earnings that we are now having over 1,000 fiber miles a month is the speed we're doing, which probably is -- no one else in this country is even close to. So we have an enormous speed in it, and we build it in more than 60 markets, as you say.

We think that -- remember now we are serving, of course, our wireless network because the wireless network needs fiber. We have large enterprise. We have small and medium companies. We have a wholesale business. So basically, we have 4 different customers that we can monetize the fiber on. So that's why we came to the conclusion in many of these markets it's better for us to build, because we build rings, we're not building point to point. And that's a big difference from an architectural point of view because if you build rings, of course you can serve so much more and you can monetize that assets even better. So we probably are on the speed that we're going to have for quite a while right now when it comes to fiber, and we're going all the way for -- from Corning starting a factory only for us to actually having the permits, being with third parties, seeing that we're actually doing the right things in the cities but ultimately is to serve the fiber-rich network to get the customer even greater experience and actually have a better network than anybody else in this market.

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**Philip Cusick** - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

Let's talk about 5G. You launched a new phone this morning.

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

Yes.

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**Philip Cusick** - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

Can you tell us about it? What's exciting about it?



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

It's -- this is the Samsung 5G phone, Samsung Galaxy. What is exciting about it is that if you've been around on 3G in 4G, the first phones are usually very clunky, not user friendly. This is the best 4G phone that Samsung ever have done, and it has 5G inside of it. That's exciting. Battery life time is better, the cameras, the videos and all of that. And as we are there not in Chicago this morning, I couldn't really do an Ookla this morning. But my friends in Chicago did the Ookla this morning, meaning a speed test. We had 1.5 gigabit per second on the phone this morning in Chicago. 1.5 gigabits on the phone. And that's probably -- at a good day here -- in here if you would do it, you would have 100, a good day, so -- even on the best network, which is Verizon.

**Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

So consumers should expect something like that every day and everywhere?

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

Yes. I think that's how we build it right now. We're going to do plus 30 cities. We'll use it on a millimeter wave, 1,000 megahertz, in the nation. What we're building is where is the most data usage right now. It's in the urban areas. That's where we're building first in order to have an enormous throughput and an experience for consumers in those sort of urban areas. Then we still have the best 4G network below there wherever you go outside that, and it's seamless in between. And we're just going to continue to build it out and see that, that experience in urban areas is going to be fantastic.

But as I said before, ultimately, all spectrum that we'll have will be 5G spectrum. So you're going to have a seamless all the time, as we have on 4G, as we now are shutting down CDMA network. That's how it works. But you just need to migrate customers, and the way you do that is actually with a phone or whatever. Now we talk consumer cases. And we're excited over this phone because we're exclusive on the Samsung 5G phone as well. So we think's it's a good thing.

**Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

What -- how widely should we expect 5G to be distributed over the next few years? At what point do the majority of...

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

I think if you ask the next few years, I think the majority of our map will have 5G.

**Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

And the majority of your consumers will have 5G around the same time?

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

Yes, all the time, of course. I mean think about every new technology on wireless is better than the previous one. So it's a reason why you want 5G in the network, because it's dealing with data much more efficient than 4G, meaning the cost per bit is coming down, and we all know we use more and more bits in the network. So it's self-serving to have 5G in there. But you need to have the full ecosystem. You need to have users having the 5G phone, et cetera.

And it's one acronym that we -- you should remember. We should not deep dive on it. That's a DSS. That's dynamic spectrum sharing, which is a feature coming somewhere next year where basically you can use the spectrum however you want. It is 4G and 5G, 3G. It doesn't matter. It will



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dynamically change whatever phone you have. That's a very important feature coming into the network next year. And then we don't need to discuss if it's 4G or 5G. Whatever phone you have is going to use it. That's basically how dynamic spectrum sharing has worked over time.

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**Philip Cusick** - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

And you talked about 5G expanding your addressable market as well. Maybe you think about that a little bit for us.

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

Yes. I mean we -- I mean, what is very different in 5G than previous technology is that, that when 4G came, it was roughly, I would say, 1 business case or 2 maybe. That was consumer wireless. On 5G, we have 4 business cases. And some of you might have heard that 5G has 8 currencies, meaning 8 different capabilities, and 4G has 2. Based on that, you have 4 business cases on 5G. The first one that we talk about right now is consumer wireless. That's where you come in and actually give an even higher throughput, up to 15, 20x better throughput, and speeds to the consumers. We are the #1 in that market. We want not only protect, we have high ambition that we can increase the TAM and create higher market share. That's ambitions that we have. We should be ambitious; we're #1.

