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CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

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

PRESENTATION

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

All right. Well, welcome, everyone, to day 3. All right. This is a big day for the telecom media space, and I'm very excited to be kicking off today with Hans Vestberg, the CEO of Verizon. Hans, thanks so much for coming out to the West Coast for our Communacopia + Technology Conference.

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

Great to be here. Before we start the safe harbor statement, I'll probably want to say forward-looking statements here. So just be aware about that.

QUESTIONS AND ANSWERS

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

All right. Let's jump into it. Really, for over the last 2 decades, Verizon has been a leader in the wireless market on, I think, almost any metric you pick: subscriber share, network profitability, and you still are.

The last 2 quarters, you've seen your postpaid net adds really below the trend. And that's happened even as the industry has been somewhat above trend. And so the first question I have is, what gives you confidence that this is a temporary dynamic, and that Verizon will retain its leadership through the 5G era?

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

First of all, I mean, I think you hinted it yourself. I mean, when it comes to brand market share, profitability, we are clearly the #1 in the market, and we're intending to keep that easily. I mean, even though we guided down our EBITDA to flat this year, we will be somewhere between \$47 billion and \$48 billion in EBITDA, which, compared with others, is way above. So we think that's important.

But clearly, we're not satisfied as we came into the second quarter on the Consumer wireless. And remember then that when we reported in the first quarter, we talked about softness. We saw a softness there in the first -- coming in, in April, et cetera. We took a lot of adjustments there, and we did a lot of actions.

We started by preparing a new plan, a Welcome plan. Because what we need to think about, we have such a broad portfolio right now, all the way from the value play with the TracFone, all the way up to the premium Premium. We need to be surgical all the time when it comes to price changes, new plans. Sometimes we increase the price. Sometimes we actually make a new plan. And we came out with a Welcome plan, which was a bring-your-own device in a lower premium segment.

More, we did also increase the adjusted prices on metered plans and some fees, where we saw it was appropriate. So all that ought to play in for us. And what we can say right now, 2 months into the quarter, clearly, we have more gross adds. We're growing that month-over-month. We see much more traffic in our stores, probably up sequentially double digits.

So clearly, it's happening, and we see that it's working. But we need to be surgical all the time in order to be financially sound because we want to keep our good cash flow, which is clearly the best in the industry, because we think that's important. And we are the leader in the industry, and we need to act like a leader.

So that's what we have been doing, and it actually starts resonating. Then just a reminder, we said that in the second quarter, with the price increases, we're going to get the churn bubble in the third quarter on the Consumer side because that's how it works. But that, all in all, is the right decision, a financially right and sound decision in order to continue to grow our cash flow.

On the other hand, just to make the pivot to the other side of wireless, on the Business side, we have now 4 consecutive quarters with more than 150,000 phone net adds, which we have never had before since we started. And clearly, a very strong portfolio with a strong network. Then we have been challenged in the competitive market on the Consumer side. We have addressed that.

We work basically daily to see that we're doing the right things in the full portfolio. I mean, we have over 140 million wireless lines, ranging from sort of the TracFone to the premium Premium. And we also need to be very surgical, very focused in everything we're doing in order to get the right offerings to consumers. But we're also seeing that we are keeping our profitability and see that we can grow that.

So I think that's sort of the message I have. I mean, together with that, our brand and our network is still clearly the best. I mean, there's no doubt about it. And on our cash flow generation, it's #1 in the industry, and we will continue to do that. Then we were not satisfied with our sort of net adds in the second quarter. And we addressed it, and we'll continue to address with new things. And we'll probably talk about a couple of new things we're doing.

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

Okay. And just to make sure I get the data point you gave us accurate, you talked about month-over-month improvement in gross adds. That was Consumer postpaid phone growth add?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. That's Consumer, so yes. Sometimes, we end up talking all about Consumer. That's why I came back to the Business side. But you're right, the gross adds, we're talking about the talking about the total consumer. Also, the churn bubble is Consumer because of the price increases we did in May, but it came in effect this quarter basically.

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

And you alluded to it, one of the things that you introduced into the market in the last few weeks is the Welcome Unlimited plan. It allows you to sort of go after a demo you historically haven't really gone after before, with a price point as low as \$30 a month. Are you finding that, that's a big part of what's actually driving the improved store traffic and the improved gross adds? And is that what's selling? Or is it...

