

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

VZ.N - Verizon Communications Inc at Citi Communications, Media & Entertainment Conference

EVENT DATE/TIME: JANUARY 04, 2023 / 3:00PM GMT

CORPORATE PARTICIPANTS

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

Kyle Malady *Verizon Communications Inc. - Executive VP, President of Global Networks & Technology*

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*

Good morning and welcome to Citi's 2023 Communications, Media and Entertainment Conference. For those of you I haven't met, I'm Mike Rollins, and I cover communication services and infrastructure for Citi. Since this is our first keynote, let me also take the opportunity to wish you a Happy New Year, and thank you for joining us for our conference today.

Before we get started, I'd like to mention that we do have disclosures available at the registration desk and on the Citi Velocity page from which we're streaming the audio. We're also going to work to incorporate your questions into today's session. (Operator Instructions)

And finally, continuing with the tradition of using our live surveys. They're completely anonymous. We're not tracking responses. We're just aggregating the results. You can access the live pool and Q&A, both with the codes that are up here, and there's placards around. I just encourage you to log in now, so you can get ready to respond to some of our -- where I hope are going to be some really good survey questions. And it's also available on the streaming site as well.

So with that out of the way, I'd like to welcome back Hans Vestberg, Chairman and CEO of Verizon; and Kyle Malady, President of Global Networks and Technology.

Hans, Kyle, thank you both for joining today.

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

Thank you very much.

Kyle Malady - *Verizon Communications Inc. - Executive VP, President of Global Networks & Technology*

Thank you.

QUESTIONS AND ANSWERS

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

Well, so we've turned the calendar to the new year. It always seems like a couple of days ago. So as you're now thinking about the year to come, can you just give us a high-level perspective of the strategy, the priorities? And are there any notable changes in your objectives from the past year?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

First of all, we need to announce the safe harbor statement. Anything that Kyle might say, in fact, going to be forward looking and it goes for me as well so as you might be aware about that.

If you look into '23, I think a couple of things we're already changing. Kyle and I talked a little bit about our technology or not that is actually changing going into '23 compared to previous 5, 6 years. So we did talk about that.

When it comes to the other businesses. I think that, first of all, the mobility and especially on the consumer side, we have done quite a lot in the last 2 quarters as many of you know we were -- where I was not really happy with our performance at the end of the first quarter. And of course, then that trickled into the second quarter. We started to take actions in the third quarter being a little bit more agile moving into the softer segments that we had. We continued that work in the fourth quarter. So you're going to see us being more agile. You're going to see us being even more focused in certain segments.

Remember now, we are all the way from the lifeline with the Tracfone brands all the way up to the premium brands. So we're actually covering all the consumer segments. Our job is going to be even do smarter, more surgical actions in the different segments. You see that we retain our customers, but we also acquired the customers that we want to have, ultimately, with the goal of cash generation. That's number 1 for us. I mean we really think that it's super important in wireless revenue growth or wireless service revenue growth and EBITDA expansion or cash flow expansion. That's really where it boils down to. So you're going to see us be more on that side.

Then I think a couple of other things that we already have started emerging in '22, I mean, the national broadband, of course, both with Fios and fixed wireless access is really doing well for us. That's a strategy we outlined 5 years ago, starting to bear fruit right now.

The third quarter, you might remember, we had way over 300,000 new net adds on broadband. We continue with a good journey in the fourth quarter. Of course, I'm going to disclose the numbers when we meet in 3 weeks from now, but feel really good about that.

And finally, we start to getting the traction. We talked about private 5G networks, mobile edge compute. Maybe the deals are small, but this year, we're going to get a lot of deals and that's going to be a great base for our sort of platform for us to grow with enterprise customers over time.

So I think we have a strategy, but we're actually tweaking a little bit, being more surgical. I think, as I said, when we kicked off last year, we have all the assets, we have now this spectrum, we have the network. We have built the network for 5 years. We have Tracfone. We actually divested Verizon Media Group.

