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Verizon Communications Inc. at Citi AppsEconomy Conference
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Manon Brouillette *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

CONFERENCE CALL PARTICIPANTS

Michael Rollins *Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst*

PRESENTATION

Michael Rollins *Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst*

Well, good morning, and welcome to Citi's AppsEconomy Conference. For those of you I haven't met, I'm Mike Rollins, and I cover the communications services and infrastructure stocks at Citi. Since this is our first keynote of the conference, I just want to wish everyone a Happy New Year. Wish we were back in a physical environment, but maybe it's only fitting that the AppsEconomy Conference is taking place within an application for this year.

We have disclosures available to the right of the video player as well as under the Citi Disclosures tab if you're viewing this via Velocity. And for those of you joining us here today to ask management any questions, simply type them into the question box on the screen, they'll come directly to us. We'll do our best to integrate those into the discussion.

So without any further delays, I'd like to welcome the Verizon team with us for our opening keynote discussion. With us today is Manon Brouillette, who is Executive Vice President and CEO of Verizon Consumer Group; and Kyle Malady, EVP of Global Networks and Technology and Chief Technology Officer of Verizon.

Manon, Kyle, great to see you. Thank you for joining us today.

Kyle Malady *Verizon Communications Inc. - Executive VP & CTO*

Thanks for having us, Michael.

Manon Brouillette *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Good morning, everyone.

QUESTIONS AND ANSWERS

Michael Rollins *Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst*

Well, maybe to get us started, since this is the beginning of a new year, can you talk to us about your strategic and operating priorities for the year to come?

Kyle Malady *Verizon Communications Inc. - Executive VP & CTO*

Sure.

Manon Brouillette *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Do you want to start on the network...

Kyle Malady *Verizon Communications Inc. - Executive VP & CTO*

Yes, I'll start with the network, and then Manon, you can hop in. So we've been talking a lot of headlines about C-Band over the last few weeks. Obviously, we've been very, very busy at work deploying the gear required to make use of the spectrum that we purchased last year. The teams have been working really hard getting out the gear, even with COVID and supply chain issues and the like. The team has done a great job, and we've gotten to a point that we are going to launch with 100 million POPs when we launch.

But for 2022, the work and the flywheel are going to continue to roll. We are going to double down and deploy as much C-Band as we possibly humanly can. Beyond that, we're also going to continue to deploy our millimeter-wave service as aggressively as we have been

over the past couple of years, where we ended the year over 30,000 nodes. We'll continue to grow that.

We'll also continue to deploy our fiber, so we -- not only in our LEC footprint for Fios, but also out of our footprint in our One Fiber areas, so we can support the growth of millimeter wave C-Band and low-band technology. So those are 3 very, very fundamental things in terms of our band and really growing the best network and making the best network even better. So the BUs, like Manon, can use that asset and go out to the marketplace and do great things for our customers.

So from there, I'll let Manon take it...

Manon Brouillette Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group

Yes. From a business standpoint, I could not be more excited. Actually, I've been with the company for 6 months. And I'd like to say that just stepping into my new role, I feel I have the best holiday gift under the tree in December with that C-Band that is launching in a few weeks and TracFone transaction that has been completed in December.

So I really feel I have all the tools to double down on the strategy, amplifying the growth from a mobile standpoint, but more likely becoming a national broadband player, thanks to FWA and that 100 million POP and the 20 million we're covering right now with FWA. So I think that not a big change in the strategy, but more amplifying and using all the tools at my disposal to, I will say, propel the growth.

Michael Rollins Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst

Great. I want to get into some of those announcements a little bit more in a moment. But maybe taking a step back, when Verizon gave its multiyear guidance previously, it looked at '22 and '23 as scale years for the 5G strategy. And I'm curious, are you still on track to meet or exceed the guidance objective that was set for the service and other revenue growth to be 3% or more in each of the next 2 years?

Manon Brouillette Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group

I'm very confident about [our business] (added by company after the call). When you think about -- we've looked at the Q3 switcher pool was a little down, as you all know. And in Q4, I won't reveal any number, but I mean, we've seen a softness in the switcher pool. But I think that for us now, it's more about a new way to go to market. FWA for me is one of the best hook to grow the mobile base.

Just to give you some number, today, we know as a fact that 50% of our FWA customers were not Verizon customer before. So which was quite a big surprise for us because we were under the assumption that we would just upsell the mobile base, but it's not the case. So the way I look at the business now is that, okay, I have a new hook, which is FWA. I can grow my broadband base, but I can also use that to grow the mobile base at the same time. So this is the first thing to grow service revenue.

