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# EDITED TRANSCRIPT

VZ - Verizon Communications Inc at UBS Global TMT Conference

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## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

**John Hodulik** *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

## PRESENTATION

**John Hodulik** - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

Okay. If everyone could please take their seats, we'll get started. Thank you all for coming. I'm John Hodulik, the telecom and media analyst here at UBS. I'm very pleased to welcome you all to the 47th TMT conference at UBS. And our lunch keynote speaker, we are pleased to welcome Hans Vestberg, the Chairman and CEO of Verizon. Thanks for joining us today, Hans.

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

Thank you. It's not my 47th time, at least.

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**John Hodulik** - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

Yes. Much too young.

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

Yes. I want to go over this slide in detail. This is safe harbor. As you know, I can say something that can be forward-looking. So just remember that. Okay. Now, we can start.

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**John Hodulik** - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

A lot of forward-looking things to come I'm sure. So we've got about 35 minutes for Q&A here. And as always -- with the iPad here. So I'll work some of the questions into the discussion. If you guys download the app and send them in, we'll get that going.

## QUESTIONS AND ANSWERS

**John Hodulik** - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

So Hans, you've been CEO for about a year now. Give us your early impressions of the company, and maybe talk about how the -- Verizon is positioned as we look out in 2020?

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

As I started somewhere in August last year and of course, I have little time before that. We agreed as a team that we wanted to double down on our core asset, which is the network. We also wanted to make clear that there's coming a technology cycle, which is 5G, and we want to report on that growth. I think those were 2 important decisions we made in the company. And then we embarked on a transformation of 5 different things. And first, the network. That's one of the most important changes we have done. We built a virtualized intelligent edge network, which is basically,



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we took 4 different networks and we made 1. We'll come back to that many times certainly because that's part of our network service strategy that we built. That's not easy. Everything was divided wireline, wireless, but the team really are working hard to get that there.

Secondly, we've decided also on some process improvements. We wanted to see that we continue to be competitive. And since last year, 17,000 net employees have left the company.

We added on to make 1 brand. We say that wherever you're working in our company is trust and innovation which is our brand values. We continue to change the structure go-to-market. In order to use the network service and the 5G and the One Fiber we're building, we needed a totally new way of go-to-market. So that's why we had a Verizon consumer group, the Verizon Business Group and Verizon Media Group. And then a big change on the leadership team and the top 300 at the same time.

So if I look back then what we have achieved in last 12 months based on all those changes, after the third quarter, we had some of the best quarters performance-wise in the company's history both from operational metrics and financially. We have changed the reporting to the new structure. We have launched more 5G markets than anybody else. We have launched 5G Home. We have launched 5G Mobility. We have launched mobile edge compute last week and I guess we'll come back to it. We have kept the best 4G network in the market, winning even more RootMetrics, etc. And at the same time we also used the Network as a Service with exclusive deals with Disney+, Apple Music, AWS as recent as last week. So when I sum it up, the last 12 months, the team has performed enormously well in a time when we have changed more than we have done probably in the 19 years of our history. Because the company is turning 20 years next year. So I give a lot of credit to the team and we are doing this because we want to go along with our strategy, we want to stay very competitive in the market, and it's a new venue of growth that's coming with 5G. And that is what we've been doing.

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**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

That's a great summary. So I'm going to dig into each one of those components a little further on. But right now maybe talk briefly about the competitive environment you're seeing now. Verizon has clearly been a bit more aggressive now and you're seeing it in terms of the share gains we've recently seen. Can you talk a little about why that's happening now? And do you expect that to continue?

