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EDITED TRANSCRIPT

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PRESENTATION

David Barden - *BofA Global Research - Analyst*

All right. Good morning, everybody. Thanks for joining us. I'm Dave Barden. I head up US and Canada telecom and comm infrastructure research. I know we're getting started a couple of minutes late, but I'm really happy to be able to kick off our 2024 Telco Media Conference with Sampath who's the CEO of the Verizon Consumer unit. Thank you for joining us, Sampath.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer*

Thank you, and a very good morning to you.

David Barden - *BofA Global Research - Analyst*

Thank you so much. Before we begin, do you have any Safe Harbors you need to share with us?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer*

Yes. Everything I'm saying today is covered by Safe Harbor. You go to [verizon.com/Investor Relations](https://www.verizon.com/investor-relations) section. You will see our Safe Harbor statement there.

QUESTIONS AND ANSWERS

David Barden - *BofA Global Research - Analyst*

Perfect. Before we jump into the business, I mean, I just wanted to maybe, given where we are in the political cycle and where people wonder where we are in the economic cycle, for you guys, it's the largest wireless carrier in America. What does the outcome of the presidential election mean to you? And what are the economic circumstances that you're planning on for your business?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer*

Yeah. Look, we do know that -- what we do know is there's an election coming. We'll have a new President. We'll have new members of Congress. But Verizon has had a very strong track record of working with both the Democrats and the Republicans. We know how to work with them. We know how to work with them to get better outcomes and connectivity for everyone.

The couple of issues that we'll be focused on are ACP or some programs surrounding ACP. The second one is rural broadband, what type of support and growth for rural broadband. The third one will be Title II reforms. And the fourth will be tax reforms. Those are the four big areas that I think are -- have some level of ambiguity up in Washington right now. But again, we work with both sides really well, and we're looking forward to working with them and whoever wins.

David Barden - *BofA Global Research - Analyst*

And just before we leave that subject, ACP, any cleanup that we need to expect in the third quarter?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer*

Yeah. Look, we took a slightly different stand than most of our peers there where customers who are not paying, we disconnected them. We had 410 -- most of -- we have 1.1 million ACP customers; we had reported that earlier. 410,000 of them, we disconnected last quarter. But we have a very, very small portion of that left in our system right now. Almost 65% of our ACP customers today are paying customers for us. So we really like that. We like the way we've converted them into paying. So ACP is largely behind us right now.

David Barden - *BofA Global Research - Analyst*

And just on the economic side, at the beginning of the year, we were looking at higher inflation, higher rates for longer. Then all of a sudden, now we're wondering if maybe recession is around the corner. How are you budgeting? What are you seeing on the ground in your business?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer*

Dave, we have a really unique position as being the premium provider both for mobility and home. If we look at our phone base, our average FICO score is 725, which is incredibly healthy base that we have. So the second is where connectivity sits in the hierarchy of needs is very high right now. It was always high, post pandemic, you see that being very high.

So we're a little bit immune to some of the economic disturbances that may or may not happen in the space more broadly. What we are seeing in the business is most of our operating levels on delinquencies, bad debts, involuntary churn are at manageable levels. They are at what I call pre-pandemic levels, so nothing beyond that. But look, if something does happen in the economy, we won't be immune to it, but we are more insulated than most of the others coming in.

David Barden - *BofA Global Research - Analyst*

So we welcomed you here last year. And you've been now kind of in your role as the Head of Consumer for about 15, 16 months. And during that time, I think Verizon has been able to show some pretty good progress in gross add growth. You still have kind of year-to-date negative net adds. You've been guiding to positive for the year, which means we need to have a nice step up in the second half. So what needs to happen to get there in 2H '24?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer*

When we -- a little over a year ago, when I started my journey, the biggest piece we said was we're going to focus on the fundamentals of our business. So for us, the first one was sales, get gross add momentum in the business. And we made some pretty big changes.