The other thing is more about the step-up strategy. As you've seen yesterday, we've announced new mix-and-match plan. They are very great, great value for consumers. And that step-up strategy worked. Today, we only have 30% of our base that are on premium. So there's a lot of room to grow. And we know that this is attractive for customers since 60% of the growth have -- go for a premium package. So it works. We have the room to grow. And the way we look at revenue, I feel very confident.

Michael Rollins Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst

Yes. As we talk a little bit more about the wireless business, every few years, the industry seems to go through some kind of competitive pivot. And I'm curious if Verizon sees another one of these pivotal moments coming either in the way that services are priced for consumers for wireless or the way they're packaged? And what kind of time frame you might see for that?

Manon Brouillette Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group

I think that the industry is very dynamic. So I don't look at pivotal moment once in a while. I think that we have to be agile every day to adapt to market conditions. And that's, I think, the way we've approached the market so far and that strategy of flexibility for consumers, putting them at the center of every decision works for us.

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I see that we have a lot of flexibility, as I was mentioning. We can work directly in the mobile base, use FWA as a new tool. TracFone is a great game changer for us because if we have to go and fight in terms of pricing, we have that tool now in order to do that without affecting Verizon brand and capability to grow ARPA.

So I feel we have all the tools and the agility. And from an operational standpoint, what I tried to do is making sure that we can extract efficiency from the P&L to reinvest in the growth and being sure we can adapt to any pivotal moment, as you stated.

Michael Rollins *Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst*

Are you ready for our first live survey question?

Manon Brouillette *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Whenever you want.

Michael Rollins *Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst*

So for our audience, you may recall that we like to do these live surveys. And you might actually see the survey before I introduce it. You could vote any time as you see it or after I introduce it, and then we'll try to get those results quickly and share those with you in this live environment.

So the first question that we're going to introduce is, what do you expect for wireless industry postpaid phone net adds in 2022? And we're going to give you a range, and I'll read these because on the screen, we're not able to see what our audience is going to see. So your choice -- the choices are: over 2 million to 4 million; over 4 million to 6 million; over 8 million to 10 million; and then over 10 million.

And just to put a little context on it. The last 2 years, we've had -- or 2 years prior to this year, so in '19 and '20, average postpaid phone growth was like 6 million, 6.5 million. And this year, it's probably going to be about 9.5 million in 2021. So it's kind of interesting, on a base of 243 million, roughly, what our audience thinks is going to happen with postpaid phone net adds for next year?

While we wait for those results to start coming in, Kyle, if we can go to you for a moment and talk about the network. So you made the announcement of 100 million POP coverage for C-band. You talked about home broadband. What will customers get in terms of a usage or experiential benefit from this Ultra 5G that you're introducing into the marketplace?

Kyle Malady *Verizon Communications Inc. - Executive VP & CTO*

Well, it's a game changer, frankly. The C-Band, if you go back in history, we were -- we've acquired spectrum in low band, primarily, but very, very thin swaths of spectrum, and then kind of cobbled it all together to make it work, which was quite an engineering challenge back in the day. But now the government has made a vast amount of spectrum available, and we started first in the millimeter-wave area.

The good thing about millimeter wave, it has massive, massive bandwidth. But as everybody knows the laws of physics, it doesn't carry that far. So you need to have kind of a small cell deployment. And that's great because it works very, very well. It's the best tool there is in dense urban environments, in places where people congregate, airports, stadiums, live venues, et cetera. So that tool is fantastic for that.

Everybody knows low band is great for coverage, but it's very limited in the bandwidth. So now with the C-Band added to our portfolio, it just kind of -- it closes the circuit here. So now we have a little bit of best of both worlds on each side, where we have the coverage and we have greater bandwidth capabilities to offer with our customers.

Now all of this is in all of the devices that we have going forward. And frankly, some of it is in the base already. So now we cover the entire board. And I might add that the work that we're doing with Kuiper in terms of satellite, that is low bandwidth, but also gives us the ability to cover the whole United States and, frankly, the world. So if we start with lower bandwidth, high coverage and move all the way up to really high bandwidth and smaller coverage, now we cover the whole playing field.

So the other thing that I find really exciting about this is, in one fell swoop, that's why we were aggressive in the C-band auction, never

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before has the government put up such great amount and such great coverage-type spectrum. That's why we're really aggressive. And in one fell swoop, we were able to more than double our holdings in low band. We paid money for it.

But we think, in the long term, this is generational spectrum. And from an engineering kind of network perspective, we couldn't be any more excited to finally hit the start button on this thing and start letting our customers enjoy the benefit of what this is going to do.