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

I don't think -- first of all, the competitive landscape, we talk more about wireless consumer right now. I think that first quarter will maybe was a little bit slower than normal. Second and third quarter, normal competitiveness in the market. I think what's happening to us is that as we came out from unlimited in third quarter 2017, second quarter 2017, we have actually built this model with our unlimited, our offerings in what you see as we come back to a growth trajectory. And our service revenue in wireless has been growing nicely in the last couple of quarters. The third quarter was our best quarter in 5 years, in third quarter when it comes to wireless adds but it comes and we have built a structure, how we can do it and my wireless team or my consumer team, they have now added in a lot of additions. And in August, we continue with our mix and match. Mix and match is our model where you as an account, as a family, you can have different models. You can have on metered plan, can have one on the highest unlimited, and the third one on the middle ground of the unlimited. That has, of course, created a possibility for us to move a lot of our subscribers from the metered plan to an unlimited. The importance of that is, of course, we want our customers to be able to enjoy the unlimited 5G to Disney+. Many -- almost 50% of our subscribers are still on metered plan and 50% is unlimited. So what you saw in August, when you claim we're aggressive, for us, it's our playbook that we have. And what -- how we are now built is that we are open up to unlimited to be able for the metered customers, to enjoy better performance and actually have a way to get in there.

So ultimately, when 5G comes, they can move up to that because the jump is too big right now from some of the metered plans to be a 5G customer. And we are, of course, preparing for that. So I don't -- the landscape is competitive. I think we have -- we know what we're doing. We have a model where we can continue to move customers in between metered, unlimited, add on acquisitions, strong offerings as well as loyalty sort of partnership like Disney+, et cetera.



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**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Right. And is there a trade-off? When we think about the subscriber growth that you've had and the better sort of service revenue growth, is there a trade-off when it comes to top line growth and margins that we should think about?

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

So one thing that was very important when I came in in and took over Verizon is that we tried to preserve a couple of characteristics of the company. One was operational excellence, but the other was financial discipline. And the financial discipline in this team, I think, is very good. So it's not by coincidence we're going to unlimited, and we're opening up unlimited. We see a value for our customers, but we also see a value for ourselves. I mean we're very disciplined when it comes to that. And that's sort of the genes and DNA of the company.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Got you. And then you touched on the improving service revenue growth. How does that look like going forward? I mean should we continue -- you're doing very well from a subscriber standpoint. ARPU trends are solid. Should we expect to see continued improvement in service revenue?

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

The only thing we have said is that, in fourth quarter, we will have a little higher service revenue growth than we have in previous quarter, which tells you a little bit. Going forward, I think we have enough things in our funnel for 4G continue. Because for us, it's important. Sometimes we talk so much about 5G, and we should do to about it. But at the moment, 4G is our base, and that's where we now are growing, which nobody believes we can do. So I think that the team has much more in the pipe to continue the revolution with mix and match personalization and bringing good applications and services to our customers.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

And lastly, on the competitive front, have you seen any dislocation in the first-responder market? You've got, obviously, AT&T out there, with FirstNet trying to drive some growth. Is that an issue or a potential source of churn for the company?

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

Sometimes, when we talk about the wireless growth, we forget our business side. Our business side has done terrific this year when it comes to wireless growth. Of course, when you're -- they're coming in, they're competing, we need to fight, but we have been there for a long time. We have a very reliable network. The performance is really good, ultimately, for the public sector and for these kinds of -- the most important is that the network is working. And if it's working, you stay with us. And then, of course, you need to compete. I mean this market is not without competition, but with all the transformation and improvements we're doing, we find new ways to compete every day.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Great. Let's talk a little bit about the Disney partnership.

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

Yes. That was 2 weeks ago, I think.



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**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Yes. Yes You guys have had a string of these. This sort of seems a big one. I'm a Disney+ customer through Verizon.

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

Oh, congratulations.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Thank you. It was very easy to sign up. And how do you expect this to sort of drive the financials over next few quarters? I mean what are the sort of financial implications, both maybe from a top line standpoint? And maybe if you can -- if there's anything you could say that puts some parameters on the cost?

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

I think we leave a little bit in history because people believe, okay, you're just reselling their service this is not about reselling the service. What we are offering -- Disney is the best network that can handle all the Disney+ traffic; number two, the best brand and the biggest distribution in the market. That's not for free. So they need to come in. On the other hand, they want enormous -- a lot with it. I cannot comment on our figures, they've commented on their figures. So stay away from that. We can only say that it's beyond our expectation, even though we had high expectation, how we'll perform. So for us, it's a business model that we are now developing with Apple Plus. We learned how many people would take the service and how many we can take the paying customers. The same goes with Disney+. So we get a good churn reduction in the beginning, new acquisition based on it. And then want you get paying customers, then we get money from that as well. So it's a new model in the market, so you need to understand that both Apple Music and Disney+ are exclusive deals only with Verizon, with us, and it's not like we are -- they are paying the normal. It's a business relationship, but they are gaining a lot, and we are gaining a lot.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Great. I also (inaudible) but are you seeing customers move into those higher ARPU plans or the unlimited plans? Because you're basically about half, right?

