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EDITED TRANSCRIPT

VZ.N - Verizon Communications Inc. at Credit Suisse Communications Conference (Virtual)

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Doug Mitchelson *Crédit Suisse AG, Research Division - MD*

PRESENTATION

Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

Great. Welcome to our next keynote presentation at the 23rd Annual Credit Suisse Communications Conference. I'm Doug Mitchelson, the media and cable satellite and telecom analyst here at Credit Suisse. Very pleased to have with us today Matt Ellis, Chief Financial Officer of Verizon Communications. Matt, thanks so much for joining us today.

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

Doug, thank you for having me, and I look forward to the conversation today. And obviously, just before we get started, I would draw everyone's attention to our safe harbor statement that can be found on our -- in our SEC filings and on our Investor Relations website.

QUESTIONS AND ANSWERS

Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

Great. So with that exciting start. Let's -- in 2021, a big year for Verizon and the whole industry, C-band auction, the 3.45 is coming up, sale of Verizon Media Group interest. What's the common thread in these actions? How would Verizon at year-end look and be different from the company that came into the year?

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

Yes. Yes. Great question, Doug. And so I think really what you're starting to see is proof points for the Network-as-a-Service strategy you've heard us talk about for the last 2, 3 years, and we've been very consistent about that. And what you've seen is the actions we've taken have been very consistent with that strategy. And that obviously starts with spectrum, C-Band, by far, the biggest thing. But obviously, even if you think about the actions prior to that CBRS and millimeter wave and so on. But C-band really allows us to amplify and accelerate our 5G strategy as we go forward here. So we've spoken a lot about that. I'm sure we'll talk a little bit more today as well, but that was a huge piece to get started on.

And then Verizon Media. The team now has made a fantastic job over the past 2 or 3 years now, have taken the set of assets there and really getting that into a business that can compete in that marketplace. But going forward, it gives us the opportunity to focus more on the Network-as-a-Service strategy and then even other activities we've taken, and we've got pending transactions, Obviously, we hope the pending transaction of Verizon Media closes by the end of the year. We've got the pending transaction on TracFone that we hope to close by the end of the year as well.

So what you've seen is the Network-as-a-Service strategy being executed here in all the moves that we've -- we're making. And as we think about where we'll be at the end of the year, just even stronger position and the great place we were at at the start of the year.

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Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

It's interesting around you, T-Mobile-Sprint merger AT&T (inaudible) yourself as a pure-play telco and increasing its midterm CapEx to $24 billion a year, the advent of 5G marketing. Your competitors seem to be targeting network quality, historically, a key brand differentiator for Verizon. What do you see as the [preferable] Verizon advantages in wireless? What does management have to execute on to build or sustain these advantages with this backdrop?

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

Yes. Yes. Well, it's no secret that everyone else, as you say, is targeting on network, but it's something they've been doing for a number of years, and we consistently outperform. And when you look at the third-party surveys time and time again, we continue to accelerate the development of our network such that we continue to be the leader in that space. We will continue to be the leader in that space. As we've said before, we're not just building 5G, we got 5G built right. That means building it in a way that delivers all of the promise of 5G. And we're very confident that because of the assets we've put together and the way the team's deploying it, we're in a great shape there.

And then I think you may have had Ronan here last year, and I know what Ronan was saying was not just better on Verizon the network component. But better with Verizon because of everything we're bringing in to our consumers as part of the value proposition they get. So when you bring the combination with the best network experience with the best partnerships and so on, we think we'll continue to have a very strong value proposition.

Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

And I wanted to take (inaudible) the current competitive environment as well as the structural competitive environment. You launched a new promotion that certainly seems more aggressive. And what's the rationale behind the change, what type of activity you've been seeing for the promotion so far and, in fact, for the full quarter as well, if you want to offer that? And would you characterize the recent shift to a more aggressive base retention as a defensive move or an offensive move?

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

Yes. And if I could, I wouldn't have characterized it as either. This is really part of us continuing to execute on our strategy. And you've heard us talk about, for a while now, we've got multiple ways to grow the business, and we talk about the 5 vectors of growth. And 5G adoption is one of those. And so this is us being very mindful about how we get to 5G adoption not just building the network but having customers have access to it.