So we're much cleaner what we're doing, and on top of that, we're going to see us doing more cost efforts this year. We announced it in the third quarter. So yes, it's quite a lot of differences we're doing this year, but the core strategy is the same. It's more how we tweak it and go faster in certain areas and actually changed a little bit focus in certain areas. Maybe you should say something about the technology...

Kyle Malady - Verizon Communications Inc. - Executive VP, President of Global Networks & Technology

Yes. So consistent with what Hans says here, we're going to -- we're tweaking our build a little bit. So for the last bunch of years, we've been building a lot of fiber outside of our footprint as well as inside of our footprint. We've also been really bolstering our core network to handle massive amounts of data in the cores and been focused a lot on millimeter wave build. All 3 of those things are starting to come to the end of the build process, if you will, right?

So in our OneFiber markets, we are roughly 80% done with our core builds there. So now it's just a matter of hooking things up to it. Our millimeter wave, we're over 40,000 nodes. And now that millimeter wave technology turns into a tool for RF engineers to use in hotspots that they have and C-Band. So we continue to build the C-Band out. But the 3 major programs coming down and C-Band still continuing to roll allows us to take CapEx out of our program overall. So we're going to be less CapEx intensive going forward.

Then the other thing that the tweak -- the other major tweak that we're making and Hans said, it's getting -- we're getting more local. When we were doing all this build, it was -- we consolidated a lot of things so we could bring a lot of scale. Now it's really about optimizing, and so we're having -- we have a close focus at the local level along with our sales counterparts and the BU to make sure we're taking care of issues at a local level and servicing the customers in that way.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

And you can say also that on the consumer side, as I'm also running the consumer business, we are doing the same thing. We are in a moment right now when we go more local with and executing more locally, both with branding, marketing, but also execution in hand-in-hand with our team in technology.

So this is a pivot for the next step for us, been centralized for a while, and now we go local as the network has come so far with the coverage. We're now more in revenue optimization, capacity enhancements, and we have built everything, as Kyle said, from the data center to the edge we've built now with fiber, redundancy, multi-edge routers. And now at the edge, we can decide what type of business we're doing with different type of customers. I think this was a dream that I had when I started at Verizon in 2017. We 2 drove up this Verizon Intelligence Edge network, and now we're there. And that's why we're also going to see quite dramatic reduction on CapEx.

And it's not because we're not doing everything we want to do, it's just that we have now built this. We still going to have, in 2023, a piece left of the \$10 billion that we added when we bought the C-Band in CapEx. But ultimately, we're now coming down to a BAU that is pre-2015, 2014 levels in absolute number. And '24, we should be done with that. So we only have BAU.

So clearly, this has been a strategy for a long time. We have the best network. It's just going to get better with the work we're doing. And later this year, we want to get all the spectrum we need, 160 megahertz on C-Band, covering the whole nation. And in the first quarter, Kyle has not only promised, he has guaranteed, we're going to pass 200 million POPs on the C-Band as well. Isn't that right, Kyle?

Kyle Malady - Verizon Communications Inc. - Executive VP, President of Global Networks & Technology

That's correct, Hans.

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

And just maybe finishing the topic on the BAU CapEx. So the goal -- remind us, the goal for -- was it 2024 BAU CapEx is?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Around \$17 billion, somewhere there. That's where we're aiming for. It could be \$17.5 billion or something, but around that number is a BAU that probably is going to be the lowest capital intensity in the industry -- in the world when it comes to divided by the revenue.

And again, we have built a network that is so smart. That was the whole intention from the beginning. That will, of course, unleash capital for us. And cash flow, again, remember what we have measured on ourselves is the service revenue and the cash flow. That's really -- and especially going into this year, it's going to be even more important for us.

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

And so maybe just rounding out one more part of the discussion on this. While we're just talking about CapEx and investment, what are the things that could cause you to want to spend more than BAU CapEx in the future? Is it to go more fixed wireless, bigger, broader? Is it more fiber? Are

there things, though, that are on the whiteboard somewhere where, okay, here's BAU, but here are things that we should just be mindful of that you might do in the future.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

It would be something like when we did when we bought the C-Band. It has to be something that's very clear to the market why we're increasing. I think we have discussed this every time, and I will have Kyle helping me out here, but we have talked about the 4 million to 5 million fixed wireless access broadband customers as a goalpost for us. The network will handle that. We build it once. We use it once.