Michael Rollins *Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst*

Great. Well, we have our results in for the first survey, and I should also mention that they're confidential. So we're not tracking individual responses. So for those that want to respond, we're not tracking you.

So it's interesting. So 15% was over 2 million to 4 million; 63% was over 4 million to 6 million; 19% was over 8 million to 10 million; and only 4% was over 10 million. So the majority of our audience thinks that postpaid phone net adds in 2022 could fall below the run rate that the industry was experiencing in 2019 and '20, so pre-pandemic and then in the early parts of the pandemic.

Manon, Kyle, how do you feel about this in terms of industry growth? Are we looking at a very significant downward trend off of 2021? And maybe give your thoughts about what that looks like for Verizon from an industry level and what that could mean for Verizon volume growth in 2021 for postpaid phone net adds?

Manon Brouillette *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

I mean, I really don't see it the way your people are anticipating. I think that the market is quite healthy. There's a lot of demand for connectivity. And of course, when we focus only on postpaid net add, it's a way of looking at the industry. But we are in a connected world more and more, and we have to look at it from an agnostic point of view. So all connectivity combined, there's a lot of growth ahead. And I cannot certainly give you the number because I don't have it.

But I think the focus for us is to make sure that we have all the tools to grab as much as we can of that available market. And I feel that we have all the tools now, just with -- Kyle mentioned about the benefit of the Ultra Wideband Network. It's a real game changer for us, not only from a mobile standpoint, but as I mentioned, from a home broadband standpoint.

And that's the way I look at mobility now from our point of view. We are a broadband national player using our mobile network to address that untouched market. So I feel the market is healthy. I feel that we have all the tools to be the best out there. And hopefully, I'll be right.

Kyle Malady *Verizon Communications Inc. - Executive VP & CTO*

Yes. And I'd echo -- I do echo what Manon said, too. From my seat, we do a lot of work with many companies in our 5G labs that really have nothing to do with a smartphone. And that's kind of when I get to the platform, when I talk about the platform we're building, that's what we want to see. We want to see all matter of different devices, up-and-coming devices that are connected to the network. Now they might not have the same usage profile or characteristics of a typical smartphone right now, but they will have use for people.

We see a lot of watches, you see tablets, you see all those things, but you'll start seeing things that get enabled by much more bandwidth and latency characteristics and compute at the edge. And you'll start seeing things like glasses and other B2B2C-type scenarios as well as business scenarios, where it's just -- it's revenue coming in, it's connected to the network and, frankly, at the end of the day, we just want everything connected to our network. So it could be a smartphone. It could be a robot. It could be a drone. Those are what we're going to be looking at.

Michael Rollins *Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst*

Let's go to our second live survey question. And this one is, what is the biggest threat to revenue and cash flow performance for Verizon over the next 3 to 5 years? And just a reminder, your responses will be confidential. We're not tracking them.

So the first one is AT&T, T-Mobile and the wireless competitive environment broadly; second is cable insurgency; third is DISH insurgency; and then finally, expecting other new entrants, whether it's Apple, Google or Amazon. So we're going to open up that poll.

We'll come back to that in a couple of moments.

While we're waiting for those responses, another announcement came out yesterday around an agreement with the FAA on the C-Band timing and launch. Can you unpack that, the implications for Verizon and the service-level experience for your customers from this agreement? And is this the final agreement? Or could there be more delays?

Kyle Malady Verizon Communications Inc. - Executive VP & CTO

Okay. So I'll start with this one, and then Manon could pitch in. Now this is the final agreement. We -- as you know, the -- we have access to that spectrum. We have legal rights to that spectrum. And if you go back for a long time, there's been an awful lot of rule-making regarding this band. There was a very transparent process, an interagency transparent process that is run all the time when the government decides they're going to put up some spectrum for auction. Decisions were made, and we went and purchased it. And at the last minute, this -- some of these issues popped up.

So we've we were thinking of launching in December. December 5 would have been the day that we theoretically would have access to it unfettered. But we -- because of the noise that came up, we decided to give the government 30 days, and we worked through it. So we spent a lot of time with the airline industry, the FAA and others, trying to understand what the issue was. And we offered up mitigation. And that's what you brought -- you saw in the letters yesterday, you saw in some of the announcements.

And basically, what we think is a reasonable mitigation is just to follow some of the rules that some of the other countries have put in who've been using this spectrum for a long time. And so what we said is we would use the mitigation rules that France has been incorporating, and we would do that, not force us to do it. We would just do that because as they figure out what they need to do, that would be the right thing to do.