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

50/50.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Yes. Yes. Is that number starting to move up given the Disney+ promotion?

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

It's a little bit too early to give you any figures. I know I'm in the middle of the fourth quarter, and I see the safe harbor in front of me.



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**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Don't worry about it.

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

No worry. But again, it has exceeded our expectation, and it's 2-sided model. One is acquisition of new customers. Another is moving our customer from metered plans to go to unlimited because you need unlimited to add Disney+. So again, it plays to the model that we model out, already 2017. The difference is you start seeing us executing on it. We have built the network where we can handle all the traffic. We have built this personalization, and we know how to deal with great partners like Disney that has a great value for us. So that's why you see it -- come back. We're not aggressive. We're just executing on a strategy we've laid out for quite a long time ago.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Okay. Can you talk about the reorganization of the company under the Verizon 2.0 strategy? How far through the process are we? And what metrics should we focus on to see the success of this reorganization?

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

So the Verizon 2.0 isn't, if I call it an internal naming but the whole idea was, of course, to preserve a lot of great things. We're a fantastic company, transform certain and strengthening certain things. I think there's 3 things I would say that what you should look for. One, the Verizon Intelligent Edge Network, which is now a horizontal network where you look for the areas, of course, better return on investment on any network that you've ever seen. I mean that's a network of service that we have seen, our capital allocation. Actually, we're doing more than we ever done with our capital expenditures. And we're taking much of what is more because of the efficiency of it. So that's what you should look for there. The go-to-market with the Verizon Business Group, Consumer Group and the Verizon Media Group, what you should see there that we can do much more business. We should be able to grow on that. That's part of the long-term guidance we have for GDP-plus growth because suddenly, when I come with my whole business group, with all the assets behind it and talk to large customers, I can do so much more. And ultimately, the process improvement that I talked about is, of course, taking out cost. So we should be able to try to take out cost. So we stay competitive in this market and being able to actually take actions from a position of strength, not that we need to do it. We can do it. I think that's where you should look for Verizon 2.0. Capital improvement growth and ultimately, cost reductions. And hopefully, you're also going to get a better customer satisfaction. When I think about consumer as a segment, pieces of segment and media.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

How far through the cost-cutting are we at this point?

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

We have \$10 billion that we want to do. I think we're ahead of the plan. We're going to get to the target where -- setup of \$10 billion. So we had a sizable OpEx reduction in 2019 because of the voluntary reduction of 10,400 employees. We have transformation offices in all our organization to really see that we're efficient as possible. Because when 17,000 people leave a company of our size, then suddenly you find new ways to be more efficient when they are out. And that's what we're doing right now.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Got you. Maybe let's pivot a bit to 5G. Can you give us an update on -- you talked a little bit about coverage, how should we see Verizon's 5G coverage evolve as we look through 2020?



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

So as I said, in the beginning of the year, we have 4 business cases for 5G. We can -- the first one is the cost per bit is going down. Come back to that maybe later on. Then we have 5G Home. That was the first relaunch. And that's, of course, based on the grid that we do 5G Mobility, that's when you have a mobile phone and going around and moving around. So the 5G Mobility we have now launched in [18] (corrected by company after the call) cities. We're going for 30 by year-end. So we're a plan. We're on plan. The target is still 30 markets.

