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PRESENTATION

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

Good morning, and welcome to the 30th Annual Communacopia Conference. I'm Brett Feldman, Goldman's U.S. telecom, cable and media analyst. We are thrilled to, once again, kick off this year's conference with Hans Vestberg, the CEO of Verizon. Hans, welcome back to Communacopia.

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

Thank you very much. Great to be here.

QUESTIONS AND ANSWERS

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

All right. Let's jump right into it. So you have frequently cited 5 vectors of growth for Verizon. And really, ultimately, these represent new opportunities to drive revenue for the company over the long term. What are the key competitive advantages that Verizon has at the onset of the 5G era that you believe positions you to win across a much larger addressable market?

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

Brett, I think that our conversation around the 5 vectors of growth is, of course, a couple of vectors that we're developing and a couple vector that is in play already in a big time. And I just want to go to -- go into them a little bit quickly, so we get the grasp. First of all is the 5G adoption, which is everything from the mobility case, consumers and business and then fixed wireless access on 5G. Then of course, the network monetization we're doing where we actually have other brands using the network in order to have the best return on investment, which, for example, some cable operator. And then the third one is the 5G mobile edge compute, where I would say we're basically alone still. We have been developing that for the last 2 years and have a head-start over anybody else.

And then we have our unique model with our mix and match, and how we deal with partners, things like Disney+, discovery+, Apple Music, et cetera. And then we have our new segments that we're addressing, which we have created, Visible, et cetera, but, of course, waiting for the final approval for the TracFone. So we're going to be the #1 in the value segment as well. So it's several areas that we have grown very different from any other of our competitors where we meet them in some of them. We have created that based on our network and service.

And of course, in the foundation of that is the best network that we have been carrying in this market for as many years as I can remember to have the best network. And then we carry that on with this type of service on top of it. So that's why our positioning is so great, and this is where we actually landed when we decided our strategy in 2018, which we call Verizon 2.0, which is an internal name. But for us, it was a next step of taking this leadership that was created during the last 15 years. So take the next step to the leadership for the next 15 years in this market for consumers and for businesses.

And in that, as you all know, we have taken very big strategic decisions, everything from the acquisition of TracFone that we're in process with, divesting Verizon Media Group by acquiring C-Band, changing the structure of the company, all in all to sit there now in an extremely good position to continue to lead this market in the last 15 years. And as many of you have seen the last couple of quarters, we have actually performed fantastically when it comes to our financials, at the same time as we're doing this big transformation and addressing totally new areas and executing on some areas that we have developed during the last couple of years. So that is the uniqueness with us, how we have built the network, how we're addressing the market different from the others.

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

Let's spend a little bit of time digging into a couple of those areas. I'd like to start with your consumer wireless business where you are #1, by almost any metric, subscribers, service revenue, margins, churn, you name it. But your competitors have taken significant steps to boost their scale, either through M&A or perhaps through additional acquisitions of spectrum. Why do you believe that your consumer business can continue to be a leader in what appears to be an increasingly competitive market?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

If you look at how we have performed the last couple of quarters here, we are very pleased with our consumer wireless business. Team is doing a great job. Since the sort of inception of the unlimited that was started in 2017, we have constantly had a lead in new offerings and innovation in the market. And just to put it on the record, if you look at the scorecard of the second quarter for consumer wireless, we continue to take the #1 share of industry service revenue, and we take the #1 share of postpaid phone ARPU growth. That means that whatever new subscribers we're getting, together with our metrics of moving our customers from metered plan to unlimited plan to unlimited premium plan, is paying off. And that's why we also increased our service revenue guidance for year-end.

So all in all, we think we have found a model and the team with Ronan, and they are addressing the full consumer market. And that's why we also see the Fios business doing great now. I mean we have had 3 quarters up to the second quarter, which has probably been the 3 best quarter we ever had on Fios, and that momentum continues into -- to this quarter as well. So we are very excited over the full view we have on consumer, and that has given us all this possibility to create new values for our customer and, in the bottom, the best network. That's what we are aspiring for, and our customer likes it, and we feel that we have a really good position. That competition is getting better. That means that we just need to be even better to continue to be the #1 that we've been for so long. That means that we come to work every day to show that we can create more value for our customers and for our shareholders in a consumer business that nobody else can do.