The first one was myPlan. I suspect we're going to talk about it a little more later. The second was how we reorganized the sales machine to go from a national to a much more regional structure. We reallocated money for local marketing. We changed our brand or kind of refreshed our brand. So we had a lot of changes that we put in and also some sales incentives in the field were altered to drive sales performance.

We really like the performance we saw. We saw growth between 5% and 12% top-line growth in gross adds this year. We like that number. So we're going to see a continuation of good top-line momentum for the rest of the year there.

And then second is on churn. That's where we're spending a lot of our time on as a leadership team right now is to start lowering our churn. We've had many price ups so a lot of our churn can be explained by that. So a combination of continued growth on the top line, continuing our efforts that we've put in place gets us to positive phone net adds at the end of this year, and we're sticking to that plan.

David Barden - *BofA Global Research - Analyst*

So I think that the concern would be that what we kind of had in that 2021, 2022 period was about nine million net adds; that's shrinking. So in a shrinking market opportunity, how does Verizon maintain that gross add momentum?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer*

Yeah. Dave, let me break down the market, at least from our point of view. We think the overall consumer market is around seven million phone net adds this year. The business is another 1 million to 1.5 million. So when we put the whole industry together, it's between 8 million and 8.5 million.

When you take the consumer piece of the seven million, a little north of 50% is pre to post migration, prepaid customers who are migrating to post. We don't take part in that space much, but it's a pretty significant portion of the growth.

The second thing is immigration. There's still strong immigration into this country, so that adds another couple of million. The deaths and births kind of offset each other for the most part, circle of life thing. But when you net it out, that's what a typical growth cycle looks like. We think the industry, over a period of time, will continue to have between five million to six million subscriber growth when you look at all those factors in this space.

So this -- it's a pretty robust industry. It is growing. We have an incredibly strong value proposition with our C-Band network, our myHome and myPlan offerings that we have in the space. So we'll continue to take our share or -- maybe our unfair share of gross adds and capture it, and we'll stay in the business that way.

David Barden - *BofA Global Research - Analyst*

So another kind of challenge or perceived challenge is this idea that -- of convergence. It's a topic we're all talking about and debating. And the question is that the consumers are increasingly going to want to buy a wireline and a wireless broadband together. And that as fiber expands, as cable continues to progress in their mobile strategy, that Verizon is at a deficit in that regard. So not only do we have a shrinking opportunity set, but we have a changing buying pattern. How do you respond to that?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer*

Yeah. Look, the demand for home and mobility has never been higher. And we are a premium provider of both. So let me break down how we think about it. Look, we have the largest share in the postpaid mobility space, also a premium share position that we've built over the last couple of years.

On broadband for us, on one side, we have FWA. We are very close to hitting our four million. I think, in this quarter, we'll hit our four million subscriber number that we've spoken about for a while. The FWA product is incredibly robust, very high NPS, very good ARPU, growing ARPU in that space. Customers really like it, and we keep expanding that. And we have a lot more capacity in that space there.

On the right side, we have our fiber product, which is our Fios. I think this week, we celebrated our 20th anniversary of Fios, so a big occasion for us there. And we keep adding between 400,000 and 500,000 every year. So both -- and that is largely based on performance and reliability. Customers buy it.

So we have an offering for both sides of the market for folks who want value price on FWA, really easy-to-use product and folks who want reliability there. And we continue to take share in that space. And we are expanding on both sides. We are adding more fiber. And of course, we are adding more FWA customers and capacity as we go there.

One of the biggest things we see is when you bundle fiber with mobility, we see up to a 50% reduction in our mobility churn. And that's really important for us. And we also see a 40% reduction in fiber churn as well when we bundle the two. With FWA, we see slightly lower numbers, but a similar pattern that we see there.

So we are seeing convergence play out the way we want to. And unlike Europe, it is very demand-led here. In Europe, because of regulatory environment, it's a very supply-led industry, and that drove a fair amount of value loss or value disruption in the space.