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Both. So that's one of the drivers. And of course, when we get our consumers to come into a store, we have a great opportunity to talk to them what is their right plan. And that doesn't mean that everybody takes a Welcome plan. They might be Unlimited or Unlimited Premium instead. And that's, of course, what we're seeing happening more.

And on top of that, I think this is a bring-your-own-device, which we think is also another way of working in the market where we bring value to a segment of the market. And again, I mean, with the size we have right now and the scale we have, you need to be surgical and financially disciplined in every segment of the market in order to see that you optimize for your customers and for ourselves.

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

Are you seeing any evidence that your existing customers actually want to switch to the Welcome Unlimited plan? Or it would be a little bit of a trade down?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Nothing out of the ordinary. People are stepping up and stepping down. There are -- but there's nothing especially because of the Welcome. On the other hand, we see a continuation of this main strategy we have on the Consumer side, which is, of course, the step-ups going from metered plan to Unlimited to Unlimited Premium. That is continuing.

And we have -- when we reported in the second quarter, more than 2/3 of our customer right now on Unlimited and 40% on Unlimited Premium. Our plan is to see that all customers that are on the Verizon brand is actually coming up to Unlimited or Unlimited Premium because that's the best way for us to grow our EBITDA and grow our top line.

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

And that's continued this quarter?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. So far, it's -- 2 first months of the quarter, we have seen the continuation of those step-ups.

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

And then just one last follow-up on a point you made. You reminded us of the churn bubble that you're expecting because of some of the price adjustments. You also have improving gross adds. Is that enough to get to positive Consumer net adds this quarter?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

No. We're still -- on the Consumer side, we're still going to have a negative net adds on phones in the third quarter. But clearly, we will have an improvement. And then the churn, of course, in the fourth quarter, will come back to business as usual, as we say.

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

Okay. So that's the first quarter where you really have the opportunity to get back to growth?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes.

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

Okay.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

On the Consumer side. Remember what I said on the Business side? 150,000 net adds, 4 consecutive quarters, 45% market share in the Business segment on wireless, and we are gaining share every day.

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

All right. We're going to come back and talk a little bit more about Business. I want to just stick with the...

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Okay. I don't want you to miss that one.

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

As you basically just expressed, you have confidence that you're going to see an improvement in the Consumer business in the near term. It sounds like some of the steps you've taken in the market have helped.

But I think the bigger point you've made is that, as you more fully deploy your mid-band spectrum assets, you'll have an opportunity to bring network more prominently back into your marketing. It will take you to kind of the end of next year to be kind of fully deployed just based on the clearing of some of those you've been doing a bit faster.

But that means there's still a little bit of time here before you're fully done. And you have started to use device promos a little bit more than we've seen in the past. Your competitors have used device promos a bit more than we've seen in the past.

And the question I have is, what gives you confidence that making this investment in your base, which does yield some benefits, there's retention, there's up-tiering, is the right thing to do and also that you are going to remain positioned with the consumer as the best network? So as you continue to lead in your advantage over your peers, it can really drive more growth.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

No, if we look at the network right now -- and first of all, when we know what the RootMetrics and J.D. Power's constantly, which is the most independent and best, and that we haven't lost, and that's where the network we have today, and it's just getting better. We have just passed 150 million POPs with the C-band.

And just a reminder to all, we started in the first quarter deploying the C-band. That's the pace we have right now. And we have said that we're going to pass plus or more than 175 million POPs by year-end. So this is going faster. But as you rightfully said, we're using -- we have 161 megahertz nationwide. We're, so far, using 60. We're getting in to 100. We talked a little bit about that some markets have 200.

So we have so much way to go here in improving the network. And what we see, so far, is, of course, where we launch a C-band, we have a much higher step-up ratio in those markets, which is a good indicator of -- that the C-band is really making a difference. And then, of course, we open up more and more open-for-sale on the fixed wireless access, which, also, we see a direct correlation with the C-band deployment.

So the team has all the resources and capital in order to deploy the spectrum, some spectrum coming a little bit later because that's how the auction worked out. But clearly, we -- this is just making the best network just even better. Feel really good and confident about our network performance. I'm out testing myself all the time, talking to our reps in the stores, understand what our customers are saying, and it's a really good feedback.

And I would finalize by saying that it is the reason why we have 45% market share in the Business segment, and we're growing it. Because that's where our customers really need the best quality, that's where they really are buying for, "I need a reliable network. I need the best network." And that's where we really make a big difference.