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

I'm glad you mentioned the improved outlook. So you had initially targeted that your wireless service revenue would grow greater than 3%. I think you've improved that to a range of 3.5% to 4%. And so we get a couple of questions about that. One is just relative to your own plan, where do you think you're outperforming? And then the next question, and I know you've gotten this question a lot, which is we have an industry that is experiencing record levels of subscriber growth this year. As you look at the backdrop, what insights have you been able to gain about where that additional growth is coming from? And what gives you confidence that as we inevitably kind of go back to a normalized run rate, you're going to continue to hang in there and not necessarily see it then?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

So when it comes to where we are creating our strength in our service growth, I think it's a combination of getting our customers to join sort of the unlimited, the unlimited premium. And remember, we talked about that at Investor Day. We have a long journey still to move many of our customers to -- from metered plan to unlimited and unlimited premium. So we have, on our own base, enormous, great opportunity to continue to have value creation. Secondly, the market, of course, have a switcher pool. Remember also, the switcher pool is a little bit smaller nowadays,

maybe 5%. But still as the pandemic is sort of a little bit less impacting trading, et cetera, that has come back, and we take our fair share there as well. That is what is creating it. But remember, we have a really good base that we can work on.

For us, what has been important -- and I think I've said it so many times. It's the revenue growth we are looking for. I mean, of course, we always try to get new customers and we take our fair share. We had a great quarter when it comes to net adds in the second quarter. But ultimately, I want to be measured. And Ronan and the team want to measure how much we are creating ARPA growth for our customers and service growth. That's sort of what is ultimately is going to create more bottom line for us. And as I said, when we look at the scorecard of the second quarter, which we always report first, we cannot do that until it's over. We clearly took the most revenue in the market in services, wireless, and we took the most ARPA growth in the market when it comes to our share.

So that's what we are focused on. And that's why you talk about net adds, when that's going to go. We see ourselves being able to grow with or without any major net adds market or switcher pool. That's why we have the 5 vectors of growth, which is different from the others. Of course, mobility is one of them. But remember, we have the nationwide broadband rolling out. We have enterprise services. We have the monetization of the network. We have new segments. And as well, we have our unique model with our mix and match and our service offerings, which are all exclusive to us. All that is creating a confidence of our guidance that we did in our Investor Day, where we basically said, yes, the service growth is going to be 2%. Then we go to 3%. Then over time, it should be 4%. That's the confidence we have as having so many vectors of growth, and that's how we are pushing the company and executing.

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

Can you give us an update on the third quarter? Have you seen the momentum continue to improve?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

What I can say that as we came out from the second quarter, I talked about the wireless business having a good momentum. That has continued in the third quarter. As well as I talked about our broadband, our Fios, which has been fantastic until the second quarter. That momentum continues as well. So that's where we are, and we are days away from closing the quarter. So we'll probably come back. And of course, we added right now the iconic launch here last week, which also is going to be interesting to see. But what we see so far, we like our offerings. We like the network, and we see -- we like the way our customers are thinking about our offerings right now. So all in all, exciting next couple of months here for us and good momentum.

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

You made that point about leading service revenue growth, and you get far more service revenue growth, particularly in your consumer business right now, from growing your ARPA than you do for necessarily growing your customer base. ARPA grows for 2 reasons. You're either moving people into higher ARPU plans, which you've been doing as you've been migrating customers into unlimited and then in the higher tiers. And then, of course, if you're adding new devices into your existing plans, that boosts this as well. When you talk to Ronan about his strategy for boosting ARPA, how much visibility does he have in terms of the longevity of that opportunity? Or how long you can keep driving service revenue growth through ARPA growth?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

He has a long view on that one. And clearly, we see a long, long journey that -- where we can continue to migrate our customers, both from metered plan to unlimited and unlimited premium. And then adding value there with partners like Disney+, discovery+, Apple Music, which all of them are exclusive to our wireless offering. And we have more of that. So he has a long vision and a plan of how to continue that journey, create more value, but also continue to have the best network in the bottom.

