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PRESENTATION

Simon Flannery - *Morgan Stanley, Research Division - MD*

Okay. Good morning, everybody, and welcome to day 2 of the Morgan Stanley TMT conference. Great to have you with us here. I hope the conference is going well. It's my great pleasure to welcome back Matt Ellis from Verizon. Matt, welcome.

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

Great to be here.

QUESTIONS AND ANSWERS

Simon Flannery - *Morgan Stanley, Research Division - MD*

Before we get started, please note that important disclosures are on the Morgan Stanley disclosure website at www.morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley sales representative.

So Matt, you had an Analyst Day last week, I covered a lot of topics. Perhaps you could just kick it off by trying to share with us the key messages that you wanted us to take away from that?

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

Yes, absolutely. Before I do, I just want to draw everyone's attention to the safe harbor statement in our SEC filings on our IR website as well. So yes, as you mentioned, we had our Investor Day last week. We covered a lot of stuff. And it really starts with the fact that our network as a service strategy, we're executing on that. C-band was obviously one of the areas we talked a lot about. We got to the first 100 million POPs covered, almost a full quarter ahead of when we said we would a year ago. We said it would be end of first quarter. We actually got that done in early January. And because of that momentum, we were able to announce last week that the next milestone, which is getting to 175 million POPs, last year we said that would be at the end of '23. Last week, we announced we're pulling that in by a full year to the end of this year. So the teams had great momentum there.

That -- the Network as a Service strategy gives us more paths to revenue growth than we think anyone else in our space. And we call those our Five Vectors of Growth. The first one being 5G mobility. And as we bring new 5G services to our best-in-class mobility customer base, both across consumer and business opportunities to step customers up as part of that. The second vector, a nationwide broadband. Obviously, we've had a great Fios business. We said that will grow from a little under 7 million subscribers end of last year to 8 million by the end of 2025, but then bringing fixed wireless access to the table here. So not just in the Northeast corridor being a broadband provider. But across the country, we said we expect to be the 4 million to 5 million subs by the end of 2025 with fixed wireless access. So really good progress that we see ahead of us there.

Third one, around B2B solutions and mobile edge compute. And we described a lot of the progress making with business customers, bringing in 5G, whether it be public, private networks into their businesses. Fourth vector is around the value sector. We've been the #1 player in postpaid for years and years and years. With the acquisition of TracFone, we bring 20 million TracFone subscribers into the Verizon family. We're now the #1 player in prepaid as well as postpaid. And then finally, network monetization, which is where we work with our wholesale -- we wholesale services to partners who want to offer services on our network.

So those 5 vectors give us -- we talked about 4 financial things last week. One, revenue growth that gets to 4% by 2024. But not -- we didn't just talk in percentage terms. We actually put a dollar amount on it. So we did $110 billion of service and other revenue last year. We said that would get to $124 billion by 2025. And then with that revenue growth from a margin standpoint, we said we expect EBITDA to grow at or above the rate of revenue growth.

The third thing we spoke around was capital intensity. Obviously, a lot of capital spend with the C-band build-out. We've got this $10 billion accelerated spend from '21 through '23, but we got a little more specific on what people should expect after that. We said capital spend should be a $17 billion a year after that. And our capital intensity coming down below 12%.

Prior to C-band, we've been in the 13% to 14% range for a number of years. So we're going to get to a number that's lower than the historical level that people expected. So when you combine the revenue and the margin growth and the reduction in capital, great free cash flow, and that feeds into the fourth thing around capital allocation, certainly, getting our leverage back down to the target range by the end of '25 of 1.75x to 2.0x. So being in the 2.0x by the end of '25. But then we also talked about because of the strong cash flow, considering buybacks beginning at 2.25x. So before we get to that target range. So a lot of stuff we covered last week, the Network as a Service, the vectors of growth, revenue, the EBITDA, capital and whatnot. So-

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Simon Flannery - *Morgan Stanley, Research Division - MD*

So this is the peak year for CapEx, and then we'll see it stepping down some next year and then back down to that trend level in?

