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PRESENTATION

Kannan Venkateshwar - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

All right. Well, good morning, everybody, and welcome to today's session with Verizon. My name is Kannan Venkateshwar, and I cover the North American Cable, Telecom and Media sectors at Barclays. Very happy this morning to have with us Verizon CFO, Matthew Ellis.

Matt, welcome. Thanks for being with us this morning.

Matt Ellis - *Verizon Communications Inc. - Executive VP & CFO*

Thanks, Kannan. Good morning, everyone, and thank you for having us. And just briefly, you see on the screen there, we have the safe harbor statement, also available in our SEC filings and on our Investor Relations website. So I'm assuming we might make 1 or 2 forward-looking statements this morning.

QUESTIONS AND ANSWERS

Kannan Venkateshwar - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

All right. So Matt, if you could just start off broadly with the subscriber growth trends. Obviously, the industry has seen a lot of strength last quarter, which was obviously great but and the lower -- low churn as a tailwind combined with pent-up demand from earlier in the year potentially.

But Q4 seems to look slightly different. You do have the Disney+ promos lapping, COVID concerns seem to be intensifying around the holidays. So could you just help us think through how trends are looking in the current quarter? And how you get to that 2% service growth algorithm?

Matt Ellis - *Verizon Communications Inc. - Executive VP & CFO*

Yes. Yes, certain, it's just -- it's a continuation of the things we've been doing for a few years now, the combination of the best network experience with bringing the right offers to customers and consumers. And in terms of the 2% service revenue growth, if you think back prior to COVID, we were already on that path. That started in 2018. Last year, we were over 3% service revenue growth. And then, of course, COVID came along. And certainly, in the second quarter of this year, we had the most significant drop down. We were down 1.7% year-over-year in 2Q. In the third quarter, we started to see some of those revenue streams come back as you think about usage fees and whatnot. Of course, international roaming has not started bouncing back at all and probably will not for some time period.

But so when you add that in, you started to see that return in momentum. And really, the 2% in the fourth quarter, it's really a reflection of the strategy, where we have this network-as-a-service strategy. And then we've talked about these 5 vectors of growth. And really, 3 of those 5 are impacting the wireless service revenue when you think about it. And it starts with 5G adoption. We now have the -- all 4 of the new Apple devices with the millimeter wave in. And you only get access to our ultra-wideband network when you step up to the premium tiers of unlimited, and we've seen lots of good step-ups into that.

Over half of our new accounts that came in unlimited in the third quarter came in on those premium tiers. So that's driving some of the ARPU accretion. And then you add that into a couple of the other vectors of growth. Firstly, the -- we talk about monetizing the network and the work we do with our MVNO partners. We continue to see good growth there. But more importantly is our focus on customer differentiation when we bring the right packages to customers. And we do that through the different tiers on unlimited we've created.

And we put the right experience in some of those upper tiers. We're seeing great customer interaction with those, whether that be the Disney+ bundle. With obviously, we've got the one with Discovery that we announced last week that we'll launch in January, what we've done with Apple Music. Those types of things are giving customers a reason not just to have the best network experience but also the best user experiences when they're a Verizon customer. And we're seeing that give us the opportunity to continue to move the ARPA in a positive direction. So very proud of the work the team has done through the course of this year to get us back to service revenue growth in the third quarter and then in a position to expand on that in the fourth quarter.

Kannan Venkateshwar - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

Great. From a subscriber trend line perspective, when you think about the competitive environment right now, obviously, you have some aggressive handset promotions and you did have some tailwind from some of the content deals, which appear to be lapping.

So when you think about Q4 and maybe even heading into next year, does the holiday season this year look different versus prior years when it comes to net additions or is it more or less the same? And how much of a tailwind has something like Disney+ been with respect to either gross adds or churn reduction broadly?

Matt Ellis - *Verizon Communications Inc. - Executive VP & CFO*

Yes. It's certainly been a beneficiary to both gross adds and to churn. I mean, certainly, it makes the offer upfront to a customer coming in the door more appealing. And then on the churn side, it's just another reason for customers to stay with the best network, which they have historically done, and you see that in the numbers quarter after quarter. So look, I think the shape of fourth quarter this year is different than a number of prior years. Obviously, the timing of the launch of the iPhones was a little different this year. So you've got that factor that will be in the fourth quarter. And then Hans made some comments earlier this week about the reflected -- the fact we're seeing a smaller switcher pool right now than we've seen in a lot of recent holiday seasons.