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

All right. What are some of the other ways that Verizon is looking to maintain a differentiated Premium service to its customers. And the 2 things that you've sort of rolled out recently, I'd like to hear you expand a bit on are the Verizon One Unlimited plan, something you announced in conjunction with the launch of the iPhone 14. And then also, I'd like to hear a bit more about +play and how that factors in.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. I think on the Consumer side, we continuously are working surgically and disciplined in different segmentations. And the Apple One, which is exclusive for us, where we basically do an iPhone 14 together with all the Apple services in one bundle is, of course, addressing the high-end Premium. That's really where we are getting our customers to both be loyal, meaning retain them, but also acquiring new customers.

Very unique for us. We have worked with this model, where we not only use our scale of the network, we use our scale of our distribution as an asset where we partner with the best brands in the market on digital services. As you might remember, with Disney+, Apple Music, now we do Apple One. And you are alluding toward the next step we're taking as we had such a big inbound from digital services to work with them and see that our customers get new values.

We're going to continue the launch. We have already made the alpha launch. We're going to do the beta launch of +play, which is a sort of a digital streaming subscription platform, where our customers can put all the different digital subscription on 1 platform and pick and choose. We can do marketing, we can do bundles that nobody else can do.

And we basically have all large digital streaming companies there, gaming companies. We have companies like Peloton, we have Netflix. So that's the next step for us to see that we are differentiating not only by having the best network and a very broad sort of segmentation model, we are adding this value on top of it. So we're excited about that. We'll roll out in the fourth quarter coming into the first quarter.

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

I thought what was interesting about the iPhone promotions that we saw when the 14 rolled out was that yours were a little more balanced than I think some of your competitors and, instead, you rolled out Verizon One Unlimited. Why are you comfortable maintaining, I guess, like a premium promotion in the market right now?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

No, I think that we constantly evaluate what is the best balance of it. Sometimes, we can be aggressive. We come in and out with promotions, but we really try to see that we're doing it in the right times and see that we're doing the right thing for our cash flow and our future EBITDA.

So that's the balance we're doing all the time. Then it has been a more competitive market this year and end of last year, I would say, where promotions has been much higher than normal. I wouldn't say it's super strange. I mean, it's sort of the second year of 5G, and everybody sees that, well, now you can capture 5G subscribers.

And think about that we are indicating that by year-end, almost 60% of our customers will have a 5G phone. And you would say that, okay, that's okay. If you compare that to 4G, it's so much ahead of 4G. If you would put 4G and 5G together and adoption of phones, I mean, 5G is here and 4G was here the same time level, that's how quickly it goes.

So of course, then it's more competitive in the market. We are prepared for it. We think we compete really good in the Consumer segment in a competitive market. But we're not going to throw away money. We want to have high-quality customers that really think about our value and seeing that we are creating value for our customers and for ourselves.

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

So you've long dominated the premium end of the wireless market. You're a relatively new entrant to the lower end of the market. You acquired TracFone. You're now the largest prepaid provider in the U.S.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Right.

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

You're still going through the integration. As you've gone through the integration, we've seen the subscriber base drift down a little bit. Where are you in the integration process? And how do you see the path to getting to growth there?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

So we are really excited to be in the value segment. And as I said, TracFone is one of the brand. It's 4, 5 different brands we have in the value segment. We are on track in the integration. Of course, you bring in the subscriber base. Some are -- of the subscribers were off-net, using other providers' networks. And of course, they are churning out some of them, some of we are regaining onto our network.

And of course, much of the synergies are coming from that when it comes to the network synergies. So we're excited about that. Not only that, we're also excited about being able to use the platform of our network, our platform of our products to launch into the value segment. And you are probably going to see new products coming into the value segment.

And again, we use the scale of the products and solutions we have to bring that to the value segment, but in -- and the right one for them, for that customer segment. Then I would say, right now, we can play in any segment of the U.S. consumer market in wireless. Regardless of economic situation, we can play there.

So I'm really excited. And what we have seen so far in the 2 first months of this quarter in the prepaid or the value segment is good traction. We're getting good traction there. We're starting to do what we have said from the beginning. We knew that we would have a churn in the beginning because subscribers were on other carriers' networks. But now we are sort of cleaning that out. We're starting to get our traction that we're expecting.