So if you think about the journey we've been on for the last 7, 8, 9 months now, we had obviously some Android devices with 5G, not just millimeter wave, but C-band start to come in last year. The iPhone came in. And we obviously talked a lot when the iPhone launched about having millimeter wave, which was super important at launch date, but also C-band in it, which we didn't spend as much time talking about at the time. But so you've now got that. And now, of course, it was great to get those devices, but we were getting them at the time we were getting into that big second or third wave here in the U.S., and that had an impact on overall activity in the marketplace.

So what you see now is as we've seen the progress we've made on the pandemic, our stores are back open, the foot traffic in our stores is getting back to what we consider more normal levels. We're seeing the traffic in the high street there at more normal levels. The switcher pool is coming back. We have the C-band. This is a logical next step for us to say, "Okay, we're going to turn C-band on later this year. How do we make sure as many customers are in a position to experience that?" So this is us pushing 1 of those 5 vectors of growth, and this is the perfect timing for us to do this with the momentum in the marketplace to be in a position to lean in, in this fashion.

Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

Understood. And you mentioned retail stores being open and foot traffic rebounding, certainly something we've seen across the industry. Does Verizon sort of compete better differently in an open retail environment than the closed retail environment that we've seen over the last year?

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

Yes. I think we're equipped to compete very, very well in all types of environment, whether it be a more closed environment like we had last year because of all the work we put into our digital store. On the consumer side, we will continue to be very much open for business.

On the business side, we saw where we had some areas to continue to improve our digital storefront. And we put a lot of effort in over the past 12 months on that, so it's better positioned today. But for consumer, it was in a good space going into that, And then, of course, as things reopen and customers have access to the stores again, we think we compete effectively there. And then customers that want to interact with us in both platforms or across both platforms. We've added a lot of functionality there as well. You can start the transaction digitally, complete it in store, whether that means literally having it partway through or whether it's just doing an in-store pickup. So the teams have done a lot of great work there to position us to compete effectively irrespective of the environment, whether it's online, digital or something -- physical or in between.

Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

All right. I'm going to keep pressing you on wireless competition a little bit more. We see AT&T focusing its device offers on base retention. You're doing a little bit of that as well. T-Mobile's moved to Sprint's customers over to new plans and upgraded its meter based on unlimited. Comcast has lowered pricing to match sort of industry low levels. Overall, it certainly seems to us like things are growing a little more competitive for consumer wireless. What's this mean for Verizon? How should investors think about the revenue growth and EBITDA growth for Verizon Wireless in what looks like an increasingly competitive environment?

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

Yes. Yes. I think there's always this question about how high is the competitive intensity. And to be honest, I don't really remember a time where it hasn't felt competitive. The good news is we compete very well in that environment. And one of the reasons we are able to do that is we're not single-threaded on our revenue stream, right? We talked about the 5 vectors of growth. We're able to grow across a number of parts of our business here. So we feel very good about competing in this environment. We're very confident because of the network quality we have, because of the value of the propositions we have in place, because of the ability to play across different parts of the industry, our very strong position in business means that we're set up to do very, very well, and you saw that in the first quarter, where when you look at sequential service revenue growth, we led the industry. Now it wasn't an accident. That's because we're pushing on the different vectors of growth where we're not single-threaded, and I see -- I think you see the positive outcome there.

Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

Are you balancing margins versus subscriber growth?

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

Yes. I'm seeing it as a balance, right? I mean that's what we do. We do both, right? And we can be successful growing subscribers, successful growing -- turning that subscription growth into revenue growth. There's no point growing subscribers if it doesn't become revenue growth. And when that revenue growth comes through, then that enables us to continue to have the industry-leading margins. So it's a balance that we've been doing for many, many years now. I think we've demonstrated we know how we can compete both from a volume standpoint and also on a financials perspective, too. And we'll continue to be very focused on doing that.

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Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

Yes. Within that backdrop of the growth you put up in 1Q, I'm still getting investor questions to this point, even though 2Q is almost over, on how 1Q was so strong for the industry on postpaid line growth and back to the overall, including prepaid. And any thoughts from Verizon as to an explanation of how 1Q is so strong? And the reason I ask is I'm curious if it will influence Verizon and its growth prospects, if those -- if that line growth normalizes.