There might be many, many years out a conversation when, hey, do we split cells and do unique fixed wireless access solutions. That's not in the plans for the next 4, 5 years. But after that, it might be that we come back and say, "Hey, it's a great opportunity. We split 10 cells here because we can get more subscribers." I think that's going to be a great conversation, and it's going to be sort of success-based fixed wireless access as we do Fios today.

Kyle Malady - Verizon Communications Inc. - Executive VP, President of Global Networks & Technology

It will be -- I think it would be opportunistic, really, right? I mean, like we did last year, if you remember, we spent some money, and we opened up 30 more markets for C-Band past the 46 that we had. We were able to invest and clear those quickly. So now we have those launched.

So between now and when we get the full cadre of spectrum, if there's some opportunities like that, that allow us to accelerate and grab revenue quicker, then that's something that we'd absolutely look at, just like we do with Fios.

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

So we'll jump into the consumer business in just a moment, but let's queue up our first survey question. So the first live survey question...

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes, I (inaudible) with Kyle.

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

Yes, you guys are...

Kyle Malady - Verizon Communications Inc. - Executive VP, President of Global Networks & Technology

We get to vote as well?

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

You get to vote, yes. So we can get a placard up here. It's right up here. You could log in. And it should be visible now on our streaming site as well. I already see responses starting to come in. So the question is, what do you expect for Verizon's postpaid phone net adds in 2023? And the choices are less than equal to 0, over 0 to 500,000, over 500,000 to 1 million and over 1 million. So we're going to get those responses coming in. We're going to start talking about consumer. We'll get back to the results.

So Hans, you've taken over consumer recently. What can investors expect from your leadership of consumer? And what are the changes trying to solve for? Ultimately, what's the end goal of these changes?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

I think a couple of things, which we -- you already have seen coming into the market. We will -- first of all, from an offering point of view, we will be much more segmented to go for segments that we see that we are not performing well in. And you have seen the Welcome 30, the Welcome 25 coming out with bring your own device, a special offering in a segment of the postpaid segments.

The other thing we're going to see is also a harmonization more on the operations between the network and between the consumer business. And you also will see us combining our consumer investment. When I say consumer investment, it's everything from media to above-the-line promotions, below-the-line retention. And we're going to be much quicker on using that money instead of locking it up for longer times because the consumer sentiment has changed a little bit. So it's going much faster for them to change. We have been a little bit slow in some of those areas. So now we combine all that money in order to be quicker.

As we saw in the fourth quarter, for example, we used a little bit more to media than we're actually with the spend because it was smarter than using in promos. And that is what you're going to see from us, much more agile decision-making, using the regionalization right now and being closer to the markets and having actually a decision taken a little bit lower down in organization. That's what you're going to see from us, but you can bet we will be disciplined.

We're going to be focused on our cash flow and see that we get the right customers. We're not going to throw ourselves after the net adds that is not giving us the right quality and the right return on investments. That's not the main goal here. The main goal is service revenue. ARPA growth is very important for us. You saw in the third quarter how much we grew on that. That's important to us, and that is creating bottom line, at the same time, taking out costs so we get leverage on our scale.

And don't forget, when you answered the question, which you've already done, our business side is doing pretty well. We have 6 consecutive quarters or 5 consecutive quarters over 150,000 subscribers, and they continue well. So we're taking there. So it's more about where do I take my subscribers, where are they giving my best return on investment. That's one process for us.

Kyle is working a lot with me right now in the operation with stores and how we plan with incentives. You'd say commissions, but I think it's the same thing, yes? In the stores and how we are tweaking that up, harmonizing it with the overall. So that's what you're going to see from me leading the consumer business together with guys like Kyle, and of course, the existing management team of consumer.