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

Yes. Yes, absolutely. So if you think about CapEx last year, we broke it into 2 pieces. We have it called it our BAU, which was $18.2 billion, kind of similar to the year before. And in the C-band specific thing, the first $2.1 billion of that $10 billion spend. We expect $5 billion to $6 billion of that $10 billion to be in this year, that will leave $2 billion to $3 billion next year. But then the BAU this year, we said would be between $16.5 billion and $17.5 billion. So that's already coming down from that $18.2 billion range that we did the last couple of years. And so we expect that to be this around $17 billion level going forward. And then the C-band, we said that's $5 billion to $6 billion this year, $2 billion to $3 billion next year, and then that runs off and it would just be the $17-ish BAU number from that point out. So when you combine that with the revenue growth, you get to some capital intensity numbers, we haven't been at for a very long time.

Simon Flannery - *Morgan Stanley, Research Division - MD*

And you've had the C-band out for almost 2 months now. Can you talk about what the kind of the experience is, what your -- the network is performing at? And traffic impact, the customer impact?

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

Yes. We've certainly seen some -- the network is performing as well or better than the network team expected. We're seeing speeds certainly averaging in the hundreds of megabits per second, kind of top speeds at around 900 megabits a second. We expect that will get north of a gig when combined with other spectrum bands will do coming up not too soon.

Simon Flannery - *Morgan Stanley, Research Division - MD*

This is only with 60 megahertz initially?

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

It's only with 60 megahertz. Obviously, that goes up to 160 megahertz by the end of next year. And then obviously, nationwide as well, not just in the first 46 markets. So but seeing a lot of good activity on it already in areas where it's turned on, seeing 5% to 15% or so of network usage already getting on the C-Band. That's great for 2 reasons. One, customers are getting that step up in performance. But as we see the customers who have got that device in their hand, they can use the spectrum. They're on a plan, which they get access to it. So yes, they're using that, and that frees up more of the LTE capacity for other customers there. They're getting a better experience. It also reduces our need to add LTE capacity as well.

So we're seeing great performance on the C-Band so far -- it is really part of what's been a really big first quarter for us with the turning on the C-Band, bringing in the fixed wireless access. We're seeing the performance on fixed wireless is very strong in terms of the speeds people are getting there as well. So certainly seeing customers getting 200, 300 megabits a second, if not higher, as well and having a great network performance in the home as well as mobility. So we've got fixed wireless on -- on C-Band now. We said last week, we expect fixed wireless to be above 150,000 adds this quarter, more than double what we did in fourth quarter. It's a great sequential momentum.

We launched new price plans that built the C-Band in, that you saw as well. We've had great activations across the wireless side, partly because of the backlog that we took out of the holiday season. And then you've seen all the marketing around there, the new C-Band launch and the price plans with the Ultra campaign and everything else. So all of those things will show up here in the first quarter, but really sets us up for a great trajectory going forward. But yes, the C-Band is off to a great start, and the performance on the spectrum is, as I say, at or above what we expected.

Simon Flannery - *Morgan Stanley, Research Division - MD*

Great. Well, it was helpful to get the long-term guidance. I think the one of the big pushbacks on the industry is the ability to continue to grow in the face of a fairly mature penetration curve. And you put out -- I think half of your $14 billion was from the core mobility business. What gives you the confidence that you can continue to grow service revenues in the 2.5%, I think it was ARPA growth?

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

Well, we continue -- so a couple of things. One, we continue to see good volume activity. I mentioned we see a lot of good -- very strong level of activations in the quarter. So that tells us that our base is strong, and we're seeing that come through, especially on the retaining our base. Churn continues to be at low levels. When customers are upgrading devices, they're doing it on our network, and we expect that to continue. But we'll also see. So on the consumer side, the revenue growth is more coming from ARPA step-ups as we get customers to move up the price stack and get access to our higher-value plans, including getting on 5G Ultra Wideband.