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

Yes. Well we pay a lot of attention to the size of the switcher pool. We feel good about where our volumes were with respect to where the switcher pool was because the switcher pool, obviously, was significantly impacted in first quarter. Take our minds back 4, 5 months ago, obviously, we were in a very different situation in this country vis-a-vis the pandemic, especially the first half of the first quarter. So the switcher pool, we feel good about where our performance was. Obviously, there's always opportunities to do better. I can't comment on what the total -- what was driving the total overall industry volumes. There are certain things and now I know people have questions about. We've really focused on continuing to build the momentum that we have at the end of the quarter that we commented on our earnings call, carrying that momentum into the second quarter. We feel good about that continuation there and, obviously, the increase in the switcher pool that we've seen as the economies opened up. And I'll just come back to the comment I made a minute ago that we're focused on making sure that our volumes drive revenue growth. We saw that in the first quarter where our sequential service revenue growth was the strongest in the industry. We'll continue to be focused on making sure that the volume you see come through our business lead to revenue growth. And you should think about it across those 5 vectors.

Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

All right. That's helpful. And last year, you mentioned Ronan was here. He elegantly outlined the Verizon consumer bundling strategy for us. We've seen partnerships with Disney and Sky, music with Apple, gaming with Stadia in the past. So how has the new Apple Arcade and Google Play's offering been performing? Any other interesting areas outside of streaming like live events or wellness? How should we think about growing that offering for your customers?

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

Yes. I think in your question, you're really touching on the right thing. So obviously, we started with music. We got into video initially with Disney+ and it's been a good 1.5 years now, right? So we've had that out there and then, obviously, discovery earlier this year.

And so gaming was the obvious next piece to come there. And obviously, we've had that in the past couple of weeks with the Apple Arcade and Google Play. Too soon to already kind of see anything huge in the numbers, but certainly, the initial feedback is very much in line with expectations.

And then you touched on what comes next. So as you think about the what comes next, you think about, okay, we're entering the 5G world. Well, what new experiences will that open up? As we say, 1 of those 5 vectors is customer differentiation. And these things that we're bringing into the mix-and-match offer are part of that customer differentiation. And so as you now start thinking about what can you offer in a 5G world that you couldn't in a 4G world, definitely, what you asked the question is in line with how we're thinking about it. I'm not going to give anything away at this point, but certainly fair to say we expect there to be more to come.

Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

I was curious with the financial model that is underlying these partnerships, and you've talked a bit about it in the past. I guess what I'm wondering is the cost of the bundled partnerships fully annualized at this point. Do further partnerships get funded by revenue from customers sort of exiting promotional periods and subscribing to these services that you've offered them through Verizon? What's the long-term opportunity there on a financial basis?

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

Yes. Yes. So first of all, what we've seen here is the realization that because of the size of the distribution we have, the quality of the base of customers that we have, we're an ideal partners for people to want to team up with. And so that flows through into the economics as well. And it's really been, I think, what we've seen in each of these deals, a win for us, a win for our partner, a win for our customers. And that comes from us realizing the value we're bring into that relationship there.

But we continue to -- when you've written the offer, you can bring more customers in, when it increases the stickiness of the customers in your base, and we've structured these relationships in the appropriate way, it absolutely makes financial sense as we bring -- say, bring more customers and also lengthen the relationship. As you know in our business, the duration of the relationship with the customer is where the value is. So as you bring these additional pieces in, we do it in a cost-effective fashion. We're not replicating the linear TV bundle with more channels than anyone can remember what they are. And so we're doing it in a disciplined way but in a way that creates value over time for us as well.

Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

I want to shift over to whether Verizon customers have been taking advantage of the FCC's emergency broadband benefit introduced in May or whether Verizon has been sort of taking advantage of that. Any thoughts there?

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

Well, certainly, there's a lot of interest from our customers in that, and we've been working with them on that to avail themselves of that program. We continue -- that be on the FiOS side or also our wireless broadband services. And so definitely some level of interest there. The other thing I'll point to, though, even outside of that program, we've also, in the not-too-distant past, launched a lower-priced entry-level FiOS product so that we are making sure that our products are available to as large a part of the population as possible. So we've got that $20 a month entry-level FiOS product out there. So whether we're within the EBB period or not that we're addressing as many parts of the customer base as we can.

Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

I wanted to hit on 2Q '20 last year being sort of the deepest part of the pandemic and social distancing impacts for wireless companies that have store closures and lower device volumes and paused for roaming revenues. How do these areas doing today? Any unusuals you want to call out for this quarter as we comp 2Q '20 or for the rest of the year or next year, for that matter, as we start to have (inaudible) recover?