So we feel this is it. When I talk about 100 million POPs, that includes this mitigation. So I'm not going to come back and say, okay, we're taking subs out or taking potential POPs out as a result of mitigation. The 100 million is with the mitigation in there than we hope over time. Now obviously, around airports now, we won't have C-Band right around airports. But still, our -- all of our regular services are low-band stuff and our millimeter wave are there. So nobody loses anything, it's just the benefit of the C-Band won't be there immediately.

Now over time, this will get worked out, and then we'll be able to turn on the C-Band all over. So that's kind of where we landed as we did the back and forth. Now the work continues with the airline industry as they figure out exactly how they're going to roll forward after the 2-week period here.

Michael Rollins Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst

And Manon, from a go-to-market perspective, you mentioned or Kyle mentioned the 20 million homes for fixed wireless access. Is that all with these mid-band capabilities that was on the website, the 300-meg and 1-gig tier? Or does that also include the LTE access that you provide, which might be at lesser speeds just because they're in different coverage areas?

Manon Brouillette Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group

Actually, in the 20 million POP, you can have any type of access you want. So the way I look at it, it's agnostic of technology. But when we open a POP, you can access anything you want. So Ultra Wideband will be available. So that's the way we look at it. But some people will expect to go for LTE and may decide to stay on LTE because...

Kyle Malady Verizon Communications Inc. - Executive VP & CTO

And that's -- yes, exactly. And then, Michael, that's exactly -- so what happens is as we grow the -- that's why we decided to open up LTE as well. That's why you'll have a mix to start. But as we're -- as like I said in the start, we're going to continue to aggressively build out the C-Band. So you might -- the possibility exists that you could start out, you get the fixed wireless access, and you're on kind of LTE speeds. But over time, you get up to -- you get into the C-Band speeds.

So this is going to be an evolution. And it's really not even about the 4G, 5G technology. It's really about the spectrum, the underlying

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spectrum that's available to you. So that's how it's going to evolve and then keep growing. We're really happy with 20 million. That's a good number. That's above our what we [inaudible]. Yes.

Manon Brouillette Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group

Kyle, it's important to say that the 20 million will grow as well.

Kyle Malady Verizon Communications Inc. - Executive VP & CTO

Absolutely.

Manon Brouillette Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group

It's the starting point.

Michael Rollins Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst

And Kyle, you mentioned the goal to go as fast as possible with C-Band. And I remember a year ago at this time, the big question we were getting was, can you go faster with the clear -- with the 100 -- well, it was the top -- was it 48 to top 50 markets clear as you're getting into this end of this agreement period with the FAA in a couple of weeks? But then there's a lot of the markets that clear at the end of -- was it '23? And can you pull that forward with the additional spectrum and coverage that you have?

Kyle Malady Verizon Communications Inc. - Executive VP & CTO

Yes. So first of all, that's why I'm super proud of the team that we said we prognosticated we have 100 million FTE in March, right, at the end of the first quarter. And we've been able to pull that in, regardless of the, like I said, COVID affects our workforce. COVID affects some of our vendor partners being able to get resources and to help hang antennas and do the work, the supply chain, this FAA stuff, what have you, we've had hurdle after hurdle.

Also, just clearing the spectrum, right? People forget making sure the satellite providers needed to clear the spectrum and get out of it so we could use it. So that was the whole effort that was going on as well. So all these things, I'm super proud of the team. We've been able to get to the 100 million 3 months earlier. And we're going to just -- we're going to continue to build fast.

My CFO and Hans, they've given us the dollar resources to go as fast as we humanly can. That is not something that's going to slow us down. So we're going to continue to do that in the 46. But also, if you remember, the way we purchased the spectrum and where we set ourselves up, we set ourselves up on the far left side of the band for the duration. So when all those spectrum becomes available. That gives us some potential optionality to maybe go into some other markets that might be clear and do that earlier than at the end of 2023.

So I've got nothing to report or say about that at the moment. But what I can tell you is we set ourselves up the optionality to make that a possibility as we move through this year and into next.

Michael Rollins Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst

Great. I think we have our survey results now for the next question that we asked. So I'll read the percentages. So 57% responded that AT&T, T-Mobile and the wireless competitive environment broadly was the biggest threat to your performance over the next 3 to 5 years; 30% was cable; 3% was DISH; and 10% were other new entrants, Apple, Google, Amazon. So maybe it's a great segue into getting your reaction to our audience's view, but also getting your view holistically how you're viewing this competitive landscape. And is the bark that we see and read about in terms of promotions actually turning into some bite in terms of how this could affect financial performance for the industry and Verizon specifically?