And -- so we see a long, long, long journey that we can continue that growth. And that's why we're confident when we talked about what we can -- what we want to achieve in our guide -- when we guided the long-term growth of the company. So clearly, we see a continuation here and we see the differentiation. And of course, we're excited also that sooner or later, more sooner than later, we will have our C-Band as well coming up. And then that will add new opportunities. And as we said at the Investor Day, that will accelerate and amplify everything we're doing because we can amplify our TAMs and we can accelerate our plans and making them earlier.

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

Great. Well, we're going to come back and talk about the C-Band and your network strategy in just a few moments. But before we do, in order for consumers to enjoy the benefits of your 5G network and your deep portfolio of mid- and high-band spectrum, you need to get them into 5G devices. They need to upgrade. And you have increasingly been emphasizing handset promotions in your go-to-market. I mean if we just look at what you rolled out with the iPhone 13, a new customer could theoretically get up to \$1,300 in value, an existing customer might be positioned to get up to \$800 in value. Broadly speaking, what is your strategy for getting your customers to move into 5G devices? And are you going to have to remain more promotional for longer in order to accomplish those goals?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

So first of all, we are in a moment in the industry which is very exciting, which means that, first of all, 5G handsets is now coming out, full-fledged. Our network is ready for it as well as we are in a moment where the pandemic is not over, just to be clear on that. But from a consumer point of view, we have seen it almost back to normal. So that combination of sort of the phase in 5G right now means that there is a little bit more aggressiveness in the market. That's very similar to what we saw in 4G as well. You have an initial phase when you build a network. You talk a lot about 4G or 5G. And then you see the adoption coming in where, of course, there is a lot of -- it's a possibility to gain share. And then we are topping that with we're coming out from the pandemic.

So that are the things around us. But in general, we would not do aggressive promotion if we didn't see it financially making sense over time. Ronan and the team on the consumer side are very, very financially prudent when they think about being aggressive. And we talked about that as well. We will be aggressive where we see long-term value creation for our customers and for our shareholders, that we can have ARPA growth or service revenue growth over time. That's when we do it. We're not looking into anything else if we see that. And that's why we came in this summer with a couple of offerings. We're a little bit calmer. And now when we see the iPhone 13 coming out, we're a little bit more aggressive. All in all, it's part of the strategy that we have, which is actually working well for us when you see our service revenue growth on the wireless side.

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

Okay. You say that it's worth the investment in the handset, and you can get a return on it. As investors, what do we look at? What operating metrics are going to cause us to have confidence that as you run those promotions and you drive customers into 5G devices that over time it is giving you the return you would hope for?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

No. I think what you should look for is the industry service revenue growth and seeing that we're taking more than our fair share, which we have done so far. I think that's -- and that you see us growing the ARPA or ARPU over time. That's really the metrics that you look for. Then there are leading indicators there, which you can look at. But ultimately, we are here to generate more revenue and healthy revenue. That's going to lead to bottom line as well. That's how we have been working in previous management, way before me, and we continue to work when it comes to the discipline and the financial discipline of the company. And you mentioned it yourself, any metrics we would lead when it comes to performance, financially, et cetera. And we are totally committed to continue that work. So that's what you should look for. There are leading indicators as net adds and so on, but ultimately, it should be bottom line and top line growth in absolute numbers and in percentage. That's that we're focusing on.

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

Before we move on, I got a message. I don't think your safe harbor slide flashed. I think Brady was going to maybe jump on and just quickly read through that. Brady, are you available?

Brady Connor - Verizon Communications Inc. - SVP of IR

Yes. I'm here. Hans, and Brett, let's station break for a quick interruption. Everything we're saying here is covered by our safe harbor statement. You can see it on the web and our Investor Relations website. And Hans, take it away. Let's finish this strong.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thank you, Brady, for that intervention.

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

Back to our regular programming.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes.