We don't see that. We think convergence, as the way we look at it, is accretive to EBITDA. It is accretive to revenue, and it's a really good value prop for us in the longer term. So we think we actually have a winning hand. The last piece is owners' economics. To build a sustainable long-term mobile plus home play, you need owners' economics on both the home piece and the mobility piece. We really like that equation, and you'll see us committing on this.

David Barden - *BofA Global Research - Analyst*

So any announcements you want to make about fixed wireless access and fiber expansion? Anything like that?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer*

Just to recap, we said once we get to four million to five million, we'll come back and talk a little more about how we wish to expand our FWA footprint and broadband footprint. We will probably hit four million this quarter. So very soon, we'll have to come back and explain how we grow the next tranche.

But let me leave you with this thought. We have a lot more capacity as they say, they build the church for Easter, people build a lot more capacity. So we have capacity in the FWA plant.

David Barden - *BofA Global Research - Analyst*

Right. And I just wanted to follow up a little bit on that, on the fixed wireless access. So I think you said that you've built that C-Band to Tier 1 markets. You're, I think, most of the way done with Tier 2 markets. We really haven't hit the Tier 3 markets yet. So is it -- first of all, I guess, is that the capacity? Do you mean like expanding the total addressable market? How big is the addressable market today, and how big could it be?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer*

So right now, we've been focused until recently on the 76 markets, what we call the first tranche markets that we have right now. Now as Joe builds out the next set of markets, the 400-odd markets, most of them are Tier 2, Tier 3 markets as we grow out there.

So you'll see an expansion of our overall TAM on that piece. So what you should expect, for example, in the second quarter, in our rural markets, we took almost three times more gross add year-on-year in FWA in some of the rural markets than we did the year before. So we are seeing the natural progression of a C-Band build to get to this space. So by 2020, at the end of 2025, we think the C-band program will kind of get to its last phase. By then, we'll have most of the place covered for us.

David Barden - BofA Global Research - Analyst

So 100% US coverage of fixed wireless access --

Sowmyanarayan Sampath - Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer

Not 100% coverage. Look, there are 130 million homes in the country. We'll get between 50 million and 60 million is what we have right now, and we'll keep expanding that as time goes on.

David Barden - BofA Global Research - Analyst

And then just thinking about the fiber side, a couple of different things. One of the big trends has been for partnerships to emerge to source capital from other places to accelerate the fiber build. Is that something Verizon would consider?

Sowmyanarayan Sampath - Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer

Look, if the business is good enough, it should be good enough for us, and we want to own the whole business. Because we like the fiber business. We have our Fios build. As I said, it's our 20th anniversary, so we have 20 years history in fiber. We also had a One Fiber Build program a couple of years ago. So we know the economics of fiber very well. We know -- and we have some of the best operating metrics in the world around that space. So we like the space, and we think if the business is good, we should own most of it.

Second is we've had experience with having a joint venture partner, and it's not always easy to extricate yourself from that situation many years down the line. Our Vodafone relationship is an example of that. So if the business is good, we would like to own most of it.

David Barden - BofA Global Research - Analyst

So does that mean given that fiber, combined with wireless is such a strong proposition, should you be doing more than you're doing now? Should you be doing it in new places maybe outside your footprint?

Sowmyanarayan Sampath - Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer

Yeah. Look, right now -- look, we like the economics of fiber in footprint. We are adding between 400,000 and 500,000 OFS or offered for sale or homes passed every single year there. There will always be opportunity to expand more, but at this point, I have nothing to say on that.

David Barden - BofA Global Research - Analyst

Okay. I tried.

Sowmyanarayan Sampath - Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer

It's a good business.

David Barden - *BofA Global Research - Analyst*

Okay. So let's get back to the kind of business economics. First, on pricing. So you've been -- you've kind of cautioned that the pricing strategy has had an impact on slightly elevated churn. And now your strategy is to improve net adds by lowering churn. So does that mean that you're taking the foot off the pricing pedal? And if you are, what are the drivers to that?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer*

Yeah. Look, pricing -- at the core, customers will pay more when they see more value. We think as we roll out more C-Band, they get more value from the network. As we have myPlan and myHome, they see value from the perks, the adjacent services, myAccess, which is a loyalty program, they see value from that. So as long as customers are seeing more value, we'll have opportunity to take price. So that's how we think about it.