The second one is the 5G Home. You can use the same infrastructure, the same investment, and you can do 5G in the home, penetrate the market where we can expand the market because right now, we are on the East Coast with Fios, but right -- but over time, we can 5G your home in any place where we have 5G Mobility on millimeter wave. And we have said that our ambition is to cover 30 million homes with 5G.

The third business case is when you actually use the 5G to be cloud computing, Edge cloud computing. Very much addressed to enterprises where you can actually transform logistic flows, warehouses by having 5G with extreme low latency, enormous throughputs, et cetera. Private 5G networks you can see as well for that type of use cases. That's the cloud computing happening in the Edge compared to the big cloud companies doing it in the data center. It's coming much closer to you so you can transform and change.

That's the 3 business case.

And then the last one is a new revenue stream. We don't have that today. We're not into cloud computing at the Edge with services.

The fourth business case is an obvious one. It's a lower cost to transport the bits.

And all this is the same infrastructure compared to -- remember, fixed wireless access has failed in all countries in the world because of one simple reason: It was a separate network. You build a separate network with separate so-called devices, CPEs. This is the same network, the same base station, the same antennas. You need to have almost unlimited spectrum or at least a high degree of spectrum. We have 1,000 megahertz-plus nationwide on millimeter wave. That's why we can now do all these with the same infrastructure. So that's how we see it. We have outlined that the home and the mobility will have some impact on our revenues 2021. The mobile Edge compute will have it in 2022. And the reason is that we have such a big revenue stream, so to have an impact on it is going to take some time. That doesn't mean that we're not doing it today. We need to do it today because we want our customer to be the first on a technology and have the best technology.

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**Philip Cusick** - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

You've talked about partnerships.

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

Yes.

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**Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

Help us think about Verizon. What can Verizon do on your own versus where do you want to partner?

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

I think we are slightly tweaked from 4G where we talked a lot about creating our own applications, creating our own devices and all of that. We see ourselves as having the best connectivity, a 5G platform where you got -- can -- you do slices on the network to certain use cases where we need to have an agreement with the -- if we're going to give away 15 milliseconds in latency to, let's say, a production floor where you have robotics, that has to be a sort of an alignment with us, an agreement with us and then we do it. I think that's where we see we can do.

In some cases, we will have partners having the software for handling the robotics. I don't see us developing software for robotics. There are far better companies than us. But we are coming a level up from connectivity in that discussion. There might be areas like telematics where we are really strong, where we have the software. We do the connectivity, we do the platform and we do the applications because we have the software for telematics. So -- but generally, we're a little bit more inclined to do big partnerships where we are leveraging our network, the best network, our distribution and our brand. We just signed and announced YouTube TV as one optionality for our customers where we bring that in through -- inside Verizon, and we can give that to our customer based on our strengths instead of us building an OTT, which we tried, but we decided that was not -- we didn't think that could be a good solution.

**Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

You mentioned telematics. A lot of that came as an acquisition and then has been developed within Verizon. Should we not expect that sort of point product being taken in? You'd rather partner going forward?

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

It might be point product. I've talked about tuck-ins, et cetera. And especially on the, let's say, the mobile Edge compute, when that start maturing, and we're already right now discussing with many large enterprises what they want to do, et cetera, we might find areas, hey, we need to have this asset or we need to partner with someone. And that's a work we're doing right now. We have said our first mobile Edge computing centers will be up at the end of this year, and, of course, we're going to have customers as soon as possible. And then we're going to see what do we need to tuck in on this one in order to make a great solution for our customers.

**Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

What can the Trump administration do to help you deploy 5G faster and get your business roll out faster?

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

Good question. I think that what we're -- one of the things that has been very important on the 5G is, of course, when you use these new spectrums, you need new antennas. And of course, some of the orders that have come out from FCC are very important and helpful when it comes to pricing for all states, when it comes to pole attachments and so -- and things on that. That is speeding it up because what is really taking time is really all the negotiation with all the communities or cities and all of that, that we have been doing for years. But that takes time to agree and make it a fair deal for both parties. Of course, that is helping the speed of execution to have those type of orders.

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**Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

Okay. Let's switch over to the wireless business. Trends have improved markedly for the company and much of the industry in the last 2 years. How sustainable are the recent growth trends? And what should we think going forward?