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

I'm going to stick with the consumer theme just a little bit longer. You expect your acquisition of TracFone to close in the next few months. I asked earlier, what's been driving the strength in the overall postpaid category. There's a widely held belief that we share that we've been seeing customers move from the prepaid category into the postpaid category for a range of reasons. And so 1 of the questions that we've been getting is why is this the right time for Verizon to be acquiring a prepaid operator?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

First of all, we believe in the value segment. We believe that's an important segment to serve in the market, and we believe we can support and put a very positive spin on that with all our assets we have in the company. We will not change the name of it to Verizon or anything. We're going to keep the brand names, and we're going to see that, that customer base is served as they should. But we will infuse our strength on our technology, our strength on go-to-market, the strength of the UXs that we have built, et cetera, in order to serve that customer base better. So we believe that's an important segment going forward, and we're very excited for closing that deal and see that they are part of our offering for that value segment. So I cannot talk about the products we're going to launch, et cetera, because we will do that as soon as we have closed the transaction. But clearly, we're excited about, and I think it's a very important segment that we're going to serve.

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

I know in the past you noted that you do also expect financial synergies from the deal. How long is it going to take to sort of go through the integration? And is there going to have to be any period of stepped-up investment to make sure you're positioned to really capitalize on this new business?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

What we have said and we definitely believe is that we're going to be accretive after the first year, the first full year. Of course, the synergies will come at the latter part of that year from the closing. That's what we believe. We haven't talked about any incremental CapEx or something. That's part of our BAU. Nothing extraordinary that we need to do there. But of course, we're going to support them with all our systems in order to be more efficient to serve the customer base, which is the most important there to keep, retain and develop the value segment.

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

I want to come back and talk about network and spectrum. You had alluded to your C-Band purchases earlier. You were the biggest winner in that auction. You acquired an average of 161 megahertz of C-Band spectrum nationwide that more than doubled your sub-6 gigahertz spectrum portfolio. You've talked about deploying 7,000 to 8,000 cell sites with C-Band by the end of this year and having 175 million POPs covered with C-Band by '22, '23. Can you give us an update? Is the clearing process going as expected? And are you otherwise on pace to meet those deployment targets?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. First of all, I mean, we're, of course, excited of that -- for that acquisition of spectrum, which I've spoken a couple of times. That's a spectrum for generations. That's going to cater the planning, the execution to keep the best network in this market and the continuation. So we're very excited with that. This is the year -- we have never deployed so much as we're doing this year. I mean, we have a commitment over 14,000 [incremental] (added by company after the call) mmWave base stations, 7,000 to 8,000 C-Band stations. We continue to add capacity in 4G. And then we're building fiber. Not -- maybe we're not on the peaks of 2,000 route miles per month because we're doing shorter routes, but maybe 1,200, 1,500 route miles every month as well right now. So it's a big machine that is rolling out right now. I would say the team is doing a fantastic job to roll out, and we are on plan, and we are executing it.

And we have secured all our sort of radio equipment. So we have no shortage of that. The guys are doing tremendous work with our partners to see that we can actually roll it out. As far as we know, all the satellite guys are doing a great job to clearing the spectrum for us to be having that cleared in order to test and deliver an extraordinary service for our customers with the time plans we outlined in the first quarter of this year in our Investor Day. Then there are some challenges in the supply chain, especially on mid material. But I have to say my team is doing a fantastic job to work around, work with suppliers and our field force to see that we keep the pace up to deliver to our commitments. And I think that's just how Verizon is working. We deliver on our financial commitments. We deliver on our operational commitments all the time. And the team find ways even though they find challenges or headwinds. So I'm very pleased with what I've seen so far, and we continue to execute on the plan that we laid out.

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

And then just to make sure I understand your comment on supply chain. I think you were saying that you are acknowledging that there are some challenges in global supply chains, which I don't think is surprising anybody. But your point is you're still on pace to hit all of your deployment targets. You have figured out a way to manage around. Is that the...

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. Yes. And especially on all our so-called -- I wouldn't say valuable sort of equipment. But of course, all the radio equipment that is antennas and all of that, baseband, that we have already secured and that we secured way back there. And of course, there's a typical operations from Verizon. We started thinking about C-Band years ago. We have it in the chipset. The equipment manufacturers has the clear direction and the purchase orders to execute. And that's why we're sitting where we are. And then, of course, the field need to work it with some challenges. But all in all, a great work from the full team here.