Second is that there's some inflation still in the system. We're going to have to work through that inflation and pass on some of this -- some of those cost increases to our customers. Overall, when I think about the business, you want to get to a sustainable level of service revenue growth, which is what I call 80-20, 80% of service revenue driven by price; 20% driven by quantity. We're not exactly there yet, but we are on a path to getting there very soon.

And then price, you can also break that up into two buckets. The first one is adding more services to the customer. In our case, it's more perks, it's more adjacent services. And then second is step-ups for customer, step them up on the plan and other things. The other one is you charge more when you add more value for an existing plant.

So there are two types of price increase. We think half-half is roughly how we think about our long-term business on the price bucket. So there is opportunity for us to take price, but it's going to have to come back to the value that we deliver to a customer. And we think we will deliver more value every single quarter that we get along.

David Barden - *BofA Global Research - Analyst*

And so on the volume side, you pointed out that you believe that roughly 50% of the contribution to the addressable market opportunity is prepaid to post. So for a long time, you really didn't have a direct strategy there. You had a wholesale relationship with TracFone, then you added the wholesale relationship with cable. We'll get to that.

But TracFone has kind of underdelivered as an opportunity set. Should we be expecting now two years in that TracFone is performing and we're going to start cream skimming that, and that should be another source of growth for Verizon in postpaid?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer*

Definitely. Let's go back to why we acquired TracFone. We were a premium company, and we didn't have enough exposure to the value segment of the market. Now with our TracFone acquisition, plus some of our brands that we put into the mix that were legacy Verizon, we have what is, I think, the best prepaid business in the market today.

We have multiple offerings for different price points and segments. Let's break that down. The first one is Visible. For folks who only want to be digital natives, they don't ever want to go to a store talk to a person AKA our teenagers, they love the Visible brand. It's doing incredibly well.

The second is Straight Talk. Straight Talk and Walmart Family Mobile. Those are two exclusive brands to Walmart. And if you've ever been in a Walmart, they had massive shelf space there. And look, Walmart drives north of 100 million shoppers every single week, and we have a prime position there for them. So that's a segment that we want to go after.

The third is Total [Wireless] (corrected by company after the call). It's our mid-market product. We are just getting started. We have a little less than 1,000 stores in there on a plan to get to 2,400 or 2,500 stores over a period of time. That's an urban brand in urban corridors, mid-market segment, competing directly with some of the competition there.

And then we have TracFone, which is a basic prepaid product. And last is SafeLink, which is our government subsidized. So every single price point, every segment now we have an offering in the space. The last two years, we've been busy integrating the assets. Some of it is migrating customers from different networks on to our networks, sorting through the ACP, SafeLink piece over the last couple of quarters.

We are largely done with that. I have turned my attention and my team's attention from taking the gains we had in gross adds on the postpaid side. Similar playbook we are putting on prepaid in terms of sales, operational efficiency and management.

I'm very happy to say that this quarter, we'll be phone net add positive on the prepaid side when you exclude the SafeLink ACP piece. The similar number last year was 221,000 negative, so a huge improvement in that business this quarter. I'm really excited about that, and that bodes well for us in the back half of the year, but also into next year on our prepaid business.

David Barden - BofA Global Research - Analyst

And one of the things that came up in the first half -- and I just want to kind of make sure there's no surprises -- is when you kind of initially came up with the, we're going to be postpaid phone net add positive for 2024, no one kind of knew that part of that puzzle was going to be the add-a-line program, which surprised us a little bit. As we think about the full-year postpaid phone net add positive, are there any more surprises we need to know about?

Sowmyanarayan Sampath - Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer

No, no surprise. We would be [postpaid] (added by company after the call) phone net add positive, excluding second number this year.