So I think a couple of main reasons. One is just the environment we're in. People aren't going to the high street or the shopping mall as much as they would in the typical holiday season. That certainly affects foot traffic there and the size of the switcher pool. And then you have the fact that, I think, the industry has maybe pivoted where some of its promotional offers are aimed instead of being aimed at bringing new customers in to their base is maybe kind of keeping their existing customers within their base.

But net-net, I think we are competing very effectively in the market this quarter. The switcher pool is a little smaller than it has been in prior years, but I think we are performing well in that environment. And we continue to see our fair share of gross adds, and we continue to see us do very well on the churn side as well. I'd say when you bring the right -- the best network experience, you bring the right value proposition to customers with that, it puts us in a great place to be successful irrespective of how the rest of the market is shaping up.

Kannan Venkateshwar - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

Got it. And on the business side, I think partly because of the tailwind from government and education, it's also been strong in recent quarters. And this could partly be on account of COVID, but could you help us think through the sustainability of the momentum on this front and the components of growth on the business front?

Matt Ellis - *Verizon Communications Inc. - Executive VP & CFO*

Yes. Certainly, within the wireless side of our business segment, we've been seeing good growth coming in. And we were at 6%, 7% [pre-pandemic] (added by the company after the call) growth in the business segment last year on the wireless side. And I think that was one of the things that surprised people a little bit. When we went to the new organization structure and we broke wireless between business and consumer, the growth rate in business was actually higher than consumer. And so that's been something that we had coming into COVID. Certainly, the public sector side, as you mentioned, especially the education piece has seen some tailwinds at the moment. That's been offset by a little bit, what's been going on our small-medium business part of our business segment. Obviously, a lot of small businesses have been hurt during the course of the pandemic. And so you've got a little bit of an offset there.

But the other pieces as you think about our business segment, as you think about it going forward, again, it comes back to those vectors of growth that we've talked about. 5G being an important part of that. We obviously talk a lot about that in the consumer space. But remember, 5G was designed to bring business applications into the wireless ecosystem in a way the prior generations of wireless technology never allowed. And so you're seeing that, and that's why we see one of our vectors of growth is really about bringing those next-generation B2B applications to our business customers, whether that's through working together with partners like AWS and Microsoft and others to bring mobile edge compute to our customers or whether it's bringing -- the acquisition we did with BlueJeans, enhancing the totality of the products and services we offer to our customers. I think there's -- we are optimistic about the -- where we position to serve our business customers into 2021 and beyond.

Kannan Venkateshwar - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

Got it. And just a follow-up on that, I guess, when you look at some of these new opportunities like mobile edge compute and the partnerships that you refer to, what is the time line around some of these opportunities scaling? And what do these partnerships really look like from a monetization perspective? Is this more driven by data volumes or processing capacity? And what's the kind of network arrangements between you and AWS, for instance, which allows us to scale from your perspective?

Matt Ellis - *Verizon Communications Inc. - Executive VP & CFO*

Yes. Yes, it's really a case of 1 plus 1 equaling something greater than 2. In terms of what we bring to the partnership, what they bring to the partnership is going to allow both of us to get revenue streams that would have taken us a lot longer to develop on an individual basis and maybe we'd never have got to the same type of levels as we can together. So we're looking forward to the partnership there, sharing in the revenues that we create there. From a timing standpoint, we are seeing incredible engagement with our business customers across every industry vertical, understanding what 5G mobile edge compute, the other currencies of 5G mean to their operations.

And when we talk about bringing wireless to our business customers, this is more than just giving their employees a smartphone. This is actually wireless being part of the core operations of their business. And there's a tremendous amount of work going on there. The enthusiasm from our business customers is as high as it's ever been. A lot of good use cases being developed together. As we've said before, we already see it's really '22. We'll start to see some revenues in '21, but really we don't expect scaling up those revenues on the business side until you get into '22. But the team has made a lot of good progress this year. We already launched 8 of those mobile edge compute centers, on track to have all 10 done by the end of the year. And so we're excited about the future there in the B2B space.