Manon Brouillette Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group

Yes. I think that the way I look at that, I mean, my answer to that survey would be, it's everything out there can be addressed. The thing is for us to keep innovating to never -- to be on top of our toe every day, making sure we don't take customer for granted, and we keep innovating and bringing new -- new products and services to the market.

So I think I come from a very, very dynamic market in Canada. There's a lot of competition. I've been working with Europe as well, where

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there's a lot of competition as well. So it's not new territory here. I think that the idea for us is to make sure that we are ahead of the game, that we are able to be agile to react to market condition and, as I mentioned earlier, not to take anything for granted.

And I really feel confident that we have the tools to fight and to be able to gain our fair share. Actually, I wouldn't be here if it wasn't the case. I just joined 6 months ago, so I've done my homework before. So I really feel that Verizon is really in a good position to keep growing and being able to compete in that very dynamic market landscape, so.

Kyle Malady Verizon Communications Inc. - Executive VP & CTO

Michael, can I ask you one question? I find it interesting. The last group was like the Apples and the Amazon. How many -- what percent said that was the problem or going to be an issue?

Michael Rollins Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst

10%.

Kyle Malady Verizon Communications Inc. - Executive VP & CTO

That's interesting.

Manon Brouillette Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group

But as you know, we are a network -- we are network as a service. So if ever any brand wants to come out there, I mean, we're here to serve them.

Kyle Malady Verizon Communications Inc. - Executive VP & CTO

And only 3% said DISH, so okay. I guess what I would say is we -- now on that 10%, that would be -- we're partnering closely with all those names and very good partnerships we have at the moment. So that's an interesting -- okay, thank you.

Michael Rollins Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst

Sure. And maybe just a follow-up on this. The one thing investors have been trying to understand is the guardrails surrounding the economics of reselling wireless. And you resell to cable. You resold to TracFone previously before you purchased them. And is there a direct and linear relationship between consumption and cost for your wholesale partners? And how should investors just think about the economics for Verizon on this?

Manon Brouillette Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group

Yes. I think that -- I can not reveal a lot, as you know. But I can tell you, that's a very healthy model. When you think about it, this is a revenue stream that comes our way every month with no cost to serve. So we don't have to deal with those customers, which is very great. And just to -- without revealing and revealing at the same time, up to now, TracFone was not able to offer unlimited packages. And now with us, they will be able because they are part of the network.

So there is a unique economy there that protects us, in a way, from an MSO standpoint or an MVNO. Every time they sell data, they have to pay something to us. So I really feel confident with that type of agreement. And we just have to remember that if they were not on Verizon network, they will be on any other network. So I'd rather have them with us and get that revenue stream rather than the other way around, so.

Michael Rollins Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst

And for our final live survey question, we're going to go to one that we've asked over the last few years. And the question is, do you believe 5G fixed wireless will be an effective competitor to fixed broadband services? And the answers are yes, no. And we were also giving the option of maybe or undecided. So we're going to reveal that question and come back to that in a moment. While we...

Manon Brouillette Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group

Kyle is very anxious to answer. I have to tell you, Kyle is very anxious to answer.

Kyle Malady Verizon Communications Inc. - Executive VP & CTO

I've been waiting for 30 years.

Michael Rollins Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst

Well, before we get there, because we are going to get there in just a moment. So while we wait for the results, can you talk about what you're seeing in usage levels? So we've had now over 1.5 years of pandemic, of different variants and different responses and behavioral changes. What are you seeing in terms of usage of the network for your customers on the actual mobile network, not the offloading side of what your customers use?

Kyle Malady Verizon Communications Inc. - Executive VP & CTO

Yes, sure. So it's been very, very interesting, right? The -- if you look at a micro level in the network, which we do on a daily basis, that's what my engineers do, for years and years and years, it's very predictable. It's very repeatable, it's very predictable. COVID like screwed everything up, and it screwed up all of everything.

And so usage patterns changed dramatically from either geography, from time of day, what have you. And what we saw was, in urban areas, usage shrank dramatically. And then in suburban areas and rural areas, usage went up dramatically, right? So we saw a big shift geographically.

Now over the last 6 months, 9 months, we've seen it kind of return more back to the normal distribution, where people are coming in to the cities more and the -- it's dropping off in the suburbs. And the busy hours are changing too, and it's getting to be more like what we were pre-COVID. However, the overall usage is still up, like 20% plus, right?

So people continue to use more and more data in their daily lives on mobile devices and hotspots, et cetera, and so on. And a lot of that is going to continue to happen because people are using video chat. People are changing the way they're working. People are not going to be in the office all the time. So we think we're going to come up with a new, kind of a new baseline over time here.