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

Yes. Certainly, as we've been doing an internal reporting in Q2, it's been interesting. The comps are very different, right, because we really started seeing the full impact of COVID in April, May last year, a little bit in March. But really April and May is where it really kicked in at its hardest from an economic impact.

And so look, as I think about it in wireless, last year, we had reductions in service revenue, largely from fees. As you think about, obviously, we weren't charging late fees, reconnect fees with the Keep Americans Connected Pledge. We also weren't charging some other fees like activation fees and upgrade fees. Those things are obviously back in this year. They weren't there last year.

The one other one that went away last year went down to virtually 0 was our roaming revenue, largely when our customers go overseas and they want to stay connected. And that piece is the one part that isn't close to fully back yet. And that was the case in the first quarter. We still saw very good service revenue growth on a year-over-year basis without having that in, and it was in first quarter last year. So certainly glad to see the progress we've made domestically. Obviously, looks like a lot of domestic travel going on. But we still don't see too many people flying internationally yet. So that piece will be -- take a while to come back.

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And then on media, media obviously was significantly affected last year. I think our revenues were down some 26% in the quarter as a whole as advertisers just obviously, in some verticals such as travel, just pulled back immediately and almost to 0. So very big impact there. Obviously a much better position this year, building a lot of the good work internally that team has been doing. And so obviously, they're lapping some very low numbers a year ago.

One other thing on media, just to have it out there, and I'm sure the CPAs in the audience have already figured this out. But as we announced that we have the agreement to sell Verizon Media Group at the beginning of May, as soon as we do that, we transfer the assets on the balance sheet to assets held for sale. When you do that, you stop amortization and depreciation. For May and June, that will be about -- that reduction in amortization and depreciation of about $0.03 of EPS that benefit that we'll see. And of course, that will carry on into the third quarter to whenever that deal closes. But -- so those are the kind of the COVID-related stuff they issue over the last year and then the media-related one as a result of the deal as people think about 2Q last year versus 2Q this year.

Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

All right. Thanks for that.

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

Plenty of moving parts right now.

Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

Yes. Well, it keeps us busy, so that's good. Verizon was early to target wireless on broadband, but you are more conservative than T-Mobile with your subscriber guidance at your Analyst Day earlier this year. So I'm curious what have you been learning about 5G Home? Are you still planning breaking out subscribers at the end of the year when you start to launch the C-band-based product? And generally, where are we at today in general terms?

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

Yes. Very excited about it. We've learned a lot over the past couple of years. Still feel very good about the opportunity. And as you think about it, it really gives us the opportunity to take the wireless asset and drive an additional revenue stream off of it, and so that's pretty exciting to us. We talked about those 5 vectors of growth be network monetization. At any time that you can create multiple revenue streams off of the same asset, that's a good thing. First time in wireless, we've already had the chance to do that. So as you think about how we're going to do that this year, we said we'll be in 15 million homes open for sale by the end of the year. That's across both the millimeter wave, fixed wireless access that we've been working on for the last couple of years. Also, 4G LTE fixed wireless access, we've been using in those parts of the country. We see that we have network capacity to really do that. A lot going on there. And then obviously, C-band. We launched that by the end of the year. That will open up a good number of homes immediately there. So tremendous opportunity there. 15 million homes grows to 30 million by '23 and 50 million by 2025. So we feel very good about the opportunity there.

Look, customers are excited about the opportunity of having choice in this space. They've not always had that. We've seen the same thing in a FiOS footprint where we brought choice to customers there, had a lot of great success. So we're excited about the opportunity in fixed wireless access. We think having it across both millimeter wave and C-band gives us the opportunity to bring the right technology depending on the geography that customers are in, but absolutely a key part of our growth as we go forward here.

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Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

So before we move on from consumer and move over to business, I wanted to check in on FiOS first. Cable companies deploying 3.1. Altice is overbuilding in the New York area with fiber. Is the FiOS competitive environment going to change? And I'm just curious if you upgrade speeds into MG? And if so, what does that involve?

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

Yes. So look, we are absolutely excited about what we're seeing in FiOS and have for a number of months now. We launched Mix & Match in FiOS in the first quarter of last year. And then of course, the pandemic hit our footprint very much heavily in the Northeast, which had that very big initial wave of COVID. So we weren't able to get out to customers' premises in the way we would have liked for quite a while. But then as soon as things started to open back up in the summer, we really saw a takeoff in the demand because, obviously, a great product and everyone valued home broadband coming through or the work at home, study from home, et cetera.