Kannan Venkateshwar - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

Got it. The other side that you surprised us on is cost performance to some extent. And it's been a notable standout, not just this year, but also, to some extent, last year. And I think on the SG&A side as well, despite the addition of things like Disney+ and Hulu and ESPN, you've done better than most folks expected. So how much of this is on account of COVID? And as the operating environment normalizes, should we expect the cost performance trend also to shift? And what are the potential offsets to these tailwinds, both in the consumer and the business side?

Matt Ellis - *Verizon Communications Inc. - Executive VP & CFO*

Yes. Yes. I am very optimistic they will continue. And so -- I'd say there's some pluses and minuses on the cost line from COVID. I mean certainly, things like travel have been a tailwind. But then the other direction, you've had the disruption to our stores and our employee base and some of the things we've done there to support our agent partners and so on. So there's puts and takes from the COVID impact side of things. So this is something we've been working on for a number of years now. And we've talked about our 4-year goal of taking out $10 billion of cash outflows on a cumulative basis, where -- we started that in 2018. We've got another year and a bit to go, already over $8 billion, I think, $8.3 billion at the end of the third quarter. So we're well on track to doing that. But we're not going to stop once we've hit that goal. I mean -- and this is just important as we run the business on a day-to-day basis is we're constantly looking at how do we do it more efficiently. How do we improve the customer experience? How do we improve the employee experience by making it easier to do the work that we do.

And then as we do that -- the reason it's so important, apart from just saving money, which as a CFO, of course, I like, it gives us the resources -- back to our last topic we were discussing, as you think about developing things like MEC and working with new partners there. If you save money in the core operations, you've now got the opportunity to reinvest that in the things that are going to provide that future growth. So it's part of being a sustainable organization. We're constantly looking for the cost savings. We've made great progress this year, great progress over the past few years. We're going to meet that $10 billion goal, but that doesn't mean we stop. I mean this is just part of what we do is -- at the same time, providing the best experience to our customers, also making sure that our financial performance is as strong as it could be.

Kannan Venkateshwar - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

Got it. And I guess on the cost side, one of the remarkable things this year has been that bad debts across the industry, both in telecom and cable for that matter, are actually lower than last year despite the macro headwinds. And when we are -- last year, we were actually in a stronger growth environment and you also had some accounting changes which would potentially have pushed up bad debts this year, but that doesn't seem to have happened. So the organic bad debt number, in other words, is actually much lower than in a normal environment. Is this because of some of the lagged impact from stimulus? Or is this because of some structural components which may persist in future years? I mean how do you expect this to impact costs as you go forward?

Matt Ellis - *Verizon Communications Inc. - Executive VP & CFO*

Yes. Look, certainly, we've been very focused on everything that drives churn and that includes bad debt. And when you look at the bad debt out there, I think what you see right now, not just in our numbers, but as you say, across the industry, is a reflection of the prioritization of where people put their cell phone bill in their order of priorities, and so that applies to everyone in the space. But then as I think about the experience that we're having, a couple of things. One, we have a great process. Our collections team has been doing this for many, many years. If, as a customer, you want to continue to be a Verizon customer and you're making good faith efforts to try to do so, even while you may be having some payment difficulties, we have a very good process for helping you stay a Verizon customer even as going through those circumstances.

And then we have the, we think, the highest quality base of customers in the industry, too, and that really shows up during a time like this. So I'm grateful to see the results that we've had in this space. I'm not completely surprised. It's something we continue to pay very close attention to, obviously, as the macro environment here continues to evolve and develop. And certainly, the next few weeks look like the couple of months are going to be very tough here in the United States. But we're very happy with the performance of the base. And I say, it's a reflection of the work that we do and a reflection of the value of the service we provide to people.

Kannan Venkateshwar - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

Got it. And I guess another tool in your toolkit is the prepaid market with the acquisition of TracFone, and you guys have been talking about this deal having been in the pipeline even prior to COVID. So what made you think about a more direct approach to the market instead of the wholesale approach?