As you know, now the new Omicron and everything, we're seeing different. But the one -- so we're continuing to monitor that. That's what we do on a daily basis. That's how we engineer our network to make sure it works right.

But the other interesting thing is when we did see people come back into the urban centers, which we see, and they're staying, our millimeter-wave network has grown upwards like 9x over the last year. I mean it's a hockey stick of people using millimeter wave in the dense urban areas, so that's a sign people are coming back into the cities. But it's been a very interesting ride for my engineers to make sure that we have enough capacity as things change so we can live up to our brand promise.

Michael Rollins Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst

So are you ready for the results now?

Kyle Malady Verizon Communications Inc. - Executive VP & CTO

Absolutely.

Michael Rollins Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst

So the results: 38% said yes, it will be an effective competitor; 34%, no; and 28% are on the fence with a maybe, undecided. So Kyle, can you talk about how fixed wireless and what you're offering is different than maybe in historical times? How you can offer 300 megabits or 1 gig on the fixed wireless service and go head-to-head against the fixed broadband providers?

Kyle Malady Verizon Communications Inc. - Executive VP & CTO

Yes, I mean, listen, I was talking with somebody yesterday kind of about this. If I go back in my career, when we were first launching 4G, we had a lot of questions about why don't you guys try and get into the fixed market, then you could displace DSL easily.

The fact of the matter was, at that time, all we had was the low-band spectrum. And we just did not have enough capacity in the RAN to

support mobility use cases along with a fixed use case. It's something we've always wanted to do. I mean it's an obvious play for a wireless carrier, but unfortunately, because of our bandwidth situation, we weren't able to do it.

Now that we've been able to accrue a lot of bandwidth, and we brought the technology to the point where you can use sub-6 stuff and you can use millimeter wave, now I can bring all this bandwidth to the fray and I can support fixed wireless access. So that's what I was talking about. I mean we've been thinking about this for years and years and years, we just haven't had the capability to do it. Now we can.

There's another important piece that I need to bring up, though. At the end of the day, these networks are really going to be fiber networks with radios hanging off them. So we've been spending an awful lot of time over the years building out our fiber assets, and that's going to be critical going forward. As we bring massive bandwidth to the table, you need the underlying fiber network to make sure you can transport it.

And then beyond that, you need a core that has enough capacity and capabilities that's really going to be able to bring another massive amount of data on to the network. Now this, some people ask me, "Hey, Kyle, well, this is going to be a lot more bits and bites that you're going to have to run through your network." We're unafraid, we run some of the biggest AS networks in the world. As you know, a lot of the Internet traffic in the world goes over our AS701.

So we understand the massive amount of capacity that you need that's required to do this, not only because of that, but because of our Fios networks. So I'm hoping that we do have this discussion again in a year. And we have 20% undecided and 80% yes. So that's a good -- we have a good baseline now from which to operate. So I appreciate that survey, Michael.

Michael Rollins *Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst*

Manon, what does this look like from a customer perception perspective? So when you do your research, are customers not sure that a wireless product can hold up to what fiber or coax can do? Or does the consumer not care and they just want the access?

Manon Brouillette *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

No, I think it's really nice to have that survey, actually, because it shows that there's a lot of job to be done in terms of perception. I think that -- what I'm glad is that the product quality is there. The performance, the speed, the reliability, so it's there.

For us now, when we go to market, it's just to make sure that we incentivize people to test it, to try it. And I think that the way we structure the pricing will probably enable us to do that. And there's many other benefits to the product that we will probably promote more to make sure that people give it a chance, which is the self-install. It's great.

When you think about it, when you want to get a cable or fiber, sometimes you have to be home like half a day or even a full day for the old install. Here, we are in a self-install, plug-and-play, very easy access. All the hardware is free. There's no contract. There's no fee. I don't want to be doing a sales pitch here, but it's just to show that we've removed all the barriers to entry to make sure that people will give it a shot.

But when I look at the result of your survey, it shows that there's a lot of skepticism out there. And I think that we'll just be able to do more promotion, more marketing, talk about the product, making sure that people try it. Because the way we look at the churn today, when people really get the right performance, they stick to the product. It's really reliable. So it's a matter of time and efforts.

Michael Rollins *Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst*

And maybe moving on to the TracFone prepaid market that you were talking about a little bit earlier and the opportunity now to offer unlimited, can you talk about how Verizon wants to leverage the TracFone platform? And historically, we've been seeing this prepaid to postpaid migration. Is that a new opportunity that TracFone brings to you as well?