David Barden - BofA Global Research - Analyst

You will, okay. So kind of dovetailing with this is that one of the things that's helped churn has been that we're in kind of a low-switcher environment. One of the things that's hurt that add growth is that we're in a low-switcher environment. One of the things that investors have been talking about is the impact of what the new iPhone launch could be, if maybe not this year, even next year.

Could you kind of opine a little bit on both -- all sorts of things to talk about, but just what's your base case assumption for what we're going to see this coming quarter or this coming September when we see the new iPhone come out?

Sowmyanarayan Sampath - Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer

I know folks talk about the super cycle. The only thing I know is there will be a cycle. And typically, look, we've had almost 20 years of experience looking at these cycles. Typically, a hardware form factor tends to drive demand for a product. You see that every single year on that. So we'll have to wait and see what it means for the new launch that's coming this fall, whether there's a hardware form factor, does that drive the space.

Absent that, we are not sure we're going to see a super cycle as the way it is described right now. But most important things for us is we've got a very personalized approach to upgrades for us. Everyone doesn't need a new phone. Everyone doesn't need the newest, latest phone at the same time. So we have a deep personalization model that, in some way, predicts what people want to have and then offer up that piece in that.

The second is there's always a pull/push to upgrades. You won't see us pushing upgrades when it's not needed in this space. We have other tools to manage our customer loyalty and customer churn. Upgrades are not the only tool that we have in our toolkit. So we'll wait and see what the new cycle holds for us. But absent a major hardware refresh cycle, either a form factor, I'm not sure we're going to see a massive super cycle.

David Barden - *BofA Global Research - Analyst*

So I think you make a good point, which is that there was a supply push around the 5G cycle because getting 5G handsets in consumers' hands was a good for the carriers to balance out the network, to take advantage of some of the advantages of the new spectrum that you guys have deployed.

There's a hypothesis that in Verizon circumstance, because of your kind of market share position, your desire for postpaid phone net adds, that there's a reason why you might want to push these phones. Is that untrue?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer*

No. Look, I don't see -- if there is demand for the phone, we will definitely help get them in hands of our customer. The second thing for us is our upgrade strategy and our pricing approach is related to our ARPU. So we have good, better, best, three levels of plans. Our highest level plans tends to get the most upgrade subsidy. The mid-tier gets a little less and the lower-end plans get a little less.

So we've done a really good job of linking our upgrades to our pricing plans. So customers who want a premium plan tend to get the best offers, and that helps drive premium mix for us more broadly in the space. So we'll continue to support that approach. But you shouldn't see us push phones when customers don't want it or it doesn't make sense for them economically.

David Barden - *BofA Global Research - Analyst*

So as you said, the push for positive net add growth is really internal. It's churn, it's things you've talked about. You're not going to look at the new iPhone as a, we want to push this to get our share back?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer*

Yeah, look, we have a very strong capture rate. If we look at Q2, I mean, we are the number one or very, very close to number one on gross add share today already. So that's a really good position to be in to get started on this space.

So we'll continue our journey with what -- top line growth on gross adds. Churn will get better as we work through some of our pricing work that we've done over the last couple of quarters. And that's a very clear formula to get to phone net add growth this year that we promised. And we see clear line of sight to getting there.

David Barden - *BofA Global Research - Analyst*

So I want to talk about just your position on consumer AI because that is the thing that people think is going to -- if not now, then maybe after another year of development and marketing that we're going to finally put something in the phone that people care about. What do you think about that?

Sowmyanarayan Sampath - Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer

Look, I'll talk about consumer AI and then more importantly, how we are using AI within our operations. Maybe I'll hit both the topics in that order. But let me start with the consumer AI.

Over the last 10 years, almost all traffic growth in the network, Dave, has come on the backs of more video. And our folks who have kids, there's literally no more time to watch more video. There's literally no physical time.