Matt Ellis - *Verizon Communications Inc. - Executive VP & CFO*

Yes. Yes. So it really comes back again to the network-as-a-service model and those 5 vectors of growth. One of those is -- those 5 vectors is new markets. And as we've looked at a new market -- obviously, you've got a network that serves the whole country. But then you start to see the customer base to start to go into different segments. And prepaid was one of those that we've looked at and said, we really don't have the presence here that we should have, and TracFone was a great way for us to address that. They've done a tremendous job. We look forward to closing that transaction and then bring in more of the Verizon products and services and experiences to that customer base and given us the opportunity to grow within the U.S. market across all the different segments, whether that's in the postpaid segment, the prepaid segment, the wholesale segment, we put ourselves in a position where we can provide growth across all of them.

Kannan Venkateshwar - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

Got it. I guess the other component of the MVNO business is the cable MVNO deals that you guys have. But this was -- these deals were structured in a very different environment for wireless. And based on some of the comments Ronan made recently at the Investor Day, it seems like there have been some changes to the deal framework. So could you help us think through what these changes look like? And licensing the business to cable -- licensing a network to cable company seems like a very delicate balance as these companies scale and growth becomes more of a zero-sum game. So could you also talk about why this is a good place to be longer term? And how do you balance that equation?

Matt Ellis - *Verizon Communications Inc. - Executive VP & CFO*

Yes. So look, as we've looked at it, we've been partnered with MVNOs for many, many years now. And the deal with the cable companies is no different. All of our MVNO relationships have evolved over time. They have to evolve over time because the market evolves over time. But our offering to consumers evolved over the time, too, right? We used to charge customers for number of call minutes and number of texts they send, not too many years ago, right? So all of our offerings with our customers evolved and it was going on in the marketplace. Our arrangements with TracFone have evolved many, many times over the years.

So the amendment with the cable companies is nothing different in that sense. And it reflects just how the market continues to move. If they wish to offer a mobile service to their customers, we would -- our preference is they do that on our network. They're doing that. It's -- and certainly, it's a revenue stream that we -- as you say, we much rather have on our network than be on somebody else's.

So -- but we view our wholesale customers the same as all our other customers, whether it's a consumer, whether it's a small business and enterprise customer. If we bring them the best network experience, we bring them the best customer experience, we have a relationship that has longevity to it and has value for both parties in that relationship. So we're happy to compete with them for the ultimate customer. We think we could do that effectively. But we're also happy to be the network that they rely on for the service they provide to. So we think there's a win-win relationship in there.

Kannan Venkateshwar - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

Got it. And I mean this might be a bit of a network question, but I definitely want to get your perspective on it. And to follow-up on the cable relationship, as you densify your network build and, obviously, you've been investing a lot in fiber, there's obviously the opportunity to partner with cable companies who have a build-out infrastructure within their footprints. Has this been a train of thought at Verizon at all in terms of becoming -- the relationship becoming a bit more symmetrical?

Matt Ellis - *Verizon Communications Inc. - Executive VP & CFO*

Yes. Look, we've always been open to any conversation, but we've not really seen a model that works here in the U.S. around that type of approach. We'll certainly never say no to looking at anything. But at this point in time, we see it's very difficult for the economics to work in that type of arrangement.

Kannan Venkateshwar - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

Got it. And from a growth perspective, I guess the low churn environment, like you mentioned earlier, the switcher pool is low, and that helps to some extent. But penetration rates are obviously at the 120% plus levels right now. So how does postpaid unit growth across the industry sustain at the same pace without margin pressure? Or 2 components, when you look at your revenue mix, whether it is wholesale from cable or fixed wireless or maybe some of the newer currencies that you guys are working on with respect to edge compute, do they become a bigger part of your service revenue mix going forward rather than the unit growth dynamic we've seen recently?

Matt Ellis - *Verizon Communications Inc. - Executive VP & CFO*

That should absolutely, I think so, and that's one of the great things as we move into 5G is the ability to generate multiple revenue streams off of that network unlike prior generations where it was pretty much just the mobility stream. So obviously, mobility will continue to be an incredibly strong part of our revenue stream, and it's important that we have postpaid customers there. We bring the right value proposition to them, we continue to enhance that. And so I expect that to continue to grow. But then you layer it on what we're able to do with fixed wireless access, with the B2B applications that we've discussed. And I think that gives us incremental ways for growth that we didn't have in 4G and 3G, for example.