So now we're really excited. We changed our structuring internally. So we basically addressed this from a back office. So we have all the assets behind the brands in order to be even better serving our customers. So this is part of our strategy, one of the pillars of growth that we have. So yes -- no, I think me and my team, we are really confident that this was a good acquisition, and it's going to play out really well for us.

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

Do you think we'll see the prepay base get to growth at any point this year? Or is it going to require just a little more time?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Now we need to learn a little bit about prepaid because a little bit different than the Premium segment that, usually, the fourth quarter is the weakest quarter in prepaid and the first quarter is the strongest. So I think we're going to continue with that pattern.

But I think we're going to see good numbers from our team, which are working hard. You're going to see new services coming up, probably new products as well in the value segment. That's just going to enhance our way of working with that customer base.

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

Right. Your fixed wireless services had a very strong year. I think you said on your call that your net adds have increased every month year-to-date and that you would expect that to continue for the balance of the year. So the first question is, can you give us an update? Has that trend indeed continued so far into the (inaudible)?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. On the fixed wireless access, as far as we can see in this quarter, it continues the same trend. And we are just opening more and more markets, we're just scaling it. We opened a C-band in the first quarter. So of course, that's just adding opportunity for us. So we continue on that trajectory.

And the team are really focused on the Consumer side. This is the main broadband solution for our consumers on fixed wireless access. On the Business side, I would say, so the vast minority is the primary broadband as well. There are some backups but very little. And I think that's also very important that we are grabbing a market here and competing very well.

But I think also about it when it comes to our C-band deployment, that's in urban and suburban area right now because that was started because of coverage and POPs. So that's where we have our opportunity with C-band on fixed wireless access.

As we now continue, we're going to open up new opportunities outside the suburban, out of rural as well, where it's even greater opportunities for us. So I think the team is doing a great job. Our devices coming out on fixed wireless access will basically cover all the frequencies we have, all the way from millimeter wave, C-band and 4G low-band, which is going to make this product enormously great.

And the key differentiator is just enormous. I mean, you get the device and 1 to 2 minutes later, we have broadband at home. It's a new way of it, and we compete extremely well. So I'm excited for it, but don't forget, we have our Fios business we are really happy with as well. We saw, remember in the second quarter, a little bit less movement. So we have positive net adds, but a little bit lower, but we have seen good traction on that as well in the start of this quarter.

So all in all, the strategy of national broadband, where we have different type of access strategy is going well. And it goes back to what we said at Investor Day, we have multiple vectors of growth -- I mean, we talked about the value. We talked about national broadband. We talked about mobility, step-ups, Welcome, Apple One. So all of them are humming, then it's a competitive market. But I feel good about and confident in what we're doing, and we will do it in a very disciplined financial way, the way that Verizon always do.

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

It's interesting that you said that most of your fixed wireless distribution right now is in the suburban markets. Those tend to be cable markets. So does that mean you're winning cable switchers?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

That's good conclusion. He is a brilliant guy.

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

Thinking about the bundling that you've taken, you've kind of refreshed your mobile and broadband bundles. And you've essentially said, if you're getting 300 megs or 500 megs or a gig, it doesn't matter what technology you're on, it's the same price. And if you're getting it in a bundle, you get the same discount.

So it's been a very simplified go-to-market strategy. And I'm curious, how has it worked so far? Are you actually finding more traction with the bundles? And how do you just feel about the positioning of your bundles versus what the cable guys are offering because they're kind of flipping the switch on that, right?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. No, we feel good about it. And again, we want to give optionality for our customers. They can take broadband. They can take mobile. They can take them together. And we have owner's economics on all of it because we have 1 network, we own all our equipment. We have almost 60% of all our sites with our own fiber as owner's economics. We just have signed all the tower companies. So we have owner's economics on all these different use cases, which others doesn't have.

So I think that we will play into the market. If that is a market where we're going to see sort of a combination of home and broadband, we're going to be strong. If it's not going to be, we can play on either side. So again, the whole idea for us is to be meeting the consumers in their place and the value they want to have.

And that's why you can buy, today, fixed wire access, a naked broadband. Or you can actually add on streaming services, like YouTube TV, et cetera. That's how we work, and that's giving optionality for our customers. And I think that's the trend, where it's going in the world.

And then if a customer want to combine the wireless and their mobile and the home, yes, we're going to be there. If it's Fios together or fixed wireless access, it doesn't really matter. We have a good opportunity here to capture market share in that area if the market goes to that combination over time.