So you're going to see video traffic kind of plateau off. And we think the next cycle of traffic growth in our network is going to be AI-driven. A lot of models are going to be at the edge of the network that's going to need inference back and forth with its computer vision, other pieces that's going to drive traffic in our network more broadly in this space.

The second theme I will talk about is a lot of the AI that the handset and OS providers are doing right now tend to be on the phone. 60%, 70%, in some cases, 80% of the workloads actually gets processed on the phone, whether it's the imaging feature, whether it's the other.

Over a period of time, that's not sustainable because you end up putting a lot of compute at the edge in the phone. And we end up using it 1%, 2% of the time, so it's kind of fallow capacity from a chipset or capacity perspective. So you're going to see a lot of those workloads move to the edge of the network where that's kind of what we were with the mobile edge compute, the edge of the network, very close to the network, low latency, high-throughput connection. So you're going to see that shift happen over a period of time.

Right now, I think all folks are trying to figure out what are the applications that stick? You're going to see just massive amounts of applications come out. And it's a little bit like the Internet boom in 2000, where people threw stuff out there on the App Store 10 years later and then see what sticks.

Is there a complete single killer application? I'm not sure yet, but it's way too early to even think about a killer application when we're still trying to figure out what are the economics of AI, what are the true capabilities of AI? How accurate this is? So I feel we are very early in the cycle to find that killer app, but there's definitely a lot of investment going on in that space.

David Barden - BofA Global Research - Analyst

So I think that that's interesting. So like a couple of years ago, you had an Analyst Day, and there was a bunch of bars and contributing factors to what would be helping revenue from the 5G investment. Fixed wireless access was a very small bar and lots of industrial applications were a big bar. And what's happened is fixed wireless access has been the killer app on the 5G network so far.

But AI does seem to be kind of a platform for there to be a whole new genre of innovation, which when you say needs edge compute, you guys have spent a lot of years working on the mobile edge compute. Just out of curiosity, where do you see the edge landing? Is it at the tower? Is it in second, third-tier data center markets? Where do you -- where does that live?

Sowmyanarayan Sampath - Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer

Look, when you talk about the 5G business case, look, FWA has been an incredibly strong contributor. We're north of \$500 million quarterly run rate in that space --

David Barden - BofA Global Research - Analyst

\$500 million?

Sowmyanarayan Sampath - Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer

\$500 million, quarterly run rate, so you can do the math. It's north of a \$2 billion business for us already and growing significantly faster as well. The second thing is premium mix. One of the things we see when we have C-Band, which is our 5G ultra-wideband network is you tend to get a 10% higher premium mix in those markets. So they tend to drive higher ARPU in those markets than when they don't have it as well. So that's an interesting piece.

The third thing is for churn. In C-Band markets, we see a 3-basis-point churn improvement, and we see better gross add as well in C-Band markets. So FWA is one of the pieces, but you're seeing better premium mix, better churn because of 5G is there.

Coming back to your question on 5G applications, for edge for us tends to be metro centers, metro centers or smaller cities. Look, the big data centers are growing fast. They will scale out at their own pace. When and where they get power and space and cooling, they'll get there. But there is a huge opportunity in metro centers and Tier 2 cities very close to the customer where we can get to barely double-digit latency for the customer there.

That's where we think the opportunity is. So towers may be fine, but there are too many of them and they may not have the cooling space to do what you want in that space. But we have sites spread across the country that have those capacity of cooling power within the metro space. And that's why we've put most of our mobile edge compute location in hubs right now to do that. That, together with the 5G network with our own fiber backhaul, with our One Fiber network, really creates what I think is an incredible way to play the AI space for us.

David Barden - BofA Global Research - Analyst

And you didn't mention -- or you mentioned that you might talk about how you're using AI internally. But as we talk about the cost side of the equation, I'm imagining that it factors into it. Kind of talk about what Verizon can do while you're trying to do these things on churn, while you're trying to integrate the TracFone business. What's left to do on the cost structure side?