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

And as you look at the fourth quarter promotional environment, can you frame what you saw? Verizon had a goal of getting back to positive in consumer? How did you do? And is there a significant amount of spillover? You raised the whole issue of iPhone inventory. Is there going to be a spillover from 4Q to 1Q?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

So when it comes to the consumer net adds, I just want to say one thing. We were positive. I'm not going to go into the details because I have my earnings call, but we were positive in the fourth quarter, as we said, we should be. Team did a good work. When it comes to the promotional environment, it's always a little bit elevated for the holiday season. So that's nothing.

But it was nothing unusually higher this time. We try to, as usual, be as disciplined as we could and go into certain segments. There were some choppiness in supply from one OEM, which you probably know who it is, but they sorted it out. So there is basically no spillover right now, at least

for us. We had a good supply. We had a good collaboration with the OEMs. There were days that were complicated lead times, but we sorted that out. It was a very short time. So yes, that was good.

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

Let's go to the results of the survey, and we've gotten some good response rates here. So I'll read you the percentages and the answers. And for those online, you can see the graph there. So 15%, less than or equal to 0. This is for postpaid phone net adds in 2023. 65%, 0 to 500,000. 21%, over 500,000 to 1 million, and 0 was over 1 million. So how do you think about these -- the response from our clients?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. What you are saying is their vote. My focus again is going to be generating service revenue growth. That's going to be the #1. One measurement is, of course, getting new customers. But you can step up. You can do ARPA.

Remember, we have talked about this so many times. Our job -- and when we ended the third quarter, we had 41% of our customers on -- in postpaid on unlimited premium. I mean every step up that we do every quarter with 2%, that's far more important from a ROIC point of view than actually taking a new net adds. You can just make the calculation and you do them all the time. You know how much it cost, the new net adds, with promos and compared to do a step up. So again, you need to be smart in a market where it's a subscription-based model. That's what we have in front of us. It's one of the best subscription models in the world.

You need to be smart, how you spend your money. Are you putting it on promos you get net adds? Are you doing the retention? Or are you doing it for step-ups? All the time, be more surgical. Again, it's a financial game here. I know that some are very focused on the net adds as the main driver. It's not the main driver for the survey. It's one driver. So I think that's going to -- you're going to see from us. So I think the response are great, guys. We're going to see we're going up. Kyle, do you have a comment on it?

Kyle Malady - Verizon Communications Inc. - Executive VP, President of Global Networks & Technology

No, I'm not. That's -- I'm not gambling on that one.

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

Let's go to our second survey, and then we're going to come back and talk about the network while we get the responses. So the second question we're going to ask our audience, does Verizon need to reduce wireless postpaid service pricing at the risk of ARPU to improve volume growth? And your choices are no, yes and maybe.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

And maybe.

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

But tiering and upselling can offset the base pricing changes. So we're going to let our audience respond to that. Kyle, coming back to you for a moment. In terms of network performance, can you talk about what you're seeing with the use of mid-band 5G? And is there a clear difference in usage and customer growth in the markets that have the C-Band versus the markets that don't have the C-Band?

Kyle Malady - Verizon Communications Inc. - Executive VP, President of Global Networks & Technology

We're getting great feedback on the performance of our C-Band. I mean, for me, being in the industry for such a long time and just having the ability, the Board given us the wherewithal to obtain the spectrum that we actually call -- is generational spectrum. And we've never been able to put this amount of spectrum in play for our customers, and the uptake has been great. Our usage growth in the markets that we have C-Band is up quite a lot.

And to the point now where C-Band usage overall is 15% to 20% of our overall usage, and we only have it going in 46 markets. So we see average users using it more when they have Ultra Wideband, and we're getting great feedback on it.

So the other thing that's really unique about it is, really the C-Band that we're putting in play now as opposed to LTE and low-band spectrum, which is just for mobility, this spectrum swath is really mixed use, right? So we're doing both home and mobility as well as millimeter wave. We're treating it the same way.

So all of our Ultra Wideband spectrum is being used for both. We're seeing just what we expected, frankly, in terms of fixed wireless access usage and have it -- it is more than a traditional mobile customer, but also the time of day when people use it the most is offset.