So we see good momentum there with significant runway ahead of us. As we do that, we're bringing customers onto unlimited and premium unlimited. We've got a lot of runway to go there. And then you combine that with other offers that are in there and the launch of Plus Play that we announced last week as well, just another reason to increase the stickiness with the base there, which will help us drive the revenue on the consumer side. On the business side, very strong back end to the year last year as we saw SMB recovery across the broader economy. We expect that to continue this year. And we have market-leading share across every part of B2B and we continue to add to that. And again, with the price plans we put in place there, the ability to step customers up as well, especially on the SMB side, we -- from where they come in and as they grow their businesses. So we see there's a number of ways that we get to on that vector contributing significantly to the overall revenue growth.

Simon Flannery - *Morgan Stanley, Research Division - MD*

Right. You mentioned Plus Play, you unveiled at the event last week. You already have quite a lot of content offerings in higher-end, unlimited tiers. How does Plus Play sort of amplify that? And what were the key differences with what you're doing today?

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

Yes. So today, we give customers the ability, if you're on one of the upper tiers to have certain items in the package, right? So the Disney bundle, for example. Plus Play is different in that what it is, it's really looking to solve a customer pain point of how do they bring a lot of all these different subscriptions you have together in one place. And you may change around who the subscriptions are with. We can put offers out there. If you get this -- if you buy this one, you get another subscription. It is really great to have the opportunity to have Netflix as a partner as we launch Plus Play. They've obviously going to be a very key part of how we launch that product. So that -- but it's -- it's not putting the content into our core price plans unlike the existing stuff. It's really creating another way to interact with customers. We obviously get some value out of doing that. And also we know when customers have subscriptions that they do through us. It increases the longevity of our relationship with them as well. So we think it's a -- there's a pain point out there. It helps to address with consumers. It also brings the power that we have of a very strong direct-to-consumer business. And a lot of the content companies are looking to go more direct but that's a muscle that they don't have as much history with. So we're able to partner with them in a way that helps us and helps them and helps the consumers as well. So we're excited about launching that later this year.

Simon Flannery - *Morgan Stanley, Research Division - MD*

Right. And there'll be a trial in the early part of this year. Is that right?

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

Yes. We have trials that are expected to start towards the end of this month. And then as we go through the year, we'll build that up for a full launch. So we're excited to see that kick in. And just as I say, it's about -- we have the best network. We now find ways to deepen our relationships with our customers, and we think that brings tremendous value.

Simon Flannery - *Morgan Stanley, Research Division - MD*

Great. So you mentioned becoming a national broadband player, Verizon was one of the pioneers on fiber. So you're in the unique perspective to kind of opine on fixed wireless because you have had fiber in the marketplace for years. How do you see fixed wireless fitting into the broadband kind of food chain ecosystem in terms of being fast enough, having enough capacity to handle millions of users on your network today and in the future?

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

Yes. Yes. So the big difference that has happened over the past few years isn't just the speeds that are there to make it useful, but it's also the bandwidth and capacity. At the time we launched LTE, it was similar speeds on wireless than we were getting on home broadband at the time. And we had the question so are you going to be able to do them. Well, the speed is there, but the bandwidth isn't. As we've densified the network in 4G and then as you move into 5G and the difference in the spectral efficiency in 5G, we now have the bandwidth to go with the speed.

So we've been very successful with the LTE Home product that we've had in market for about almost 1.5 years now and originally we have started off in rural areas and then we've expanded that into suburban even urban areas where we have the network capacity. And we've seen good traction there and people getting good, reliable, consistent performance. But obviously, as we then bring C-Band to the table, a 5G version of that, you're now talking about speed, 300 megabits on the download and seeing people get that number or even higher on a consistent basis. So it's a very competitive product. There's significant bandwidth available there to support the speeds -- and the customers who have it today are very happy with the quality of service they have and the reliability of it. So we think there's a long way for us to go with fixed wireless, and it's going to be a significant contributor to our growth going forward.