We build it first with millimeter wave in the dense urban areas because our 4G network is so good. So right now, to make coverage on that, it will be an inferior 5G experience. So that's why we focus so much on the dense urban areas in the beginning and all the stadiums we're doing. You will see us continue next year. And when the market is ready, we will also be ready with the coverage for the country. We just want to see that when we launch 5G coverage for the nation, it's going to be better than our 4G. We don't want to make a marketing thing here. For us, it's important. We sell the best-performing network. So one of the features we're going to use is dynamic spectrum sharing, which we're in the middle of the development right now, which basically for a layman is, you don't care what type of phones is in the network because you can then dynamically allocate within 4G and 5G. Today, if I'm going to run 5G on any spectrum, I need to dedicate the spectrum to those phones. That's very clunky when you're going to fall back, et cetera. So that's our plan for 5G mobility. So we're just going to continue to develop the ultra wideband -- 5G ultrawide band in all dense urban areas. And when the markets and the handsets is there, and we're going to turn on that in the national coverage as well.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Maybe spend a little bit of time on dynamic spectrum share. Where we are -- where are we in terms of the development of the technology? And I guess, the chip is available in the equipment at this point, but we're waiting for the handsets. I mean when -- is there any sort of milestones we should look for to get a sense for when that will be available?

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

I think the milestone was hit last week, where basically we now have this working. So Qualcomm, Ericsson, together with Verizon actually got the dynamic spectrum sharing working. When that's working, then you start replicating it. So what we believe is that we're going to have it in the first half of 2020. Then it's up for the commercial part of Verizon to decide when we launch it. That's how we work at Verizon. The technology enable new features, and then the commercial side decide this is the right time for us, how we compete in the marketplace.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

And again, you -- I think you need the DSS, both in the base stations and the equipment in the...

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

The base station is basically the software.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Okay, got you. And then the devices. Is the equipment that you're deploying now, DSS compatible so that when it's available, it'll be...

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

I think we had got that question before. I mean the majority of our basebands are 5G compatible. Of course, we have done refurbishment the last 2 years here, but the majority or there are, of course, always some legacy, but in general, our basebands are ready for 5G. Then we have deployed



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antennas because we went into millimeter wave, and you need an antenna on that frequency, but the baseband has been upgraded constantly the last 5 years.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

So when the DSS technology is available, it will be the situation where we go from 30 or whatever the number is in terms of 5G markets to a dramatically higher number? Or is there still work that would need to be done to get there?

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

Now we're asking very commercial decisive questions.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Okay. Okay.

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

I think you should expect what you should always expect from Verizon, the best network, good coverage, great performance. That's what you'd expect, but I will not get into how many cities or whatever. I know what you want it but...

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Okay. Okay. Sure, sure. We'll try.

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

That's what you should expect from us.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Okay. Maybe spectrum. Let's turn to spectrum before we look at some of the 5G use cases...

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

Take all the easy questions early on.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Yes. Exactly. Maybe some comments on your spectrum position. And C-band looks like whether it's been pushed out or not, we don't really know. The FCC wants to get an auction done before that, we're going to get CBRS in June. Talk about your spectrum position and what -- how you look at these extra -- these new bands coming to market?





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

For the 5-year strategy that we outlined in the beginning of the year with the 4 different business case. We have all the spectrum we need for that. The software is coming in, we're improving every day. So that's important. Then it's an ongoing auction that I saw clear that I cannot comment. There's an ongoing millimeter wave. So I cannot comment on that.

When it comes to the CBRS, we are already working on that. We think that's a good addition, again, taking capacity. The C-band, I think, most importantly, with the C-band, it's going to be a global spectrum and when you say global spectrum, you understand that all handsets, all equipment, all applications will be developed on that. So it's going to be enormous scale of economy. So for the nation of the United States, it's very important to be on that midband because suddenly, you are part of a bandwagon on the whole telecom industry or reducing prices of handsets, chipsets because that's how it works. And that's one of the few spectrums that are global, that's around the C-band, 3.7, 4.2. So I would say, from that point of view, it's important. And of course, for a leader in the market, for us, we are interested as well. So of course, we will do, as always, we look into the spectrum and see how that enhances us, and we think it's a good decision by the FCC to decide that now we're bringing this to the market, 2020. So we're going to support that, and we are going to be there and see how that will add to our portfolio. But clearly, C-band is important for the nation and for us as well. It's a good spectrum.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Got you. Okay. Maybe turning to the 4 business cases for 5G. You mentioned, we'll start with fixed wireless. Maybe with the latest on the progress. You've got a couple of test markets up and running. You're waiting for the...