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

I think that some of you might remember, and it was actually my first quarter, we went to Unlimited. And I remember all the criticism that Verizon got in that moment. Why are you going there: And you will never manage the network. We'll not hold up. Your pricing will not be there. I remember Mr. Ronan Dunne that is running our consumer business saying that hey, we have a plan for this. We know what we're doing.

There are 2 things that I want to highlight. One, the network has never performed as good as right now, we'll win all the awards in the market and the traffic has been growing quite good with Unlimited.

Secondly, we have also, with the commercial team under Ronan Dunne, has come in with new type of things in the service layer. And you saw in the last quarter we are growing over 4.5% on our service offering in wireless. They have come with new things like Apple Music. They have done the Verizon Up. They have broadened the Unlimited from Go, Beyond and Above. They are working constantly with their segmentation in the market. I have a high -- I have a very high confidence in that team. It has more to come, and they are doing a great job. We have seen in the first quarter that equipment is more -- sales is coming down because there's less of churn on phones. Hopefully, with the 5G phones, it's going to be push on that one again, but that we see coming down a little. But at the moment, the service revenue in wireless is extremely important, and I think the team is doing a great job. I am confident they will continue and do it.

**Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

As you focus on network densification, that creates a lot of expense. How do you balance profit and network quality and driving margins to the business?

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

Given the big transformation we did in the network, and we changed the whole capital allocation model in 2017, we have actually gained so much efficiencies. So whatever growth will you do, that's included in it. And last year, you'll remember we had actually to guide down our CapEx, and I think it was almost 2x. And that was not because we did less. We did much more. But we find so much efficiencies in the transformation of the network as well as how we do our capital allocation. So we are -- we would never sort of start saying that we're going to do less in the network because the quality can go down. We know that our brand value is -- number one is our quality of the network. So we are not compromising on that. If the guys need \$1 billion more, I -- we're going to give them \$1 billion more, and I'm going to explain to you why. Right now we don't need it. We are in our ranges. We are finding more efficiencies. All that efficiency we're using for part of the growth. So I usually ask the team on our capital calls that we have every month, okay, do you need more money. And they say, we don't know where to spend it because we are spending everything we can at this moment given the structure that Verizon has. So we'll not compromise the business for that.

So I think I can balance definitely growth and profitability given how good efficiencies were found in the way of working. And I have to say the team has done a great job there, and I'm very pleased what I've seen in the last 12 months.

**Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

Maybe expand on those efficiencies. As a former CEO of an equipment company, I get questions of, oh, is Verizon just paying less for equipment. Is that what it is? But there's got to be a lot more than that.



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

Unfortunately, if you have been in the vendor equipment world, that's a smaller portion of the CapEx, and I was really upset about it when I was on the other side. But to be honest, of course it's also -- we -- of course, we need to use our purchasing power. That's given. I mean we are one of the largest CapEx users in the world. The vendors that are serving probably have us as the largest customers in the world. So of course, we are using that. But the bonus, a lot of the cost is outside that. Think about that. If you have 4 networks, you have 4 transport networks. I need 1 transport network with redundancy so I can do 2 instead. So of course, it's -- one is, of course, you need better prices from your vendors. But more importantly is that we can be so more efficient. We are buying multiservice routers today that are serving all our use cases. Historically, we're buying routers for every use case: 1 for enterprise, 1 for small and medium, 1 for our wireless networks. We buy 1 type of multiservice routers. So of course, it can be a little bit less for our vendors. But on the other hand, they are getting the latest technology with us, and they're going to gain the journey with us. So it's both, of course, dealing with being tougher in the negotiation, but it's more important how we design the network.

**Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

Verizon has a wholesale deal with some cable companies for your wireless business.

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

Yes.

**Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

Can you talk about the cable companies as either potential partners, adversaries? How do you think about that relationship?

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

No. I think that we have now -- since a little bit more than 1 year ago, we are having MVNO with the cable companies. We think it works out well. We are happy with the relationship. You have to ask them if they're happy with the relationship, but it seems like that. We think it's a good model. Again, we have a network service. That's what Verizon is doing. We have the best network. So far, people are joining and want to be on top of it. Cable companies is just one example. So we monetize our asset better than anybody else. We have a better network than anybody else. So that's just a way to do business. Then we need to be commercial savvy, both of us, to see that we have the right commercials between us. And so far, that has gone well. So I think that's -- then, of course, we are competing as well. I mean that's how the world is. I mean, of course, when we're coming out with 5G Home, I guess that is straight into their business model. But that's how our market is working. You're frenemies. I mean sometimes, you compete, sometimes you collaborate. It's impossible with the size of companies we're into that we would not -- that we'll be totally sort of distinguished. We are competing in some areas, and we're partnering in others. I think if you are a mature leader, you can handle that.

**Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

You mentioned your partnership with Google on YouTube earlier. Verizon Fios used to be a big growth driver. Now it's sort of slowed down. How should we think about your views on that consumer wireline video business?

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

First of all, remember now we have now one Consumer unit, and this quarter we're going to report these 3 new segment for the first time. We will give all the investors sort of the back-look in all of that so you can follow how it is. And we're going to keep a lot of the metrics that we have had on wireline and wireless so you can continue to follow it. We understand this is important. But when it comes to Consumer, the first one is that we now have one consumer-fronting organization. And if you look at our advertising, for example, it's seamless between if it's a Fios, if it's a 5G Home



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or if it's a 5G wireless, a 4G wireless for the consumers, the same advertising because we want to see that our customer understands the optionality we are creating.

When it comes to Fios, first of all, the Internet connectivity with fiber, that continues to grow. I mean that is the common understanding in the market.

When it comes to the fat bundles or whatever you'll call them, they have a tendency to come down. And then what we want to create, we want to create optionality for our customers. Hey, I want Internet, but I want another type of bundle. I want a slimmer bundle or I want to connect -- I want to do it myself. And the ones that want to keep the Fios Video bundle, we're going to continue to support them as well. But what we're trying to do and we will do all the time is we will give optionality for our customers, and we can do that with the best network and the best platform. We can give that optionality for our customer. If they want YouTube TV or the Fios program, okay. It's up to you guys.

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**Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

There was a time when Verizon talked about disrupting the video business.

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

Yes.

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**Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

We don't hear about that much anymore.

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

No.

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**Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

How do you think about Verizon in video and then the Verizon Media Group overall?

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

In the Verizon Media Group, I think we have come to a very clear conclusion what we want to do with it. I mean we want to be the best over-the-top solution in our super channels as we speak. We want to be the best over-the-top sports, Yahoo! Sports, Yahoo! Finance and Yahoo! Entertainment and Yahoo! News. That's the 4 supers we're investing in. We are doing sort of owned and operated content. We do nowadays 8-hour of Yahoo! Finance bell to bell and all of that. We want to see that we get the most traffic on these over the top, and I think we are actually on the top of some of them, sports and finance definitely over the top. We want to create that sort of footprint to see that we actually have as much engagement as possible with our customers. And then below that, we have our advertising platform that we now have 1 and not 7 that we had from beginning to offer our customers or -- a, I would say, secure content where we actually can secure how we're going to advertise and how our customers coming into -- in the platform actually are going to have a much safer environment when it comes to the content coming in there. So that's what we're doing. Guru and his team, they are executing on that strategy. So far, so good. We probably have ways to go, but we're really focused on executing on that and not anything else at the moment.



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**Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

How does that Verizon media business tie in with the 100 million Verizon customers and the information you have about them?

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

Yes. And we have 2 brand values: trust and innovation. So that means that we are a brand that -- we're not a household brands, we're a branded house. That means that any asset, any organization, any business we have need to live up to the same standard, minimum. And that becomes very important. And so we're not giving a lot of data or crosshair, monetizing, things like that. We just keep the same standard for our wireless consumer customers as we would do for any other of our businesses. It's some work to be done. We're not done yet. We're taking some strong measurements in assets like Tumblr, et cetera, which is just -- need to be there for us. And I think that that's -- but what we really are using, which I didn't say when I talked about Verizon Media Group, is that we have a pool of competence that no other carrier in the world has because we have AI, ML and all these fantastic competencies from the Yahoo! brands that right now, that technology pool of employees, they are now actually moving to the Verizon network. So they work side-by-side with the guys building the 5G network or our IT platforms where -- so I think I was probably an asset -- I'm not sure because I wasn't here when we bought it, but it's definitely an asset I saw, wow, that's something very different than anybody has in the world. We have sort of that type of competence inside which is extremely harder to recruit. And in the masses or thousand that we have, you would work for years or you would acquire a company in the West Coast that you cannot afford.

**Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

So how should we think about that being monetized within Verizon?