So we feel, from an engineering perspective, we're doing a good job, fully utilizing the asset. And I'm just -- frankly, I'm really excited that the -- also the Board gave us the wherewithal to get the new 30 markets up and running quicker. We're going to be really aggressive this year, bringing more and more online. And then I just can't wait until we can turn the switch on. I guess, it will be January 1 next year when we can bring the full complement of the C-Band to bear. But right now, we couldn't be any happy with how this is going.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

And just adding to that. I mean from a consumer point of view, we see a greater pickup on step-ups and things like that in the market where we have the C-Band deployed. And remember, we only have 30 plus 42, 72 markets, I think, that has the C-Band today. Of course, they're populated because they're going to pass 200 million, but there's 402 markets where we have the spectrum. So there's plenty of markets left to be done.

And that's also when you see our -- the skew on our fixed wireless access is much more on urban and suburban because that's where we deploy the C-Band right now. But of course, over time, not too far away, we're going to have also C-Band in some places more than 200 megahertz. So -- and we see actually the correlation there.

So -- and then finally, I think everything that Kyle has built right now, we are prepared just to hang the radios, meaning we don't need to go out there again, adding 40 more megahertz or 60 megahertz. We have prepared them in places even prepared with 200 megahertz where we need 200 megahertz.

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

And I'll come back to the step-up point in a moment on the ARPU side, but let's get to the survey results and share what we saw from our audiences perspective on does Verizon need to reduce wireless postpaid service pricing at the risk of ARPU to improve volume growth. 28% said, no; 41%, yes; and 31%, maybe. But up-tiering and upselling can offset base pricing changes.

So Hans, you mentioned earlier the importance of wireless service revenue growth. Can you talk about how Verizon is charting the path forward with the volume, with the ARPU up tiering that you're doing? And how price comes into play in terms of the competitive landscape?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

I think that my answer would be no. But when we're going to segment in certain areas, we might be a little bit softer, and we need to have more competitive offerings. And we're going to have it, but we're still going to preserve our premium, and we're going to preserve the growth of our service revenue.

So -- and remember, sometimes we talk only about consumer, but we have over 45% market share on the business-to-business in wireless as well. So we work the whole system constantly to have the right pricing.

But very clearly, we're going to continue to see that we have premium brands, and remember, we have different type of churns in different segments of the market where we don't need to do much. Others, we need to do much. Usually, we have high churn in the higher segments. In the lower postpaid, we have been a little bit softer. That's where we need to do plans like we did right now with the Welcome 25, for example, which is bring your own device, see that you get away from the promotion.

So again, think about the consumer investments. Again, you take money from the promo and you can actually do it on something else, and the return on investment is better and the lifetime cycle of the customers is even better and then the churn is improving as well. So you just need with surgical, but saying that we're going to do price reduction across the board, I mean that I think is just irresponsible and not really thinking about the business you're running.

And we don't need to do it, but there are areas we need to be better for sure. And we will be aggressive in those. We come in, in the market and go out in the market in certain places. We're going to continue with doing that as well. So I think that's going to be our strategy, and that you're going to see us be more agile and more sort of surgical in that.

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

And in terms of the step-up opportunity on ARPU, can you frame where the base is today on the premium plans? And what you're seeing in terms of the mix, in terms of where that destination of mix up tier may be?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. So we are, as I said, on unlimited premium, 41% in the third quarter. In average, we have been adding 1 to 2 percentage points every quarter of more customers on that one. So still a big portion of our consumer base is there. On the unlimited, of course, that is now getting up to high 80s or high 70s, but we still have more to be going there from the metered plans and customers usually love to go from metered to unlimited.

So there's both those steps and all steps for every percentage we move is creating service revenue growth. That's how it works. So that's what we will work with, but we're going to need to have compelling offerings in some of the high-premium plans like the unlimited premium. We include Disney+ and things like that because customers really like it. And we have the owner's economics of that because ultimately, we give the distribution channel to Disney.

We're using our distribution channel as a scale, and then we can also make money on that one. So that hangs together for us. We're continuing -- there are certain segments that don't care for an inclusion, and we shouldn't give them that.