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

Commercial markets.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Commercial markets. Okay.

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

The test markets, no.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Okay. Commercial market.

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

Test others are doing, we're doing commercial.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Commercial markets. But you're waiting for standards based CPE. Where are we in that process?



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

So we launched with our TF software first, which was a self-developed millimeter wave. We'll learn enormous lot of the propagation of the millimeter wave, how we do installation, how we do CPE. Somewhere in October, I think, we launched with a standard 5G software, NR, the next step, and that was with self setup, which means that we want our customers to order the equipment from the Verizon.com, bring it home, bring up your phone and then you actually provision yourself and you have 5G broadband. It's a totally new way of thinking from an experience point of view. So that is working. We're working. What we're waiting for right now is that the next generation of chipset coming in the second half of 2020, will be the base for our CPE -- next CPE because that has better coverage and can receive more better signals, which means that we can have bigger grids when we launch it. So that's when you're going to see us going hard on 5G Home. And wherever we build 5G Mobility, we can have 5G Home, that's really how it works.

So the team has been preparing itself for 1 year, building customer retention. What we've seen so far, we're going from only the majority, only sort of outdoor antennas. Now we have indoor antennas. The majority, when we install. The customers are taking the self setup themselves instead of having -- waiting for an installer coming on Thursday, between 9 and 5, they can do it themselves.

We still have a little bit too long time for my taste. I want to bring it down in time. So it's really short time, you can do the setup on, it's not comparable to get the cable installation that we are doing on Fios.

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**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

And you're having issues with the indoor antenna with a propagation, the millimeter...

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

No. It's more that the CPE we need right now with the right type of chipset that has a little bit better power output, and that's coming in the second half. So we have our target of 30 million households, that's still there. We have launched it 2017, I think. So a lot of work around the bridges, but we stay with our targets, and we deliver on them.

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**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Any sense on the time frame? Or sort of the speed of -- you get the new -- the next-gen CPE second half of next year? Is it -- you go to guns from there and you get to the 30 million?

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

Yes. That's where we start going from. And we have said that this is a 5- to 8-year deployment because it's pretty big what we are doing. So -- but think about Fios. Well, how many we're addressing there and how long that take. This is far quicker and, of course, addressing far many more households.

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**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Got you. And in the markets where you've got 5G Home, any reaction from the competitors? From the cable industry or any market dynamics you can talk about there in the...

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

You should probably ask them. But no, I think we're competing well. Our win share is good in this market. We are having high customer satisfaction. We're guaranteeing 300 megabits per second. The usage is several gigs a month, which is just enormous. So now we see good experience. We still have some work to be done, especially on the self setup. I said we probably are on a couple of hours, I want to be shorter than that. I want to have it to be totally unique experience. And if you have seen the devices, they are nice, they are cool, and then we can add on application on top of that. We started with YouTube Live or TV. You can think what are the things we have done. And then you have a single sign-on on Verizon. If you're a Verizon customer, we don't take the risk on the content, but you're part of something much bigger, and we give optionality for our customers.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

And then how should we think of pricing for this service versus what you -- what people are generally paying for cable these days?

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

I think we're going to be competitive.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Okay. Okay. Taking share? Okay.

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

No. Remember, the majority of the cost building broadband today is actually from the curb to the home and having the field operations coming out and doing it, that's the majority. We are trying to take that out of the equation. Basically from the curb, it's a radio signal and then the customer themselves are installing, that's the whole idea. Then they're going to be customers still saying that I don't want to install. Okay, we're going to have a service for that, but that's another service that you probably can -- you're prepared to pay for.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Okay. Great. Now let's move on to the mobile side, 5G Mobile. Going back years, when people upgraded their phones to LTE, it was a massive opportunity for Verizon to take share. And we saw that in the gross add numbers. Do you expect something similar as we transition to 5G with a potential 5G iPhone coming in the second half of the year?