And so, look, at the end of the first quarter, our base of FiOS Internet customers is more than 5% higher than it was a year ago. From Q3, Q4 last year, Q1 this year, well over 300,000 net adds over that period in our footprint. So very strong results in the FiOS business for 3 quarters now. And I don't see any reason why we should expect that to slow down. So we've been very successful in FiOS. It constantly ranks very highly in any of the third-party awards on quality for broadband, and we're seeing that in customers' interest in it, especially when we provide the right proposition of the -- some of the Mix & Match structure that we brought to broadband last year has taken hold.

Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

So I think on the Pay TV side, all the operators are sort of asked incessantly about the future of pay video. And I thought the way I'd approach it is there sort of a day where it makes sense just to shut down the Verizon video offering on FiOS and just migrate the rest of your customers to a virtual MVPD and sort of go to a cost-plus business and sort of get out of the buying and packaging you sell in the programming?

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

Yes. It really comes back to what Mix & Match is all about, which is giving customers choice. And so what we do in that space is we give customers choice. If a customer wants broadband only, we absolutely will do that for them. We love that proposition. We saw our customers who want the traditional TV package. We have that as well. And we're structuring that a way where it's -- it may not be as valuable to us as when we launched FiOS over 15 years ago, but it's also not a negative to the business either.

So we'll let the customer choose what bundle they want. And obviously, we're seeing more and more customers go broadband only than we have historically. But whatever -- we structure our deals so the customer can pick what's right for them. We have that offer that's right for them. We'll service them for what they want and create a great long-term relationship.

Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

And the last one on FiOS. You were asked about convergence a lot, of course. You talked about the benefits of bundling wireless and FiOS, particularly in the broadband side. Would it be better for Verizon to be larger or smaller in terms of a wireline footprint?

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

Well, we're happy with the footprint we have today. We've made a lot of good progress there in terms of bringing fiber into the footprint and not being 100% copper. That's probably not where you want to be in 2021. So we look at the wireline footprint, as I'm sure there will be opportunities going forward and we'll determine what the right thing is for us there, but we're very happy, especially within the ILEC footprint with what we're

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doing with FiOS. Also very happy with what we're doing outside the ILEC footprint with our One Fiber expansion in over 60 markets across the country outside of the Northeast area. So our wireline footprint continues to be -- serve the business very, very well. And remember, it's also -- it is the backbone as well of the wireless business, too. Think of wireless as being wireless, but it's -- there's a lot of wire in the wireless network.

Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

Right. So let's refer to the business, and I'll give you sort of a broader question to run with rather than trying to tie you down on some of these. What's the growth opportunity on the business side of the house? Do you think the leadership position that Verizon currently has is sustainable?

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

Absolutely. I mean it's sustainable because we understand what our customers want, and we have the products and services they need not just today, but as they're transforming their businesses. The pace of change that we see from our business customers in how they want to run their business and the importance of technology and the positive connectivity within that has never been higher. And I think this is really a proof point of bringing Verizon 2.0 structure together. Where we -- instead of having people go into an enterprise customer selling wireless, a different set of folks going to selling wireline, we go with one face now. We understand what the customer wants.

We see that in the first quarter results where we showed revenue growth within Verizon business. It's been a while since we've done that, and we look forward to continuing that trend. And couldn't be more excited about the opportunities that come with not just the existing products and services as we get into 5G and you really start to blur the lines from a business standpoint between the connectivity they need and should it come from a wired solution or a wireless solution. We think we're tremendously well positioned there. It comes back to the earlier conversation about how are you building 5G? Are you building 5G just to say you have it, Or are you building it right, so it brings those the full promise of 5G. That's what we're doing, and that's going to be an even bigger thing in the business space than in the consumer space, I think.

Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

Well, so let's keep that 5G conversation going. I mean, when it comes to new enterprise opportunities in private 5G networks and mobile edge computing and network slicing, which of these are we starting to see first? Which of them are you most excited about?