And our next step is, of course, +play, where we can have a much broader base, not doing inclusion, but our customer can use it. So that's the next step we have of it. So I think we have a lot in the toolbox to really work with decent segments.

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

And Verizon touches so many aspects of the economy on the consumer side, the business side. Are you seeing any changes in behavior in terms of spending patterns, payment patterns or even up tiering where you're seeing any signs of change in the economic climate?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. We cover a big portion of the consumer market. I cannot speak for my competition, I speak about myself. Right now, we have seen increased store traffic from the second quarter or third quarter to third quarter to fourth quarter. Might have been that we had some challenge ourselves in the second quarter. So that was more ourselves creating less store traffic, but we clearly have seen that.

The other thing we have seen is, during the holiday season -- and I was out speaking about Black Friday, et cetera, the intention of customers are higher. When they come into the store, they know what they want. So the conversion rate is higher when people come into the store. And if that's because they are doing more digital browsing before so they know what they need to have might be one, but it can also be that they think about the budget a little bit more so that when they come in, no, this is what I want. So the intention is higher. You see less of the browsing. So that's a little bit what we see.

When it comes to payments, we have the best, highest quality consumer base in the industry. There is no debate about that. So far, we haven't seen any impact of late payments or anything like that. We are, of course, monitoring it, being close to it. Every day looking if there's something changed, but as I'm sitting here today, that's what I know today that we are aware. But we have a great -- so I cannot speak for the rest of the consumer world, I can only speak for Verizon. We have plenty of consumers in our base. So that's what we see so far.

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

So we'll get to our third question, and then this is going to take us into the fixed wireless realm. But before we officially enter the topic, we'll come back to prepaid so just to give our audience a little preview of what's happening. So on the fixed wireless side, our question for the audience is, do you believe 5G fixed wireless will evolve into an effective competitor to fixed broadband services over the longer term? And our choices are yes, yes but only for value and entry-level services and no.

So while you're submitting your responses, just a question on prepaid. Hans, where are we on the Tracfone integration, the synergy opportunity? And is Verizon, in 2023, going to start tapping into that base and migrating prepaid to postpaid?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes, you have seen us start doing things. And of course, a lot of work is ongoing with the integration of Tracfone and a Tracfone brands. It's not only one brand, it's several brands. So that is ongoing. And of course, we're expecting synergies coming more this year when we move some of the customer that is off-grid to on-grid to our own network, which is, of course, one of the synergies, but it's also back offices and things like that.

Then we're also going to work with the different brands, how we're going to put them in the market because there are plenty of them. We have already, as you have seen, launched the Total Wireless by Verizon as a new, if you say, high-end prepaid competing there because we didn't have anything there. Much of our prepaid was the Tracfone brands going through the Walmart. Now we have also a higher end prepaid. So that is going on well.

When it comes to the post to prepaid migration, which actually is probably a fairly big portion of what's happening in the market. Today, we have no technical support for that because there's been different companies. We're going to have that over time so we can actually refer in between. Of course, with total wireless is much easier, but on some of the other brands is going to be taking some time. And we work with that IT evolution.

The good thing right now is, as we segment this up, we basically meet all the consumer segments of the United States. And regardless of economical environment, we can play with anyone and meet the needs of any consumer in the market. So really good. We have that inside the consumer business. We are taking the right decisions, seeing that we're moving the money at the right time. So we feel really good about that.

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

Great. Let's go to our results and get into fixed wireless a little bit more. So is 5G fixed wireless going to be an effective competitor to fixed broadband over the long term? Kyle, your vote?

Kyle Malady - Verizon Communications Inc. - Executive VP, President of Global Networks & Technology

Yes, absolutely. It already is.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes, already.

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

So 26% of the audience agree, that is yes; 66% of the audience said, yes, but only for value and entry-level services; and 8% said, no. So Kyle...

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Do you remember when you asked this question 5 years ago, you had a question, will millimeter wave work? 80% in the audience said, no. So things are changing here.

Kyle Malady - Verizon Communications Inc. - Executive VP, President of Global Networks & Technology

That's good. I like -- this is a good way to do it. I mean I'd be interested to see dig down a little bit deeper on why people don't think it's going to fly over a long period of time. And my assumption is, it's probably speeds. Because the way you frame that question was really about entry level, right?