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

I think it will matter the performance on the 5G network. I think that this market, of course, have a high degree of iOS users compared to Android. So of course, it's an important and pivotal time when Cupertino decides they're going to have a phone out. I think that the best network will have a huge possibility to gain some shares. And I said it before, I mean, in all the studies I have done in my life, that the first 24 months is basically where you can define the market share. After that, it's pretty static. So of course, we have high ambitions internally to see that we can do something in this moment. But you also have -- remember, we also have taking our customers from the metered to unlimited and moving up. So we have a twofold possibility. One, can we gain share; two, can we move our customers into higher-paying plans.



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**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Right. And from an ARPU standpoint, is that -- is the moving of plans the only driver from here? Or do you expect -- you guys experimented in Chicago and some of your early markets with a \$10 surcharge. Does that come back as these 5G iPhones come out? Or how do you expect -- is there -- where's -- is there an ARPU opportunity aside from these higher?

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

I think that initially, we have our line of moving. And remember, of the 50% being on unlimited, the majority on the lowest unlimited. The higher -- it's a small portion being on the higher, and those are enjoying 5G. So of course, moving them up, by definition, that's ARPU improvement for us. Then you can see new applications over time like VR, AR, super low latency where you can add in something and you can bring in something you're offering. That's a little bit too early to talk about, but definitely, in my head, I see a lot of those things, not only Disney+, a real application connected to the 5G phone, that combination can do something. So that's where we are with that. And I think we have a good model. We can replicate the model, adding on, moving them up in the stack and then adding the application on top of it.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

That's great. It's a great segue to number three, the enterprise side, and your announcement with AWS last week on mobile edge compute. Can you talk a little bit about maybe how this partnership came together and describe sort of what it does for Verizon in terms of capabilities as we look out to these -- the new applications that are going to be launched on 5G.

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

So this is -- was one of the first things I thought about in 5G, that was the 5G mobile edge compute because certain things -- for the performance of 5G with enormous low latency, enormous throughput, higher security at the edges. I realize that if you can establish a cloud business at the edge, you can actually get a new way of performing on the cloud. Starting talking to the normal suspects because we decided we are not a cloud company, we're not going to build that. Amazon, very, very progressive, have built a new software called Wavelength, which they launched last week. That Wavelength is supported and on this data center sitting on Verizon's real estate. That's what is the 5G mobile edge compute. Right now, we do 5G mobile edge compute for the public. That means that if you're a developer on Amazon's system, you log into amazon.com or whatever it's called, and you click on Verizon edge, Verizon 5G edge. And then you can start developing, getting latencies down to 20 milliseconds. The first site was in Chicago. And Bethesda was one of the first customer, which is a gaming company with enormously lot of graphics. They cannot have their games on 4G because it's too much latency and throughput is too low. They can do it on 5G mobile edge compute, just to understand. So suddenly, they have the 5G phone, and they can run it on a 5G phone. So in the 2020, we're going to open more centers because the distance to the user and the application developer is important. So we're going to open much more mobile edge compute centers together with Amazon during next year or in our premises.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

So this is AWS putting infrastructure in your cell sites or aggregation points? I mean are we talking dozens, hundreds or how many? How...

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

It's going to be many.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Got you. Okay. All right. We'll take it.



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

Yes. And important is, again, it's a win-win. They cannot get their developers to get 5G compute and storage with the low latency, et cetera, if they don't work with a virtualized network of Verizon. So Verizon has worked to build a virtualized network at these edges, then we have Amazon, and then we have a glue in between. So the developers can come in on top of it and actually develop services. That's how sophisticated this is, and it's clearly the first in the world.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

And we've got one example, like you said, this gaming company. So I'm just trying to think from a commercial relationship standpoint or that -- or even a consumer relationship. So these app developers come in, use the infrastructure and they go-to-market and say, "Hey, use our 5G gaming service, but to do so, you got to be on Verizon," and that drives subscribers.

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

Yes. That's one. The other is that if they use the cloud, they pay for using the cloud. And again, it's a partnership.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

So you will get some revenue, potentially a revenue share based on that?