Manon Brouillette Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group

I think the simple answer is all of that. I think that we have a great opportunity about that path to postpaid. Some people, depending on the time in their life, they're in a situation that they need to go for prepaid. The best example, if you have kids, their first phone, you just want them to go for prepaid so you have a better control over what they're using. And then, in time, they have to migrate to postpaid. So that's one of the line that we will be exploiting, of course.

That being said, what I'm really excited about with TracFone is that now we have a multi-brand strategy that enables us to address all segments of population and that we can also use to react to any market condition, if needed. So the prepaid in itself is a great strategy. It's not only prepaid to postpaid.

And not forget about Visible as well, which is that digital brand, that is really focused on millennial and Gen Z. So I think that we have a broad spectrum of brand now in order to address the market landscape and to deploy strategy and tactic, depending on what we have to do in the market.

Michael Rollins Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst

And in terms of ARPU performance, you mentioned earlier that, I think you said 27% of your customers who are on premium unlimited plan and 60% of the gross adds are taking it. How are you looking at continuing to promote customers to move up the stack of higher-value plans? And does 5G Ultra give you future opportunities to further discriminate performance or other factors that customers might be willing to pay a premium for?

Manon Brouillette Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group

Yes. I think that the team, and it's before I joined, by the way, they've developed that muscle and now the mix and match, and that premium strategy has been in the market for a couple of years. So it's always normal that you have a ramp-up to get to. And I think that the team now is very, very agile.

From an outcome promotion standpoint -- outside, sorry, promotion standpoint, we have all the triggers that work to attract, as I mentioned, 60% of gross ad goes for premium. So it works. And we have a huge team that are managing the base, making sure that we talk to our customers at the right time to migrate them to the right package for them. So there's a lot of room to grow, as I mentioned earlier, so I don't want to repeat myself.

And I think it works. But not only from an ARPA standpoint, but from an insurance standpoint, from an NPS standpoint. All the metrics align altogether. The more you are on premium, the better you are. So I think that we're just going to keep repeating what we've been doing, tweaking it, getting better at it. And FWA, as we mentioned, is a new tool for us to even expand and propel and amplify that strategy.

Michael Rollins Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst

Great. And one of the things that Verizon has been very focused on over the last few years is cost and margin. And what are the opportunities to find further efficiencies, cut additional costs within the consumer group?

Manon Brouillette Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group

Well, there's a lot. Not that the cost structure is too high, but I mean, there's so many opportunities that are not maximized today. First, of course, we just want to be more efficient, not only from a financial standpoint, but from an agility standpoint. We've been talking about the market that is more and more dynamic, so I want to make sure that the team can react to that. So when you streamline the organization, you get more agile. So that's the first element I'll be working on.

Then, of course, there's everything about digital transformation. I don't know if we share those type of numbers, but we've been able to reduce millions of calls year after year migrating people to digital. There's a lot of questions that we answer over the phone or even in stores that people don't want to call us for that. So if we bring more digital platform, digital tools to consumer, they will adapt, and more and more after COVID. So I think that digital transformation is the other path.

JANUARY 05, 2022 / 2:00PM GMT, Verizon Communications Inc. at Citi AppsEconomy Conference (Virtual)

And the big, big game changer for us is AI. We've been deploying a lot of things and probably Kyle can talk about it, but I'm so proud of the team. We've been doing many new stuff with AI. And it's small things today in the operation because we want to test and we want to develop the muscle, but it works. And now what we want to do is to expand that.

And not only it enables us to be more efficient, but it brings better value to consumer, better customer experience because we know more we can anticipate. So I think it's all of that combined. And as I was mentioning earlier, the goal for us, it's not only to extract from the P&L just to grow our benefit, but it's to be able to reinvest in innovation, in technology and customer experience to propel our future growth.

Michael Rollins *Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst*

You mentioned earlier about the switcher pool being soft. You've also mentioned the churn performance has been very good for Verizon. In some way, are those 2 things linked together? And just because we've had consolidation, right, as we were entering into the pandemic, is it the consolidation that could just keep the switcher pool lower for longer? How does Verizon look at that?

Manon Brouillette *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Yes, yes, that's a very good question. And I was very surprised, by the way, when I came to the U.S. that people are focusing only on the switcher pool. So yes, you're right. That's the base camp, I would say. But I think that the way we have to look at the business from now on, it's not only about grabbing from the switcher pool, it's how can we expand switcher pool. And I think that -- that's why I want the team to focus on new products and services that may attract.