Now I understand a bundle and linear TV being added to it. But going forward, that kind of -- that model is broken and changing big time. I think what's going to be incumbent upon us to make that true is take that 60% of people and convince them that having a 2 gig service to your home is really doesn't matter, right?

Now listen, we do the same thing. I have -- in Fios this year -- last year, we launched our multi-gig product for consumer on Fios. But there's very few people in our base who use full 2 gigabit of max capacity at any given time. As a matter of fact, the average user uses far, far, far less than that. It's turned into really a marketing game, frankly, on what's an attribute that we can use to market. So I think it's going to be incumbent upon us to show people the value and the ease of use of a fixed wireless access offering and the benefits that it can bring above just pure speed, right? So...

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. And the trends we see in the market is, of course, that linear TV is going down. And I don't think that if you asked that question, I think that 100% is going to -- yes, it will continue down. There are going to be people who linear, but it's going down.

The second is, of course, also that the convenience of the product of fixed wire access. I mean if you install the LTE or the C-Band fixed wireless access, we're probably down to minutes or 5 minutes to install it. It's self-installed. Imagine that difference from another type of offering where you need to wait for a truck roll coming to your home. They need to dig in your garden. It might show up 2 weeks later. It's a very different experience.

And of course, ultimately, consumers and businesses buy experiences. Experiences how the experience and service and as long as that is working great for them, they're going to stay with it. And I think if you've seen in the last couple of quarters in the market, I mean what is taking all the broadband subscribers, the satisfaction is very high on the product.

So we are pleased with it. We're going to continue to pump it, and we're going to -- we're going to get that demand that is out in the market on broadband way before anybody can build something because I usually say that it took us 22 years to pass 17 million households with fiber, 22 years. That's how hard it is. We basically have 30 million households covered with fixed wireless access in less than 1 year.

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

And you mentioned earlier the 2025 goal. I think it was a 4 million to 5 million fixed wireless access. So you're still pacing towards that?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. I haven't changed my -- I haven't said anything different. So I guess, it sticks.

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

So financial...

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Always higher ambitions internally.

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

And financially, maybe taking a step back to Verizon overall, can you share just some of the puts and takes that investors should be thinking about in terms of how inflation is playing into the cost structure? How promotions stepping that up is playing into the cost structure relative to what you've been able to do with pricing and cost cutting?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. So the inflation we talked about in the June time frame, our CFO, Matt Ellis, talked about it, roughly \$0.5 billion impacted this last year of inflation, much driven about energy cost and third-party costs and things like that, that came up. We have seen some good movements on energy prices come down a little bit. At least the fuel has come down.

So there's something, but still elevated, so that will continue for us. At the same time, the promotional cost has gone up, and many of you know how that works. You basically depreciate that over 3 years. So you're going to have that in your base of the service revenue, and that has gone up over the years. Even though we try to keep it down, it does come up. So that will -- but from a cash flow point of view, you have already cashed it out. But from an accounting point of view, you distribute it over 3 years. So that's going to weigh on us a little bit, of course.

Then at the same time, we did a price increase that roughly gave us \$1 billion bottom line in last year. And that is, of course, we also -- we made a calculation. We lost a couple of hundred thousand of customers -- consumers. And that was a clear calculation. Again, coming back to what are you measuring on service revenue and cash flow expansion. So those are the things.

So we're going to continue to work on that to see if -- pricing we're going to see if there's something to be done. But I think it will not be as large as we have done before because it was a large one we did in May last year. And we also had the churn then cleaning off in October, and then we had a good churn going in the rest of the quarter. So as we said as well.

So I think that's all the sort of the boxes we have to move, and then on top of that, we launched a new cost program. We always take out billions of dollars in the company because you need to do that in order just to stay competitive. But now we have added the program with a new structure that we launched actually the 1st of January. We announced it publicly, but it started 1st of January.