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

Yes. I sound like a parrot, but again, we have the network, we have the distribution around the brand. They don't have these 3 in this 5G space. So of course, they have cloud, they have all the developers. That's what came together, and we can now develop new service together. So it's win-win for both. We are getting revenue where we've never had before, based on the infrastructure, we are already building, they are getting new performance cloud processing application out to their, and that's public. Then it's private 5G edge compute, where you're basically could do this for an enterprise. You do this for an enterprise. You do a private 5G network with compute and storage. And then it's an enterprise relationship between us or anybody else.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Got you. So talk a little bit about timing. I mean how quickly will they deploy all this infrastructure? And then how quickly do you expect these new applications on the public side to be rolled out?

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

The public side is going to roll out. So there, we're going to see how quickly the developer market is doing it, and it's going to go hand-in-hand with handsets. On the enterprise side, we're already in discussion with basically all top companies in this country. The difference there is that they already have infrastructure. So if you talk to a company and have a lot of manufacturing, they see a huge potential of having the robotics having 5G in them, and you actually coordinate the whole factory with 5G instead of Wi-Fi or cables. But of course, they have it. So they need to transform that today. So the early use case that we see is manufacturing, retail, healthcare, all of them need security, enormous throughput and low latency for private 5G. Then finance and all of them are there as well. But -- so that's why we said that meaningful revenues for us in 2022 on the mobile edge compute.



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**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

And we'll see rapid deployment of the AWS infrastructure throughout your network between now and then?

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

For the public, yes.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

For the public side.

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

For the private, we can deploy it for any public -- private whatever they are.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Got you. And then the last business case for the 5G is the improving cost structure you mentioned it a little bit earlier. Can you give us a sense for what type of magnitude you expect? And is the rest of the network in place to harvest those benefits because, obviously, it's not just the RF that we have to worry about, it's everything behind it, too.

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

No. I think what we have transformed is to a unified network. So we have a unified transport. We have 1 core network with redundancy instead of 4. So of course, a lot of that has been planned all the way from the data center to the access point. We want to have commonality of all the equipment and how deal with it. We are 60% through that, and that's why we see so much efficiency in our CapEx. At the edge of it, as you're right, there we're going to decide what the customer -- what type of access the customer want to have. Some are at 5G, some is 4G, some is fiber, et cetera. And that's the whole sort of transformation we're doing on the network and in order to gain those efficiencies, but ultimately being able to give new service to our customer. And then we have the go-to-market on top of that, that is supporting that type of go to market. So that's how we're building it right now. And of course, by that, you take down the cost per bit, all the way from the data center to the edge. And then every new technology 3G -- 4G was better than 3G to handle data traffic. Of course, millimeter wave that has so much capacity handling so much more data per bit and the cost of it is going down as well.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Got you. Maybe moving back a little bit towards the competitive standpoint. The -- talk a little bit about the cable MVNO, has that -- can you talk about what the kind of impact -- is it affecting the retail business at all in terms of your ability to sell postpaid ads? And then also maybe competition for that, is that -- it sounds like AT&T has excess capacity to be interested in also serving those competitors? How should we think of the MVNO as part of your business model?

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

First of all, the business model is network of service. That means that I want to have the best return on my network. And that was one of the reason of the reorganization, what we did. So of course, we have our own business running on it. We have some prepaid MVNOs. We have the MVNOs with Comcast and Charter. All of them are extremely important customers to us. We deal with them as enterprises, large enterprise customers. We have a key account. We work with them. And the market is quite dynamic, so changes are happening all the time. So you need to be attentive with



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our customers, which are MVNOs all the time to see what you need to amend and change. So we're doing that. I think that the best network is important here when you're using an MVNO. Of course, price is always important, but it's not the only driver here. So we have a good relationship, and we're happy with the relationship. We continue to work hard to keep our customers happy. If it's a large enterprise or an MVNO, doesn't really matter.

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**John Hodulik** - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*  
Got you. And you've mentioned CapEx efficiency a couple of times during the presentation here...

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

I like that.

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**John Hodulik** - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*  
And in 2019, you're going to be at the low end of the range. First of all, what's driving that? And then what should we think about capital intensity going forward?