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

Yes. I'm excited about all of them because I look out there and the opportunity there, and it's really a new space. It's the first time that wireless has had the ability to really go after enterprise-scale applications, the bandwidth needed for enterprise data transfer, the latency, all the other functionalities there. So this is greenfield for us as we go into this space. So because I think we'll see initially some of the private MEC solutions have the opportunity to develop first. But I think a lot of the public MEC as we see the coverage areas build out, and we see a number of customers with 5G devices in their hands attaching to those networks, really has a lot of opportunities as well as we go forward here.

So on the public side, we've got the relationship with AWS Wavelength, obviously, they are the largest cloud service provider out there, a great partner for us to be with. We see that as being a win-win, continue to build on the 10 zones that we built out last year. And then on the private side, we've announced a number of relationships there with partners to help build this out and then some also initial customer wins as well. So there's a lot going on there, whether it be in industrial type settings where you see the things we've announced with the NBA, NHL in terms of like we think sports and entertainment type environments, too. So when we build the network the right way, we have the skills we do around it, we're demonstrating to customers how this can change, how they do things within a private location. That's where private equity kicks in and say whether that be a stadium, whether that be an airport, whether that be a manufacturing facility, a distribution center or a port, whatever else, tremendous opportunities there. Starting to really see those first green shoots coming through. Look forward to seeing that scale as we go forward here.

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Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

No, I think you probably answered my next question with that sort of litany of areas where you guys are sort of seeing progress, but I'm not going to surprise you by telling you the Street's pretty broadly skeptical on...

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

I've heard that

Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

On these revenues. So what gave you the confidence to formally guide to these new 5G revenue streams at your Analyst Day earlier this year?

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

Yes. Look, I think as we worked in this space, we've got a sense of what's going on there. And we've looked at -- we've got a little more confidence in where we think the size of the market might be. That was the biggest thing we addressed, right? The Investor Day was going through those total addressable markets or private MEC and -- public and private and everything else that we showed. And we also talked about where we saw like by 2025, how our revenues might be. So we're seeing the customer demand in the space. Customers are understanding how this is going to change, how they run their businesses. With the -- you asked a question earlier about can we maintain our market share in the business space? Well, you got that lead, as you referenced, that's because you have more relationships than anyone else. We've got those years of established relationships with these customers. We know what they're looking for. We've got a great team on the -- on obviously, the engineering side. And so our confidence level because of all the work we've done with them on this over the last 2, 3 years, really is showing that there is a very significant opportunity here. And the work we're doing with other partners in the space says we absolutely have the right to be part of a significant part of the revenue stream there. So it was because of the evidence of what we're working with customers on the last couple of years. Even last year, when most of that work was going on remotely, we were seeing tremendous progress there. So it was the evidence of our interactions with our customers over the last couple of years on this that gave us that confidence.

Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

Great. So let's go to the expense side. What are the buckets where you see obvious cost efficiencies coming from? Where do you see OpEx growth? Is there still room to expand margins over time?

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

Yes. Look, because the thing with cost saving's I'm agnostic where I go for cost savings. Nobody is immune from getting a cost savings target within the company. Whether that be on the network side, the sales side, the marketing side, the back office functions, everyone is participating in this.

And really we've made great progress. Obviously, we achieved our $10 billion goal 3 quarters early. So very proud of that. The team did a great work. But as we did the last part of that journey, we did that during the pandemic, and that opened up new opportunities for us, right? And we saw the opportunity to continue to make significant changes to the way the business runs.

So you think about the intelligent edge network. I mean, yes, it opens up a whole bunch of additional functionality, but it's also as we're going in and virtualizing large chunks of the network, that's got significant cost benefits with it. Think about the way we go to market. We're continuing to find ways to be more efficient there. And then in all the back office, there's obvious opportunities, too.

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So we have a lot of ongoing work there. Glad to hit the $10 billion goal. As I told the team internally, you can take 10 seconds to celebrate. Now we've got more cost savings to go after. And so we will continue to do that. And it's across the board. I mean it really is -- everyone is participating in this. And we're really digging now into a lot of process improvements at are really opened up as you take a lot of the new technology and apply it to business processes. There are things that could be done just in a very significantly different way that is both more efficient and also produces a better result. So there's a lot of opportunity there.