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

And then just last question on the ecosystem here. Any issues with labor, either a shortage of supply of labor for your retail operations or your field force?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

I think the field force we feel really good about. The team is doing a great job and, of course, secured our resources here. I think then in the retail, we have basically all our stores open. There are a tougher labor market here. But with the value we are giving our employees, we have seen a great retention of them. But a little bit tougher right now than a year ago or 2 years ago when it comes to that category of employees. But we continue, and we still -- we are serving all our customer in the right way, so still working. But we have to do workarounds, but the same here. Ronan and team is doing great work.

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

You -- we started off this discussion talking about spectrum and your C-Band purchases. Your competitors have also fortified their mid-band portfolios, in some cases their high-band portfolios. Why are you confident that you can maintain a network leadership advantage? What resources do you have or advantages do you have other than spectrum that you think is going to keep you ahead of the peers?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

So first of all, the base of the network we have right now is the best network in the market. That's important because that's a design principle. How do you design? You don't, with the new spectrum in 1 year, have a great network. It's a lot about software. It's a lot about what type of devices you have and how you have integrated all that, how the network is performing. And sometimes, we make it easy and talk about, hey, if I'd only have some more spectrum are going to be best. Somebody have to remember that we have had the least spectrum the last 10 years in the market, and we always have the best network. So I have the confidence with my engineers how they are engineering the network and how we have been planning to get the C-Band and mmWave to add on to the best network that we can keep up the lead.

And our strategy is the network. I mean, we wake up every morning and we think about how can we do it better for our customers. How can we make this network working in a multitude of ways for our customer? All the way from large enterprises, small, medium applications there to consumer services, streaming services, working from home, that's what we built. And some of you might remember, in 2017, we'll launch our Verizon Intelligent Edge Network because we saw this already 5 years ago that we have so many opportunities on the same network. And that's why I have confidence that the team will just continue to keep up the lead.

And as I said before, I mean competition is good. It makes us even better because we know that we just need to plow and continue to execute on the best network. So the team is confident of it. And I think we have all the assets, all the way from engineers, how we architect the network, the software and the assets. Right now, we have the best position on mid-band as well. And then you need to top that we have mmWave, which is a unique experience layer. And in the beginning of the year, or I think we talked 2 years ago, we talked about our ambition is to have by year-end 5% to 10% in the most populated areas, 5% to 10% of our traffic on mmWave. And we see now big time how that is starting to grow because people are coming back. Operations are coming back to the most urban places. So of course, we're excited over the strategy we laid out and how we now see that coming into play for our customers.

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

Spend a little bit of time talking about one of the incremental or emerging use cases for how you can leverage your 5G network and that's fixed wireless access. You said you have an opportunity to target 30 million homes with that offering by 2023 and then 50 million by 2025. First, I'm just curious. Can you give us any update on the scaling of that product, anything around KPIs? But then the bigger picture question that we get is cable

companies are not taking their foot off the gas either. They've articulated intent to get to 10 gigabit downlink services in their networks. And of course, you see a lot more fiber out there. Why are you confident that your fixed wireless product over time will be a relevant competitive product?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

I think that our fixed wireless product we already see good traction on it. It's just such a different product and definitely it has a fantastic capacity. So think about it that we think about the full nationwide broadband offering in our consumer business. Think about that in certain markets, we have Fios, which I told you were great momentum in. We have, in certain areas, where 4G fixed wireless access. We have been operating on mmWave in, I think, in over 70 cities right now. And now we're amplifying with C-Band. Ultimately, we're going to have different solutions depending on the customer. But ultimately, our goal is that we're going to address the full market or broadband in the market. And we think that there are definitely underserved parts where we can come very strongly with our fixed wireless access.

We can come quicker. It's a different type of model. It's self-install. It's so much simpler. It's the next generation of broadband. It -- that's how we see it. And so that combination makes it very exciting. And as we spoke this -- earlier this year, our next-generation CPE is going to have C-Band and mmWave in it. So it's just going to be an enormously powerful CPE to see that we can give a fixed wireless access. And that's why we also are confident about the addressable market that we're going to address when we're going to launch it, and we want to bring this forward. So that's our competitive advantage. Of course, ultimately, we also have a great base of wireless customers way outside the ILEC where we have Fios, where we see a great opportunity of offerings and seeing that our customers are really being excited on it.