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

I noted that your bundles, in some ways, are -- I can't say a response, but the cable companies are doing something similar. You're the partner to the cable companies. And so as you look at the competitive dynamic, but also the partnership dynamic you have with the cable companies on-net, how do you feel about this relationship? Do you find that it's accretive and delivering what you would have expected?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes, well, we need to understand, it's also when the cable guys are adding wireless customers, that's on our network as well. So that comes in -- so when we talk about net adds, sometimes we need to remember that many of those net adds in a market that's in the switcher pool, they come to the Verizon network, but they are not branded Verizon.

So we feel good about that relationship. It's an important enterprise relationship with the cable guys. We have always treated them as a really important enterprise customer, and we'll continue to do so.

They are an important part of our strategy to have 1 network and serve as many connections as possible in order to get the best return on capital in the industry, which we have. So it's just playing into our strategy. Every day we come to work, we're going to see how many connections we're going to have. And don't forget that how many IoT connections we're putting on (inaudible) the network as well.

That's what we are designing this Verizon network to, that we basically designed in 2017, in order to meet this demand, which we can do easily with all the spectrum we have and the technology changes we have done, the virtualization we're doing in the network. So I would say, I mean, you should probably ask the cable guys, but I feel that we have a good relationship with them. Should always ask the customer, not the supplier.

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

Well, this is a great transition to talk about your Business segment. And as you alluded to before, the momentum in postpaid phones in business mobility has been very strong. What's driving the momentum? And are you seeing any economic headwinds to that?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Of course, the Business segment has several different pieces to it. First of all, they have different segments, all the way from small and medium, the government to large enterprises. There are a little bit different dynamics there and different products.

But what we can say is that, if you look at the small and medium businesses, that has been a great growth engine for wireless. They want to digitalize. Coming out from COVID, all of them are digitized. We have somewhere between 7 million small and medium customers.

So of course, that has been a growth engine. When they come back, they need to have a digital platform, both fixed wireless access and mobility is playing in here. They need broadband in the store or whatever they have in order to make the digital connection to the customer. So that really has been an important piece in the market.

On the large enterprises, as always, sort of the same. You have a group of large enterprises doing enormous transformation, digitalization means a lot of bandwidth, technology. You have a couple that have challenges and situations where they don't spend so much and then you have the one that use BAU. That's the same.

One trend we see, I would say, is historically, in large enterprises, we saw a lot of bring-your-own device. They let their employees bring their own device. We see that in some cases right now with security concerns that, actually, the large enterprise has started catering for phones again. Because they want to control the environment, and the security on this device that sometimes is doing 80% of the workload, so that's a good opportunity for us.

We see a lot of opportunities in your sector, for example. I think it's pretty important. Then we need to remember, we have a secular decline in the wireline piece of it because that's where sort of the transformation is ongoing. We saw, in the second quarter, a decline.

Our work is to both take out costs at the same time to see that our customer going to the new areas like mobility, fiber, 5G mobile edge compute, new solutions that we're doing and offsetting that. And that was the whole strategy for us, both to grow, but also improve our profitability over time.

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

I'm going to come back to some of the broader Business segment questions in just a minute.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Okay.

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

But I do want to follow up, just on the mobility side. When we listen to your competitors in the wireless space, they all say, "We are under-indexed to the Business segment, and we think we have an opportunity to take share." So definitionally, they mean from you. What gives you confidence that you can protect and grow your business mobility business even as they focus more (inaudible).

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

The network -- I mean, we have clearly the best network. And if it's a governmental service, public safety, if it's small and medium, they need a reliable and the best network. Our network is already the best, and we're just adding C-band. So I think that's really giving us confidence.

Then the second part, when it comes to business-to-business, you need the distribution channel that you don't build up in 2 weeks. And that we have built over years and have relationships with large enterprises, government, small and medium in every local community. That is really key differentiator here. So we are confident that we have a great portfolio. We're adding products, and we have a great customer relations. We are pushing hard every day to continue to earn that business -- and yes.

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

So on the business wireline piece of the Business segment, there's obviously been secular pressures as their customers sort of move off legacy services. You're getting away from low-margin businesses, which, I think, exacerbates the top line pressure.