Simon Flannery - *Morgan Stanley, Research Division - MD*

And I think one of the charts you showed last week was that the peak usage period is different from the smartphone use?

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

Yes. Yes, you think that the smartphone busy period is really towards that late afternoon type of time period through 6:00, 06:30-ish. The home broadband kicks up in the evening hours. So it gives us the opportunity to more efficiently utilize the capacity we built into the network. I mean, the capacity is there 24/7 once you've built it, even if consumers don't use it evenly through that time period. So to add on another product that has a different busy hour period is -- it creates a very efficient usage across the network that you've already built.

Simon Flannery - *Morgan Stanley, Research Division - MD*

Great. And it's ironic given some of the questions about fixed wireless last year, but now there are some questions about, are you being too conservative with your 4 million to 5 million targets.

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

Yeah. When is that -- last year it was like, does it really work this year as you've been too conservative.

Simon Flannery - *Morgan Stanley, Research Division - MD*

So how did you come up with that? Is that -- I know there's a large cohort kind of analysis over -- it takes time to build the penetration?

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

Yes. Yes. So you have to think about as we put those numbers together, it's looking at it by geography and how quickly we'll bring the capacity online. So obviously, we've got the first 46 markets. We're there. In the rest of the country, we are scheduled to get that spectrum in December '23, and so as you start up the sales marketing machine there, by the time you get to the end of '25, you're just at 24 months. As we know from Fios, you keep building the penetration after that point. So -- our goal isn't just to get to the 4 million to 5 million subscribers by the end of '25. I think that number will continue to expand and scale from there. We've seen that in every market that we've launched Fios that you just have this ramp up over time in the penetration rate. So we will -- the team have permission to overachieve that 4 million to 5 million. But right now, that's our best estimate of where we'll be at that point in time. But -- as we said from the first quarter number, we will be over 150,000 in 1Q this year. So already good momentum behind it. And we'll see where we end up.

Simon Flannery - *Morgan Stanley, Research Division - MD*

And what are you learning? And are those coming from DSL, coming from cable, are they urban? Are they suburban? What's your early learnings on that source?

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

Yes. But you also got to remember, it's consumer and business. So we're seeing a lot of good traction on the business side as well because it gives them a speed of deployment, in a store or wherever the business location is that you just don't have, when you've got to dig up the parking lot to get a fiber cable in or whatever. So we're seeing a lot of good deployment there. But on the consumer side, absolutely, some from DSL, a lot from cable, it's rural, it's suburban, it's urban. It's existing Verizon wireless customers, it's people who aren't a wireless customer today. And that then gives us the opportunity to not get them on fixed wireless, but also bring them into the broader Verizon ecosystem. So we're seeing good adoption across geographies, across consumer and business, et cetera.

Simon Flannery - *Morgan Stanley, Research Division - MD*

Great. So talk a little bit about prepaid. You bought TracFone, help us update us on the deal integration, the synergies there, and we're looking at gas at $6 wherever it's headed. What does that mean for the prepaid business?

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

I think it puts us in a great position where we have a balance across the whole consumer segment, but from prepaid all the way up to the premium end. So irrespective of how the economic situations play out, we've got more diversity there in terms of the way that we can interact with the customer base. Very excited to bring those customers in. So just to remind people, roughly 20 million subscribers on TracFone, 13 million or so already on the Verizon network. So there's 6-plus million that are on other networks today. Over the course of the next 12 to 24 months, we will bring them onto our network. So when you combine those network access costs together with other sourcing supply chain benefits, we think we'll get. We see about $1 billion of synergies that we'll realize over the next 12 to 24 months. Certainly by the end of 2023, we'll be at full run rate, if not sooner than that. So excited about the opportunity. So that's the savings side. And when you think about the product offerings, difficult for a TracFone to offer unlimited in the way that we do because of the way they pay per gigabit of usage. And so that makes unlimited difficult for them prior to the transaction. Now it's owner's economics on the network, something they've never had. So the ability to get more creative with the planks constructs to bring fixed wireless in there as well. And how do we do that for the value market. There's a significant opportunity there. So very excited about bringing that in. And then the regular prepaid to postpaid, postpaid to prepaid migrations depending on the economic cycle, puts us in a better position to participate in that as we go forward as well. But the big pieces are around just what we can offer the TracFone subscribers with owners' economics. We think that's a tremendous opportunity.