From a margin standpoint, I think you'll see on the consumer side us continue to have margins that are driven by revenue, continue to have strong industry-leading margins, but the EBITDA dollar growth will be largely driven from revenue growth. And we'll obviously look to see if there's margin expansion opportunity there, but letting revenue drive that. And then on the business side, is we're starting to pivot there within the business. And I mentioned that revenue growth in the first quarter, which hasn't been something that the business segment is known for over the past few years. That really gives us the opportunities we talked about. We've been around 25%. We think we'll hold that level as we're going across the next couple of years to continue the transformation. And then the opportunity to get to 25-plus percent in that as we go forward, a combination of the revenue progress while also continuing to push on the cost side.

Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

So one second of celebration per $1 billion of OpEx savings, that's a pretty tough ratio. I like it. The -- so you held your at Analyst Day sort of the minute the FCC quiet period ended. So it's pretty early to get an update on C-band clearing. Would we be able to work with the FSS operators to get some of that spectrum cleared earlier than either December 21 or December 23 depending on which bucket of the spectrum we're talking about?

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

Yes. So look, we are obviously -- we have good contacts with the satellite companies that are doing that. They've got a good amount of work to do. We've got a good amount of work to do to build out that network, and Kyle and his team are well underway to do that. I would say, if you think about December 21, the Phase 1 spectrum, the opportunity there, not to say that it can't come in, but that's a smaller opportunity because in addition to can that clearance come in, you also got the fact, okay, well, you've got to build out the network there. And the team only got started, as you say, 90 days ago.

So we said at that Investor Day, we do 7,000 to 8,000 C-band sites this year. The latest information I get from the team, and they've updated me on a really frequent basis, we're absolutely on track to get to that 7,000 to 8,000 sites this year. But if the spectrum comes earlier, there's a question of how much of that will be in place if it's too much earlier.

So really, the bigger opportunity is, as you think about Phase 2, because if you could bring that spectrum in not just in the 46 markets, but on a nationwide basis, and the time period that you could be talking about accelerating it by is potentially more significant. So we're open to seeing if there's ways to do that. Certainly be excited about the opportunity to do so, if possible, but too soon to tell, but absolutely something that we'll continue to talk to everyone about.

Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

And you mentioned sort of, Kyle, on track for spanning the C-band radio build-out. So maybe it's obvious at this point, but just checking to know semiconductor supply chain constraints, or other constraints for that matter, that might provide some headwinds as you execute through the rest of the year?

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

Yes. I ask the team that question every day, and it's certainly something we're paying close attention to. This space has not been as impacted yet, touch wood, than some other sectors have been. So at this point in time, we still feel good about having the equipment to deliver on our goals in terms of network build-out for the remainder of the year, but it's something we're paying very, very close attention to working closely with our OEM partners in the space. But as of right now, we feel we're in a position to do that.

Obviously, a good chunk of the equipment we need for those 7,000 to 8,000 sites this year that I mentioned, those orders are already in the system. In fact, some of that equipment is already with us. So as I say, it's not something that I will say is -- we're not worried about at all. It's -- we're paying very close attention to. But right now, we feel good about our ability to deliver on our build goals for the year.

Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

So any thoughts on capital intensity longer term? And I think that you're densifying, continuing to densify, continuing to build out a few macro sites, and you're touching all your towers one more time and filling it up with an awful lot of spectrum. And I sort of wonder -- and you're building out an awful lot of fiber in 60 markets you talked about.

When you get to the back end of that, are you at the point where the capital intensity just comes down dramatically, even less than the envelope we were in before the C-band spending hit? Or is there going to be something else to spend on that's out there in time?

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

Yes. No, that's a great question, and it's interesting because we've obviously talked about a number of years about the consistency of our capital intensity. And then earlier this year, we said not only are we excited about the C-band auction outcome, but we're going to spend the $10 billion extra over the next 3 years. So I'm excited we're in a position to invest that additional $10 billion and deploy C-band as quickly as possible to bring that benefit to our customers as quickly as possible and differentiate ourselves again.

But I'm also equally excited about the post 2023, what the opportunities might be for capital intensity, as you mentioned, Doug. So there's a number of items as I think about what are we spending on today and what's the forward trajectory of those projects? And when you look at a number of them, you can see a situation, you say, okay, as I finish that initial $10 billion spend in '23, is there a step-down in capital intensity from '23 to '24?