What's the right way of thinking about the outlook for that part of the segment? And then how does that ultimately translate into the outlook you have for overall Business segment EBITDA and the path to better margins and growth there?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. I think we're going to see this sector decline continuing, and that's what we are expecting. We're offsetting that with SD-WAN solutions where we are the leader, but also offsetting with fiber solutions that we have, offsetting it with mobile edge compute solutions and mobility, fixed wireless access. So we are trying to offset all that decline.

At the same time, we continue to take out costs constantly. And sometimes, we don't talk enough about it, but our Business transformation projects are enormous. It's billions of dollars that need to get out every year. And we just continue to ramp that up in order to be even more efficient as an organization.

So ultimately, our goal is in the Business segment to be over 25% EBITDA. We have new management. Right now, Sampath just came in as the new CEO. Tami has done a great job to put that in place. We all need to remember, this was 4 distinct areas or businesses that never have worked together, own systems and all of that. We are bringing that together.

And we do that because we believe that this is such an important segment. And we believe that we definitely can grow the profitability over time here. And it goes back to the main strategy, 1 network, as much connectivity on top of it in order to have the best return on investment on that invested capital.

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

You mentioned cost transformation as part of that equation. You've been focused on this for a while. Obviously, the inflationary environment makes taking costs out of the business a bit harder. What are you seeing right now from an inflation standpoint? Has it changed at all from when you updated your outlook a few weeks ago?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes, we mapped/updated the market over the second quarter and said that we, of course, have pressure from inflation. And this year, maybe \$500 million. I don't think it's much different from what we talked about before. We did the operations in the market. Our job is to offset that constantly. We're doing it by taking out more costs, but not only that, we also did, so in some areas, increased prices. But we do it surgical.

Again, in the Consumer segment, we don't do it in 1 blanket. We don't increase prices, reduce prices, do new offerings. We do it for the different segments. When you have over 140 million wireless lines and you go from the lowest plans to the absolutely highest plan, you need to be very surgical. And that's where I feel so much confidence that we have all of that, and we have an organization that can address that.

And we do it together, basically, every day. We're sitting there thinking about it. And I'm personally much more involved every day right now given the size of it and how we want to put the brands in, the products in, the pricing, see what's happening in different regions of the country.

So this is important to us, but this is also the main driver of growth for us. I mean when we talked about our growth in the next 5 years in Investor Day, we thought mainly the biggest portion absolute is, of course, mobility, step-ups, upgrades, that's really where we see the absolute number and that's we need to continue to work with.

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

Another piece of that is mobile edge compute. And if we think about 5G versus all prior generations of wireless, one of the things that makes 5G so exciting is it lets you serve end markets that you couldn't have served with a 3G or a 4G network.

And mobile edge compute is just one of many potential use cases in the enterprise. And so where are you in your discussions with large enterprises about them much more broadly adopting 5G technologies other than just upgrading their employees' phones to 5G?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

So think about it in 3 different buckets. You have building private 5G networks, where we basically use licensed spectrum from us in order to have a secure environment for your phones and have been competing directly with Wi-Fi. The next one is private 5G networks with mobile edge compute, where you add a cloud component on it in order to, I would say, take directly business-related decision in real time in a local zone.

And then the public mobile edge compute, where basically you're walking around here and using the cloud much closer at the edge of the phone. That's also the progression. Today, where we see the most traction is on private 5G networks, where companies' enterprises are doing it for the factories, for the offices. They are actually building private 5G networks in order to see a much secure, faster and reliable experience for their employees or for their devices.

Secondly, then we start bringing in different type of cloud solutions and that we do together with Amazon, Microsoft and Google, basically, that we work with all of them because our customers, for some reason, are using different. So we need to offer that. And that we start seeing use cases in manufacturing, retail, logistics.

The funnel is as a normal enterprise funnel. It takes some time. You do a proof of concept. Then you put it in and then you replicate it in different logistics centers, et cetera. So that takes a little bit longer time.

And the public is taking a longer time because then you need to have sort of much more coverage and cloud, mobile edge compute across the country. But with the C-band and the partnership we'd have with Amazon, we are going quickly there as well. And suddenly, you're going to see gaming opportunities on the phone, where you can actually have that cloud computing very closely at the edge.

So all 3 of them are important, working constantly. But again, it's 1 network. Again, it's the same spectrum. We are using the same network. Again, we try to get as much connectivity and the best return on investment on 1 big investment, which is our network.