Simon Flannery - *Morgan Stanley, Research Division - MD*

Great. The B2B, the mobile edge compute, you talked about fixed wireless and not particularly about SMB. I thought the food truck example was a good one, construction sites. But the -- I think investors are somewhat struggling about the revenue visibility there. And I think you've talked about a hockey stick. How do you get comfortable with that $2 billion number that you gave us for 2025 incremental?

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

Yes. So I think there's tremendous opportunity out there in business are seeing ways that they can use private network, you think about a 5G private network and what you can do on 5G that WiFi doesn't enable people to do. And then as you go from 5G to private network to MEC and bringing that edge compute capability to business operations. And so we've demonstrated that we've -- one of our largest deployments so far is with Associated British Ports of their Southampton facility. We showed a little bit of a video with that last week of how they're deploying that there, and bring in more real-time data into their operations. Certainly, working with people across the manufacturing distribution center type space on the same thing. So we had an announcement last week where we will be deploying a 5G private network of BlackRock's new office space in Hudson Yards as they move over there, and have that type of capability on the trading floor with the latency that the 5G private network brings.

So there's a lot of different use cases in there. There'll be different pricing models. But you should think about us getting -- having monthly recurring revenue from managing those networks on behalf of enterprise customers as we go forward. So -- and then as you think about the timing of it through the next few years, some of those -- the vectors will grow faster. We talked about fixed wireless. Obviously, that's now going, right? I think the 5G B2B side will be a little more of a curve with an inflection point that will take off. So I think it will have -- certainly expected to have really good trajectory 2 to 3 years from now and a lot of exciting work going on with customers right now and starting to see deployments out there.

Simon Flannery - *Morgan Stanley, Research Division - MD*

Great. And then on the network monetization, you have some very large cable MVNO deals. You've worked with TracFone for a long time. They seem pretty happy with the deals, particularly the renegotiation last year. How do you assess what's the right -- you want to keep the customer, but at the same time, you want to get some good margin and not create something that's disruptive for the industry. How do you balance that?

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

Yes. Look, I think if we've got anyone out there who wants to offer an MVNO offering, we prefer they do that with us, right? And Trac is a great example of somebody who had a long-term relationship. It shows that we know how to be that partner of choice. And that means the relationship evolves over time. And it means putting the right pricing out there that allows them to be effective in the marketplace, but also allow us to continue to be successful in our retail business as well. And I think we've got a good track record of having that right balance with people as we do that. So the arrangements with TracFone, I lost track of how many adjustments we had to the underlying contracts, because the market dynamics change every year and their needs to be able to compete in that marketplace adjust and so on. And I'm sure it'll be the same with every one of our wholesale customers. It will constantly be making adjustments that reflect what's going on in the marketplace. But I think it gives us the opportunity to -- we're going to be successful in our retail business, but it also gives us an opportunity to get another revenue stream on an existing network investment.

Simon Flannery - *Morgan Stanley, Research Division - MD*

And you've got more capacity to sell now with C-Band?

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

Absolutely, with more to come.

Simon Flannery - *Morgan Stanley, Research Division - MD*

And you talked about margins, EBITDA growing in line or faster than revenues. And I think there's a big concern with inflation, supply chain, et cetera, but more broadly, the ability to control costs for corporate America. How do you think you've got synergies like TracFone? How do you get that comfort that you can keep the costs under control?