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

So what's driving the lower -- that will come to a lower range is basically that the efficiencies that we're getting from the whole total new structure, both of how we build the network as well as the process we have for capital allocation. We are doing everything we want to do and more. We usually end our capital meetings, which we have once a month, we ask our CTO, can you take \$1 billion more, and he cannot. That's basically how efficient this has become -- there's no more deployment we need to do. We're doing everything. If we find opportunities that, hey, we can move in more capital here, we would do it, for sure. But right now, we are in the range we think we can do. We do -- we said, in October, we did 1,900 route miles of fiber in the month of October. So just imagine, the speed we have in the fiber build. At the same time, we do 5G build. At the same time, we do more capacity on 4G to handle Disney+ and other things as well as then harmonizing the whole network on the data center of access. So tremendous work in the whole technology side, and they are doing that efficiently. And we are not holding back on anything. It's more the efficiency we're getting right now.

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**John Hodulik** - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*  
So how long -- I mean you definitely have the pedal to the metal when it comes to fiber deployment. You've got to deal with Corning. How many years do you push at this rate? Is this a 2-year plan? Or is this a 5- or 10-year plan?

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

I think that we're now more at a level that we think is more than reasonable. It's probably the biggest single construction program in the U.S. right now. So we think this is a good level for us. It's going to take some time because we have 3 business case with that as well. First is, to all our sites, we're putting fiber. If we're leasing it, we are changing them out and building our own, for all new 5G sites, it's a fiber. At the same time, we have our enterprise customers where we can substitute our own leased line. And then in the third case, it's new customers using the fiber. And it's the same fiber rings we're doing. So right now, we're most focused on the wireless network to see that is fully wireless and fiber enabled because that's what we need for 5G. So I think that we have been on this level now for a while. I think this is the level we're going to have for a while more but...



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**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

For long, for many years to come.

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

Not many years, but a couple of years more, at least, but it's embedded in our CapEx, it's nothing new. No spikes.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Got it. Okay. Let's talk a little bit along with CapEx or about -- a little deeper in the capital allocation. First of all, the leverage has been coming down. You're generating a lot of cash. Looks like CapEx is as high as going to be. We talked a little bit about the auctions, potentially. As we look out into 2021, how should we think about uses of cash and potential returns to shareholders?

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

So the capital allocation we have in order of priority. Number one, we invest in the network in our business. That means CapEx and whatever tuck-ins we might need from an acquisition point of view, not been many lately to be honest, might show up. Number two, we want to put our board in a position to continue to have the journey of a dividend increase, we're 13 years of increased dividend. We want to put them in that position. And lastly, we have a commitment to the market and to our stakeholders to get back to pre-Vodafone leverage as well as ratings. We're almost there, should be between 2 and 1.75 on unsecured debt to EBITDA. We're a little bit above 2. We want to be consistently in there. And when we are there, we have a discussion. But again, I will always to the prioritization in that. So if I find something for the CapEx or I need to invest, then that comes first. But there is no plan to have a growing balance sheet or something. But on the other hand, there's also opportunity in the market over time that might be important for us to be part of.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Right. And maybe quickly on M&A. You guys have recently been sellers of some assets on the Verizon Media side. Is there any other -- is there more to come there? And maybe, we haven't touched on it, because it's a very small portion of the business, but what's our -- how should we think of Verizon Media?

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

No. I think Verizon Media Group is starting to get really where I wanted to have it. There were certain assets we didn't want to have in the portfolio, didn't resonate with our brand values. We have sold them off. I think that Guru and his team has gone from double-digit declines every quarter and have been every quarter improving. Yahoo Sport, Yahoo Finance doing well, our advertising platform, I think is really starting to hit off, which is different than all others, it's smaller, but we can also customize much more. So we learn a lot. We do a lot of 5G content development with them. They have a -- they are, of course, totally ingrained when it comes to IT and network, and then AI resources is fluid in between my network and with Verizon Media Group and business and consumer group. So I think we've come to a moment where we feel good about that asset. We just need to execute on it right now.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Okay. Well, let's leave it there. Thanks for joining us today, Hans.





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

Thank you.

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