And when I look across the landscape, I think about One Fiber. We've been building in 60-plus markets. And as you think about the spending One Fiber in a market, think about it as like 2 distinct pieces. There's one piece which is the core infrastructure build, the putting the metro rings in place and all that good stuff. And then there's a success-based stuff where you put up a little spurs off of the core routes to light up a cell site or to go into an enterprise office building or whatever, so the more success-based stuff. That stuff continues like well into the future. But that core build in the next couple of years will essentially be complete across all of those 60 markets, okay? So that's something we've been investing in the last few years that we're going to see a reduction in.

Then I think about the intelligent edge network we've talked about taking the multiple networks that we were operating and collapsing down some of like the transport layer and the core network layer into that future network layer. Over the course of the next couple of years. The vast majority of that spend is behind us. And by the way, the OpEx benefits from that don't kind of come in evenly. They really accelerate when you get towards the end of that. So there's some benefits there too. So One Fiber will come down. Intelligent Edge Network will come down.

Then you think about the 4G network. As we -- because of the promo we're running right now and all the other work we've been doing, by the time we launch C-band, we're going to have a good number of customers with devices in their hands that immediately are going to be used here, in addition to the continued expansion of millimeter wave. And as people are going back into urban areas where we deploy millimeter wave, we're seeing a lot more traffic come back -- start to show from that network but obviously for the last year plus, has not been anywhere near the normal levels.

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So you're going to have a lot more of that traffic on 5G starting later this year and continue to build out as C-band rolls out. And then when you get to Phase 2, and it's not just the first 46 markets, it's nationwide, significant step-up.

So obviously, our customers will be using more data but our need to continue to add capacity to our 4G network is going to really start to drop off as you get to '23 and '24. And then you throw on things like the 3G network retirement, which will take place at the beginning of '22. You add all those things together, you combine it with the fact that I expect the revenue growth we laid out at the Investor Day, and I get pretty excited about where the capital intensity could be.

So as I said, I'm really excited that we could -- that the balance sheet was in a position we can put the $10 billion into deploying C-band as quickly as possible. And we're really excited when I look just a few years out, you can see how the capital intensity of the company could be in a very different position, too.

Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

Well, that perfectly leads into my last question because we certainly have a lot of long-term investors listening in. What's the update on your capital allocation priorities, especially with your last sort of comment in mind?

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

Yes. So one of the things I really like about the way we approach that is the consistency of our capital allocation model. It starts with investing in the business, and that's unchanged. We continue to deploy capital on a consistent basis for CapEx. And now we're going to augment that with spectrum when it comes -- when it's the right spectrum. Obviously, you've seen us participate in some auctions and chose not to participate in others. So we participate where it makes sense, where we see we can create value, and the same thing on M&A. You think about some of the BlueJeans that we've done. Obviously, we've got the pending TracFone transaction out there as well. When things fit with the strategy, you see us willing to invest in that way.

The second priority is dividend, and we've increased the dividend 14 years in a row. We announced the last quarterly dividend just a couple of weeks ago. And in the announcement, Hans made a comment that we look forward to putting the Board in a position to extending that streak of annual increases. And so investors should expect to continue to see consistency of our approach to the dividend.

And then the third item is our commitment to a strong balance sheet. And we want to get back down to our leverage ratio. That continues to be a target. Obviously, with C-band, we went back up on the leverage ratio. And we've always said we'd be willing to do that. If it's the right investment for the company, we're not afraid to take the leverage ratio up, but we're then committed to bringing it back down. And we've demonstrated that over the past 10, 15 years.

I think we elevated it post Alltel, brought it back down. Then when the opportunity was there to buy out Vodafone's 45% of Verizon Wireless with the balance sheet, we're positioned we could do that. We brought the leverage way back down, and then when a tremendous opportunity like C-band came up, we were able to invest.

So we think moving towards that type of balance sheet structure puts us in a position of tremendous optionality. And then once we've achieved all 3 of those, we look forward to having a conversation about returning any excess capital to shareholders. We have no intent of building up a significant cash balance on the balance sheet. If we've met our first 3 needs that I mentioned, first 3 priorities, then we look forward to returning any other capital to our shareholders as quickly as we can.

Doug Mitchelson - *Crédit Suisse AG, Research Division - MD*

As you said, very consistent. Yes, thank you so much, Matt. Thank you for being here. Thank you for sharing your thoughts. Very interesting, as always. Thanks, everybody, for listening in. And I can't wait to do this in person next year. Thank you so much.

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

Thanks, Doug. Look forward to seeing you not-too-distant future.

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