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

So earlier in our discussion, you alluded to the fact that you had adjusted your outlook for the year. You're looking for a fairly stable EBITDA profile and maybe a little bit of pressure on earnings, some of which is accounting related. The question that we have, and we get a lot is, ultimately, what does Verizon have to get right in order to be back on a sustained path of not only EBITDA growth, but also earnings growth? From your standpoint, what are those top things?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. You just, first of all, need to look backwards. I mean, our EBITDA has grown every year the last 5 to 7 years. I mean -- and again, this year, we are guiding to a flat to slightly down. It's going to be [around] (added by company after the call) \$48 billion in EBITDA. So we still are producing a fair amount of cash here.

Our job is now to continue with the mobility side on Consumer and Business, to continue with these step-ups because that is really giving a lot. When our customers go from a Unlimited to Unlimited Premium or they go up from the value segment up to the premium segment, that's really where the main money are.

You need to think about this as a subscription service, where you upgrade constantly, and that's really a lot. So that will be important. The other thing is, of course, the national broadband. That is adding straight to our bottom line with new broadband services across the country, not only in the FiOS ILEC. And the majority outside the FiOS ILEC, it's new territory for us. It's just new revenue.

And then the whole value segment that we acquired TracFone in, which is just an addition that, as I said, in the beginning, we got a little bit, of course, off-net churn. And now that should be thought to be additive for us over time. So all those are important together what we do in business, and then we continue to take out cost. That's what I do. I mean, historically, Verizon has been really good at growing the EBITDA.

The EPS, as you said, there are some accounting noises in between them, which is a little bit harder to explain. I would probably bring in Matt to do it. But if you think about the EBITDA, that's really where we're focused to continue to have growth. And this year, flat to slightly down, in a year that has been very competitive for us. But I see a good traction on the Consumer side right now.

So I think that's really where we are focused. We have a very clear strategy. We have the best assets in the market. We have more growth vectors than anybody else in the telecom industry at this moment. And we have a great cash generation and a very solid capital allocation model. So that's what I'm seeing going forward.

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

Great. Well, my last question is, essentially, about capital allocation. You made a big investment in mid-band spectrum, so you put some upward pressure on leverage. Your net debt to unsecured EBITDA or unsecured net debt to EBITDA is about 2.7x, but the target is 1.75 to 2, and you've got a 3- to 4-year trajectory to get there.

And when you talk to the Board about how you think about your capital allocation as you work towards that leverage target, why do you continue to be confident in the dividend model? You recently increased your dividend again, and your stock has not had a dividend yield like this for years.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

No, it's very high.

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

And normally, you'd want to be buying back...

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

It's really high.

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

And normally, you would want to be buying back your stock, although you're not quite where you want to be from a balance sheet standpoint. So how do you think about maybe a path to getting the buybacks? And do you think it might make sense to even do them sooner if the stock were to continue to trade where it is?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

So think about the capital allocation model, and I think a couple of really important things here. First of all, we invest in our business. This year, we will continue with this incremental \$10 billion of the C-band deployment on top of our business as usual. So we're going to be somewhere between \$22 billion to \$23 billion in CapEx this year.

Next year, we come down to a BAU between \$16.5 billion to \$17.5 billion and whatever is left for the C-band. We don't know that, and we're going to guide that in the beginning of the year, but it's going to be a smaller portion. So only there, you see how much cash we're going to generate because this was the whole idea with the Verizon Intelligent Edge Network. Combine the whole network and the different access points, and when you have that, when you have done that transformation, our BAU CapEx will come down. So that's an important piece of our capital allocation.

Secondly, our second priority is to continue to put our Board in a position to continue to increase our dividend. I mean, 16 years of consecutive increase in dividend, and we did it again. I think it was last week. That should give shareholders the confidence that we believe in our cash generation.

Thirdly, as you rightfully said, we want to do sort of a post-Vodafone. We want to do a post C-band. We want to come down on our leverage down to 2 or something like that, but we will start considering buybacks at 2.25. This is a fluid conversation with the Board, of course, and things can change. But clearly, we know what we need to do. We have a good step into '23 when it comes to cash generation because of the CapEx coming down, which we already talked about at Investor Day.

And as many of you know, when Verizon says something, they do it, and we will do it. So I think that the capital allocation model we have is extremely strong and fundamentally important for shareholders and debt holders what we're doing, and we will execute on that.

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

Hans, thanks so much for being here.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thank you so much.

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