So we're excited about that opportunity as we think about revenue growth into the future here. And the fact that we have those multiple streams and not just relying purely on mobility. And that's not to say that we don't see tremendous growth in mobility still. When we bring the right value propositions to the customer, we see the impact we get. We see that in the numbers we have right now, especially within our base of customer, been able to grow the value of that relationship with them. So you bring all of those things together, and I think we have a good path for revenue growth as we go forward here.

Kannan Venkateshwar - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

Got it. And I guess one of the other newer components of your growth are these media deals with Discovery being the latest. But what's interesting about these deals in my view is that for the first time since the iPhone came out, the application providers are now coming to telecom companies for distribution, right? And so to some extent, you're getting back some of the control on -- in the application ecosystem. But as this proliferates -- I mean we are obviously going to see a continuation of these new product releases. As these products proliferate, is there a different monetization model, like maybe the app store?

And this is also in the 5G context, where there are other applications which might become more relevant over time beyond streaming, where you might potentially get paid a distribution fee or a share in the revenues generated by a given application. So is this the monetization model -- what we see today, is this the monetization model you guys have in mind longer term or are there other models that you guys are thinking about as this evolves?

Matt Ellis - *Verizon Communications Inc. - Executive VP & CFO*

Yes, I think depending on the space you're in, there's many different models that could evolve. But as you look at the content piece, this is really about how do we bring -- we already bring customers the best-in-class network experience. And how do we supplement that with some of the best-in-class usage experiences. And so what we have is, given the size of the base we have, one of the largest direct-to-consumer brands in the country and with very strong brand recognition, that makes us an attractive company to partner with. And so we're not looking to build something here for customers where every single content application is available there. This is about really finding those best-in-class ones.

So you think about Disney and everything they have from a curated content standpoint. You think about what Discovery has, best-in-class on the nonscripted formats and so on. You think about Apple Music there on the music side. We're not -- we're going to bring the best experiences to our customers that really provide some of that differentiation that allows us to help customers see the value in stepping up their relationship with Verizon. And it is a great way for us to continue to add value and monetize. So that works here in the consumer space. That will continue to evolve.

And then I think as you get into some of the B2B spaces as well, as you see what we're doing with AWS and Microsoft and others, there's other opportunities for there to grow revenue streams in a different way than we have in the past. And I'm assuming there'll be additional models as well that come along. So that's why I get excited about where I see our ability to grow the revenue and profitability of the company as we go forward here. When you bring the size and scale that we have, we're a partner that other people want to work with. And that brings tremendous opportunities for us to be a win-win-win, a win for us, a win for our partner and a win for the end consumer.

Kannan Venkateshwar - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

Got it. I think we are almost out of time. So 1 last question from me and -- would be, when you look at the global telecom space right now, you have Facebook and Amazon taking stakes in telecom companies outside the U.S. Of course, there is Rakuten in Japan building out its own network. Do you think some of these structures could spill over into the U.S. at some point, especially as things like edge compute become more real?

Matt Ellis - *Verizon Communications Inc. - Executive VP & CFO*

Yes. It's interesting. I think when you look at 5G and the Eight Currencies there, I think people are looking to the use cases on 5G. But I think every market is different. Obviously, what you've seen some of the companies do in, whether it's India or Japan, as a couple of you mentioned there, have very specific factors around them. But again, I come back to what we're talking about the last question. Because of the size of the customer base we have, the high-quality customer base we have, that makes us an interesting partner for people to work with.

So we're talking -- we're prepared to discuss opportunities with anyone here that we think brings value to Verizon as well. We'll have to wait and see if those types of things come to the U.S. market. I think the U.S. market is a different play. So you'll see it play out differently. But I think this is the tremendous opportunity that 5G is bringing. It's going to scale. It's going to bring lots of new use cases. And people are trying to figure out the best way to participate in that. A great start in place though is being the provider of that network and those best-in-class use cases, I think it puts us in a tremendous position to be successful in the 5G period.

Kannan Venkateshwar - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

Got it. That's all we have time for today, Matt. Thanks so much for joining us this morning. This was very helpful.

Matt Ellis - *Verizon Communications Inc. - Executive VP & CFO*

Kannan, thank you for the time. Appreciate everyone out there who is listening, and look forward to seeing people soon.

Kannan Venkateshwar - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

Thank you. Bye, Matt.

Matt Ellis - *Verizon Communications Inc. - Executive VP & CFO*

Thank you.