FWA is the best example. As I was telling you, 50% were not customers with Verizon. So it's easy for us at the time of that activation to upsell them to a mobile premium package. So probably, they were loyal to their provider up to now, but we have an entry point talking to them, making sure that they will consider us for a broader portfolio of products. So that's the way I see the future.

Michael Rollins *Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst*

Great. Well, we've got 3 minutes left, which brings us to the rapid fire in our 3 questions, 3 minutes. So the first rapid fire question is, why should investors buy your equity?

Manon Brouillette *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Do you start, Kyle, or I go?

Kyle Malady *Verizon Communications Inc. - Executive VP & CTO*

Sorry, you start.

Manon Brouillette *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Well, I mean, I don't want to sound too sales pitchy, but I wouldn't be here if I didn't believe that because I just joined. I think we are a growth engine. I think we have all the tools now. I mean we've been talking extensively about that over the last 30 minutes. I think there's a lot of room to grow for us with all those new tools that we have in the portfolio. So I would buy.

Kyle Malady *Verizon Communications Inc. - Executive VP & CTO*

I would just echo, we're built for the long run, too. We're talking about a lot of things right now for kind of short-term go-to-market. But we're working on a lot of different advanced technologies. We're going to continue to grow the network, and we're going to continue to be the best network in the world. And I think people resonate with that.

And with the great offers that Manon comes up with in her side of the house and what Tami does on the business side, I think we're poised for growth. We're really well positioned for growth and meeting our customers' demands and creating new markets, actually, as we move forward. So that would be my two cents on it.

Michael Rollins *Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst*

Second question, is inflation a net opportunity, net neutral or net risk for your business model and financial performance as you look out over the next few years?

Kyle Malady Verizon Communications Inc. - Executive VP & CTO

I'll start with that one because I'm a lot of the cost to the company. And if you use the word net, I guess what I could say, from my side, it's something that we're -- we've been worried about, and we're keeping a close eye on, and we continue to work daily.

Everybody knows what's going on in the supply chain. We're heavily dependent on certain silicon in certain parts. Some of these guys who provide these parts, they're looking for expedite fees and so on and so forth. Obviously, labor shortage can play into it. So -- but this is something that we're managing on a daily basis.

I mean another interesting thing is, a lot of companies around the world have been operating in no-inflation environment for a long, long time. We've been around for a long, long time. We've actually managed in high inflation environments. And so we have some muscle there. So it's going to be -- it's on the top of our mind. It's something that we need to manage and make sure we take care of our P&L.

Manon Brouillette Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group

And I think that, from a market standpoint, I think that, yes, we don't control the future economy. But from a technology standpoint and from a business standpoint, connectivity is more and more important to everyone. So I really feel -- and the way I look at the base migrating to premium, it shows that there is room to grow, and we still have a place in terms of share of wallet. From a total spending standpoint, technology is critical in everyone's life. So I don't feel we are threatened like any other industry could be.

Michael Rollins Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst

Final one, since this is the AppsEconomy Conference, what application can fundamentally change demand for connectivity and data consumption over the next 1 to 3 years?

Kyle Malady Verizon Communications Inc. - Executive VP & CTO

I'm going to start, and then Manon could weigh in. She might have a killer app. For me, we don't necessarily think about a killer app. What we're trying to do is create platforms that allow people and industries to innovate and use our platform to further their businesses or further their lives.

And you can go back to all manner of stuff in 4G with Uber and all those kind of things. We're building the platform. There's new capabilities that we're going to make available: distributed computing, all the bandwidth that we're bringing, the MEC. All these things will allow people to innovate and come up with new business models. So for me, it's more a platform play. I don't necessarily have a killer app, if you will. Maybe Manon does.

Manon Brouillette Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group

If I find it. I'll call you, then we start a business together, Kyle.

Kyle Malady Verizon Communications Inc. - Executive VP & CTO

All right. I love it.

Manon Brouillette Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group

No, actually, I mean, I won't add many to what Kyle said. I think that our network-as-a-service strategy is there to serve any killer app. That's the model we are in, making sure that we will provide the best connectivity for consumers to use those killer apps at the time they want. So I think that -- that's the main focus for us. So unfortunately, we're not giving you probably the north star of where the money is, but I feel we are in a pretty good business model if they surf on our network.

Kyle Malady Verizon Communications Inc. - Executive VP & CTO

Yes. What we can tell you is that if you come into our 5G labs, there's hundreds of companies doing all a matter of different things. And that's what kind of gets me excited.

Manon Brouillette Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group

Yes.

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Michael Rollins *Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst*

Well, Manon, Kyle, thank you so much for your time and for kicking off our conference today. Thank you.

Manon Brouillette *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Thank you very much.

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