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

Do you think you're ultimately going to need to make that fixed service available to a much larger portion of the population? I mean most cable households now can get a bundle of broadband with your wireless product from the cable company? Do you need to be able to offer the same fixed and mobile bundle across most of the U.S.?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

I think the greatness with us is we have the optionality, and we always listen to the customer. We're going to have the optionality for that -- to that combination. And we can do a combination with our mix and match, where customer can pick and choose, both on the fixed broadband or the broadband and the wireless. And then we have our service offerings that are unique in the market. That is sort of what we create for our customers, optionality of different type of services, different type of packages, mix and match inside of it. And I think that is nothing you can do in 2 minutes because it's a lot of work in the back end of the systems inside the company in order to be able to do that in a consistent way with high quality to our customers.

And we have that machine running right now. So think about it. We have a network as a platform. We have billing as a platform. We have service as a platform. We are just platform thinking to scale it with different type of offerings for our customers. And yet again, that's why we feel also confident of our guidance we have done that we can continue to grow and grow in a very healthy way. We talked about GDP plus. Of course, GDP is a little bit hard these days, but ultimately translate from 2% of service revenue to 4% over the time.

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

You -- I touched on Fios just a little bit earlier. Your Fios net adds over the last year have been the strongest, I think, since 2015. Why has that happened? What's the tailwind? And how durable do you think it is, particularly as we kind of get out of the pandemic and everyone living in lockdown?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Again, I think it's a superior service with our offerings and our mix and match, and then, of course, a high-quality network that we've built. And of course, the pandemic -- I think that there -- we will never go back to what was before the pandemic, just to be clear, especially when it times to digitalization. We're going to have much more people working from home partly or full time. They need a great service. They need a high-quality network that is reliable. And as you know, the Verizon network is the most reliable. If it's wireless or wireline, that doesn't really matter. And that's what people are going to continue to look for. And that's what we have seen in the last 3 quarters up to the second quarter in the momentum in the market. And we don't think that will go away. That people, hey, now I'm going to not have a good broadband at home because I don't think it's important.

And also, you need to add to that on top of the network we see much more direct-to-consumer offerings, where we, of course, are playing with all our partners using our platform of distribution like in Disney+, discovery+ and all of that, which also is a revenue source for us and a profit source for us, which we definitely have just started because we started that model in the market, and now we see it rolling out in the rest of the world. And we still have a lot of new things we can add to it. We just started with, I would say, content streaming. We are now into gaming. We have been into music. There might be more areas where our customers going to benefit, and we're going to benefit from our distribution and network platform together with other partners to see that we can continue that journey of incremental ARPA and service growth.

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

I did. Switch gears here and spend some time talking about the long-term opportunity that you see in enterprises are among the vectors of growth that you've outlined for Verizon. It's sort of easy to conceptually understand how there could theoretically be a lot of use cases for 5G and the enterprise. But of course, historically, enterprises haven't really used mobile networks as part of their operations or for part of their services. So it's kind of hard to very specifically think about what gets us there. Can you give us a little bit more insight? So when you sit down, you speak with enterprise CIOs, what are the conversations like? What type of use cases are they envisioning? And why do you think you're positioned to meet that?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. So there are a couple of different use cases here that's come out in the market. First of all, we see a huge interest of private 5G networks. What does it mean? It means basically for a corporation, for a logistical warehouse, you have a private 5G network. You're using a licensed spectrum from Verizon and then commercial devices that is operating on 5G when you are in that confined area. Think about it substituting Wi-Fi because of the security, the throughput and the speed and the latency. That would be the reason. Why is that happening right now? Because everything is sort of an ecosystem. So of course, we build a network, devices are coming out, and now -- I mean we said in the second quarter, we are now passing 20% of our base having a 5G phone.