This year, it's probably going to be more of sort of investments to do the cost efficiencies because it's a lot about onshoring, offshoring, outsourcing, insourcing. So it might be that we need to take some cost for that this year and then get it into the base '24, '25. But we are in a long game to see that we have economics of scale in the whole business and being able to continuously take down cost, not doing the shortcuts, we're long-term telecom company, we're going to continue to be that.

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

So if we have a microphone, we might have time for a question from our audience. So we can get a microphone roaming. Just raise your hand, and we'll try to get to you. A little crisp out here.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

I understand why you put a Swede as the first spot on this conference.

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

So if we take all this discussion together, and just financially, Verizon previously had out there, I believe -- and correct me if I'm wrong, a goal to generate 3% plus service revenue growth and EBITDA growth in 2023. How are you feeling about that? And are there any other puts and takes that investors should be mindful of?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

It's a little bit early to guide for '23. We will come back to that. But ultimately, our long-term goal is always expansion on cash flow and service revenue.

Then of course, there are different years, different things are happening, but we will come back to the guidance when we meet in a couple of weeks from now. We need to see how the year comes out and all of that. So we have a little bit of work still to be done, but our long-term goals are clear. We want to continue to do that expansion and the guide that we did for 2022 landed us between \$47.5 billion to \$48 billion in EBITDA or something like that. That's a healthy EBITDA.

We want to continue, and it's far more than double than some of our competitors in the market for us. That's important to continue to nurture because ultimately, we want to invest in the network because a customer really care about it. We want to continue with our dividend. We are, I think, the only telecom company in the world that has kept or increased the dividend for 16 consecutive years. And we think that's what Matt and I want to continue to do. We want to give our Board an opportunity to continue to do that. That's important. That's why the \$47 billion or \$48 billion EBITDA is important to us.

And finally, we're going to pay down debt, coming down to the levels that we talked about. Pre-C-Band, it was before pre-Vodafone. Now it's pre-C-Band. And then after that, we're going to see what we're going to do. I mean then we have the opportunity for buybacks or whatever is needed, but capital allocation is clear. It goes from the goals that I have on service revenue growth and then on expansion on cash flow, and that goes through how we want to capital allocate. And then we take action on that every day in order to do the right for the company and for our shareholders.

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

And we got some questions from our online audience around the CapEx figure. So to clarify, the \$17 billion BAU CapEx is as of what timeframe?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

'24. So '23, we still have money left from the C-Band. Remember, we took \$10 billion extra for the C-Band deployment over a 3 year and the last year is next year. And some of you have been following so you know more or less how much can be left here. I want the books to be closed, and then I will come back and say, how much will fall into '23 on that BAU. And that we will talk about when we meet later on this month.

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

And theoretically, should lower CapEx translate to better free cash flow for Verizon?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. Yes, that's a pretty clear conclusion.

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

And on the subject of MEC, you mentioned earlier the opportunity to get more private 5G deals with customers. Is Verizon still on track for a goal of 2 billion of MEC and B2B wireless service revenue by 2025 from the 5G initiatives?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

I think we have seen a little bit slower pickup in the beginning and partly our fault or industry fault because the ecosystem wasn't there. Kyle worked with ecosystem every day. We need certain radio base stations for private networks, different price ranges. We need modems for certain things, et cetera. So you need more than the handset and the macro sites. That is now in there.

So we would now have offerings for cheaper private 5G network with certain suppliers and more high level, high quality. We didn't have this optionality, and that's why we now started seeing that we're actually meeting the customer demands of building private 5G network. You start with usually one use case. If that's visualization or AI or something like that with cloud and then they find others. So for us, this year, in '23, is more about taking those deals, taking many of those deals and have them as a platform and then start building on them, learning from them.

And no one else in the industry is even close to what we're doing. We are very early out building with some of the large hyperscalers solutions, and now we also have the ecosystem for radio. So we are fully committed. We strongly believe in private 5G networks, and that's a revenue stream we don't have today because we're not into WiFi networks and optimization of a manufacturing site. We're not into that today.

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

Well, I want to thank you for joining us and kicking off our conference today. So thank you very much.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thank you. Thank you.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2023, Refinitiv. All Rights Reserved.