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

I think that we're building a network that's going to be smarter than any other networks in the world together with us personalize the network even better. Even though we have our 180 million subscribers on the wireless networks, and if you include the business it's much more, it's really how can we give them a seamless experience and understanding on the quality they have. And in 5G, that is going to be even more important. Predictability, reduce cost in the network, preventive maintenance, basically seamless sort of operation and the network with those type of capabilities coming from the data center thinking, AI thinking. Remember now that when you virtualize network, which has started within sort of 5, 10, 15 years ago in the IT sector, that is now happening in the networks. We disconnect the hardware and the software. And that's what you need to do when you do 5G or for efficiencies and new use cases. We have all that competence inside the company to help with that.

**Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

Okay. On the wireline -- traditional wireline side, revenue has been headed lower for years now in -- despite of the -- a strong economy. Should we think that the fiber build-out and expansion of the network could sort of change that trajectory?

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

I think that first of all, you are absolutely right. There are legacy products that are declining like copper connections and things like that, both in price and usage. So -- and of course, much of our wireline portfolio from the beginning was built on that. We are building a lot of new products. Fiber is one of them, of course, where we see a great opportunity to serve our customers with the latest technology, what we're building. But not only that. Prem, that's on top of that. And of course, being able to bundle that with the wireless portfolio and go to an enterprise customer and say, hey, what is your challenges. How can we help you? We have connectivity. We have access. Do you want high speed? Do you want low speed? Do you want latency? All that we can do right now, and that's was a big reason for this change over the go-to-market as well. We need to serve our customers with a full portfolio. I mean we can actually go into a customer today and say, hey, you can buy access, you can buy connectivity. We can help you with our advertising platform. We can do a small business in a box. We have so much more to do when we're getting all that. So of



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course, our ambition that we should be -- start having growth in those areas is why we have a secular decline still, but we have high ambitions in this area. I wouldn't put these together as we're doing right now if I didn't believe this was an important piece of our strategy.

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**Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

Okay. You've gone through -- as you said, you've gone to a single go-to-market engine but that's been part of a pretty big voluntary severance product over the last 6 months.

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

Yes. Yes.

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**Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

Where do we think the company is now in that? And has the culture and the organization sort of maintained through?

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

I think, first of all, we have found -- I find enormous -- a lot of excitement inside Verizon today with the changes we are doing. And as you rightfully point out, I felt that -- actually, one way to get even more innovation, more efficiency into the company from a sort of a position of strength was actually to do this voluntary program that we made in, I think, October last year. And I thought that was a good way. First of all, we want to treat our employees well. We think that's very important for us. That's why we did this voluntary package, which was good from a -- benefit for the employees.

Secondly, it kickstarted new initiatives on efficiencies, how we work, processes. We were able to elevate young leaders higher up in the hierarchy. It's always got a lot of energy in that moment. So I feel that we have been dealing with this very well. And the execution machine of Verizon, I've said it before and I stand for it, that was a reason I joined in this company, because it's the best company in the world when it comes execution. And they have proven it again. The team is new. They are excited. We have a lot left to be done, and that's why I'm confident about our future and what we're doing. And this was just one part of it. Quite a lot of changes were done in the last 6 months, but the team has absorbed it fantastically, and they are excelling in it to be honest.

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**Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

Good. And Verizon's nearing the top of your sub-2x leverage target?

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

Nearing, yes.

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**Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

Nearing. How should we think about what you do with excess cash once you're there?



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

In the traditional Verizon manner, we will talk about when we reach it. But I think on the capital allocation, we've been very clear. Number one, we allocate capital to the business. That's the most important. The CapEx, whatever else we need, that's the number one. Secondly, we serve our customer with the dividend. That has been too extremely important. And we want to give our Board the possibility to continue on the track that we have been on to on the dividend the last, I don't know, 10 years, for a long time at least. Sometimes, I don't have the history of everything. And thirdly, we want to serve our debt because that was also part of the commitment we made to the market. And what I find with Verizon is that we are very committed. If we say something, we do it. We have now said that we want the debt ratio -- unsecured debt ratio between 2 to 1.75. We are a little bit above it right now. And I've also said that the day we're into 1.75 and 2, we are happy to have the conversation with our investors and shareholders what's going to happen next. But I want to execute on this first. I want to show that we can do this, and I want to get back to what promise has been done on my predecessors and the predecessor of the predecessors. That's how we work in Verizon.

### **Philip Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

Good. Thank you very much, Hans.

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

Thank you.

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