And of course, with the third quarter, we'll continue to grow that base of our customers. And that the same goes for enterprises. So we see that is one great opportunity. We have the ecosystem. We have the products to make that happen. The second is, of course, where we are the pioneer and the only one in the world so far, where we launch mobile edge compute, where we bring processing and compute to the edge of the network for new use cases, if it's manufacturing or if your logistic flows, et cetera. We would talk to basically every leader in the industry, in all industry segments, the number one, number two, number three, of use cases of bringing that out. And as you know, we have the biggest cloud providers with us. We have Amazon and Microsoft being part of that offering.

They are a little bit different. One is for the public mobile edge compute and one is for the private mobile edge compute. But all in all, we are creating a market where nobody else is right now. I mean we have created this market. We started 2 years ago. This was part of the Verizon Intelligent Edge Network. When we saw what we could do, then we designed the network like that as well because if you have designed a network, it's nothing, "Hey, I want to get into mobile edge compute." That's a different story. So exciting and, of course, for the investor base, we're talking slowly about, first of all, what is it we're offering, what are the TAMs we talked about in Investor Day. We're starting to give more example of it. And over time, of course, it's going to be a revenue source that we're going to talk much more about and an order book that is important.

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

Historically, when you've served enterprises, you've brought your network to them. With mobile edge compute, they're taking their IT and they're putting it into your network. So with that dynamic, how important is first-mover advantage? How much of the lead do you think you have?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. It's a dramatic change because, ultimately, if they're going to use a licensed spectrum instead of an unlicensed spectrum and buying the equipment themselves, it's a new model, where we are much more entrenched with our customers, but also offering a totally different service, which enormous performance. And we can dedicate our mmWave as we have such a best pool of mmWave. So we can offer that. And just think about how simple it's going to be. You have your 5G phone in a private setting in your corporation. And as soon as you walk out on the street, then you use the same phone, but you're outside it. If that's with compute, with cloud or within private network, doesn't matter.

So it is a new model. And of course, we were on to that. We launched, I think, for almost 2 years ago, the first 5G mobile edge compute. And we're still the only one in the market that has commercial offerings, both on private and public. So the head-start is probably 2 years, and it's going to be a land grab because it's a very different model, where we're going to serve our customer with our licensed spectrum, where they're going to rely on it. Then we're going to see which ultimate model is going to be. Will they buy the equipment to run inside and maintain it? Or will they buy capacity from us? That's sort of what we're discussing with our customers right now. And we have so many trials that we're now starting converting to commercials. And you saw this summer a couple of them are now converted to commercial deals, and we're focused on getting many more of those.

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

Well, I have time to just ask one more question of you, and it's been a great conversation, a great way to kick off the conference. When we look at you and we look at the landscape, it's hard to not notice that most, if not all, of the major telcos have either cut or eliminated their dividends as they try to position themselves to invest in 5G and fiber. There are 2 areas that you're focusing your investment in as well. Why do you believe you are positioned to sustain and increase your dividend through that investment cycle?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

So we, of course, have our projections. We have our 5 vectors of growth. We know where we're going. So we feel that our capital allocation priorities are intact. They are no different. Number one, we invest in our network, in our business. And this year, of course, with the CapEx we're investing, together with the acquisition of the spectrum and TracFone. That's really to invest in our business. And that's the #1 for us and for our Board. Secondly is to continue to serve our shareholders with a dividend. And with Matt, the CFO, and I, our job is to continue to see that we put our Board in a position to continue to have a healthy dividend, both growth, but -- and healthy dividend.

And the third one is to see that we are now paying down our debt. As we said, when we came into the spectrum auction, we wanted to get back to our -- before it was pre-Vodafone. Now it's pre-C-Band sort of metrics when it comes to unsecured debt to EBITDA. And we have 4 to 5 years to get there. But the team is very focused on it, but that is the priority. And the last priority then becomes, okay, share buybacks. When we're done with all that, we will do share buybacks, which is now pushed out in a time due to the spectrum auction. But we are very consistent. As we're consistent on our financial discipline on consumer wireless or consistent on how we work with our cost base, we're equally consistent with our capital allocation, and we're executing on it as a promise to our shareholders. That's what we're doing.

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

Hans, that was a great overview. Thanks so much for being here with us for the 30th Communacopia and we look forward to seeing you you, back in person, next year.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes, absolutely. Thank you Brett, thank you everyone.

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