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

Yes. So look, we're managing that closely. Certainly, some costs right now, we'll see them rise at faster rates this year than we have in recent years, whether that be labor-related costs, you were just mentioning fuel cost, and so those things certainly are there. Remember that within our industry, we have a fair number of costs that are on long-term contracts, you think about third-party access, you think about rents and lease, those are our multiyear contracts with pricing baked in. So not every industry has that puts us in a better position than some. But we will continue to -- you've seen us being very disciplined about cost control, continuous improvement in that space. Last year, we completed our $10 billion plan that we started in 2018. We completed that ahead of schedule. There were some folks internally who thought, okay, we completed and we are done. And I reminded them very quickly, you are never done with cost improvements. And it's an ongoing activity. And if we have to do some different things there because of inflation, then we'll certainly be aggressive about doing that.

But I think we have good efficiencies in the business. As you get the revenue growth we talked about, that brings operating leverage. The owner's economics on the network. And we've spoken over the last couple of years about the value of having more of our cell sites on our own fiber, and we quantified that last week. So last year, the benefit of the site to run on fiber, which was in the mid-40% range. Those sites being run on fiber saved us over $300 million in access costs last year versus if we've been on third-party fiber for all those cell sites. And as we get to above 50% and higher of our cell sites on our own fiber, we see that number approaching $1 billion a year in access costs avoidance. So it's just one example. You've mentioned the Trac synergies as well. So there's a number of things that we'll continue to work on where we can be effective on the cost side of the business as well.

Simon Flannery - *Morgan Stanley, Research Division - MD*

Right. So you reiterated your target leverage ratio and made it very clear that as the CapEx comes down, the free cash flow starts to jump, that helps the dividend growth story. But you gave us a new target for buybacks considered at 2.25 turns. Can you help us through the kind of the conversation, the decision-making to -- why was that the right number?

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

Yes. So look, as we brought the leverage down post Vodafone to the target range, as we are close to that range, we've got a lot of questions. When do you start doing buybacks and so on. But we had this auction that was out there. We didn't know how much it was going to cost, but we thought it would be significant. And so we never really answered the question at that point in time. But we felt it was important to -- because we don't see another big spend like that ahead of us 3, 4 years out. So we thought it was important to provide a little more clarity.

And the fact that, look, what we said to the rating agencies last week, we talked about with them was, look, if we get from where we are today at 2.8x to 2.25x, that means we're on a significant path of cash flow growth and leverage reduction. And then if we begin buybacks of 2.25x while we're still working to our range of 1.75x to 2.0x, there's a good path in this. So we thought it was the right balance to not have to have equity holders wait until we get all the way to 2.0x to be in a position where we could introduce buybacks. So I think that puts the right balance in there, still meeting our commitments on the fixed income side, but also giving people more clarity around when buybacks may begin.

Simon Flannery - *Morgan Stanley, Research Division - MD*

And then if you -- I think you were saying that the deleveraging would be pretty rapid in those out years is the forecast, if you don't-.

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

Yes. When you get the combination of the revenue growth and the margins we discussed with that capital intensity reduction that we spoke about earlier, you get to a very strong revenue growth. So we talked. Yes, I talked about the fact that this year, I think my free cash flow will be down a little bit from last year because of that CapEx spend. But then we said last week, we can see it in the $20 billion to $22 billion range next year. And that's even still with some of the C-Band spend in there. So once you get then beyond '23 into '24, lower CapEx, revenue growing faster, you're talking about very, very strong amounts of cash flow generation coming out of the business that gives us a lot of excitement as we think about the future and a lot of optionality in terms of what's ahead of us. But it all starts with -- when we drive revenue growth here, it puts us in a great place to have a lot of great conversations.

Simon Flannery - *Morgan Stanley, Research Division - MD*

Great. Well, Matt, we really appreciate you taking the time to join us this week. Thank you so much.

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

Thank you.