Sowmyanarayan Sampath - Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer

Yeah, look, we committed to a \$2 billion to \$3 billion cost takeout plan over the next couple of years. We are on track to do that. We just went through our voluntary separation program. We are literally sorting it out as we talk right now. So we'll get some gains from that, that we'll talk about soon in the space. So we are net-net on plan for our cost takeout program.

Where we find AI most helpful is that three ways we want to use AI. The first one is on customer experience, second is employee experience, and third is just raw cost. Right now, we've focused almost all our efforts on employee experience and customer experience. So for example, you have a personal research assistant, which is rolled out to between 30,000 and 40,000 of our frontline agents.

It's an incredibly cool GenAI tool, probably one of the largest GenAI, industrial scale applications that anyone has out there. It takes out between two to four minutes out of our call today. Our average call is 12, 13 minutes. When the agent uses that, between two to four minutes of the call comes out.

Now I want to take that time and reinvest it back in the customer, to understand how we can understand the customer better, upsell the customer, understand their needs better. So right now, what gains we have from AI, we are putting it back to get to a better experience.

Once we capture that, we win a better place to use those savings and then split it back to the P&L. I don't think we are there right now. What we are focused on, better experience for the customer, better personalization and using AI in our network, whether it's self-optimized network, self-healing networks. There's just a lot of AI that we're using there.

David Barden - *BofA Global Research - Analyst*

Before we leave the AI topic, we saw Lumen recently announce a \$5 billion deal or series of deals with, we believe, Microsoft to do AI network connectivity for new data centers that are going to get built in the next few years. Why didn't Verizon win that deal? I know this is not your space, but --

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer*

Yeah, I used to run the B2B business and been there for a while. We have a large fiber network with our One Fiber network and some of our legacy fiber assets that we have there. And we tend to win a lot of those deals that come to data centers. We're connected to some of the top data centers there. We win our fair share, and we see our unfair share of fiber deals in this space. Those are dark fiber deals that have very different accounting. I'm not sure how the \$5 billion translates to revenue, but I'll leave that to you and the other side to sort that out.

But we take part in that market, and we do very well in that space. But it comes back to the assets we have. We have our One Fiber markets, where in the top 75-odd markets, we've built out this fiber, primarily -- initially for our cell sites to get back -- more than half our cell sites are on our own fiber, but we have large swaths of fiber that can now be exploited for new sources of revenue. And many of those fiber actually have high fiber count. In some places, as high as 1,800 fiber count. So we have a lot of fiber, and we win more than our fair share of those deals.

David Barden - *BofA Global Research - Analyst*

Before we leave costs, I just wanted a quick touch base. So Verizon -- sorry, not Verizon, AT&T just saw about 15,000 workers go on strike as they're trying to renegotiate labor contracts. Obviously, inflation has tempered. But if you compound inflation over the last two years, costs are much higher than they were. What's your kind of organized labor situation collective bargaining?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer*

All our associates are working at this moment right now. And we have a very healthy relationship with our unions. We work very closely with them, and we don't have any imminent expiry of the contract.

David Barden - *BofA Global Research - Analyst*

No expiration. Okay, good. So I wanted to get back to just real quick, the wholesale side, not the question you think I'm going to ask. But what -- Verizon is, as part of its relationship with the cable industry, kind of a technology partner in helping integrate the MVNO, the WiFi. And one of the things that cable has been talking about more has been backfilling some of their relationship with Verizon by building out their own facilities. Typically, they talk about CBRS spectrum. Could you talk about the risk to Verizon's wholesale revenue stream from that potential technological substitution?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer*

Yeah. Look, our relationship with cable is a commercial relationship. They're a very important partner for us. We work very closely with them. I'm personally involved in many of those negotiations myself, and they're a very important partner to our overall business. I would say that it's a commercial business, and all our customers are paying more for it. And over a period of time, we expect all our customers to pay more for the assets we have.

On the technology risk, it's very difficult to build a network when you have 5 to 10 megahertz of spectrum in a few select markets. That's not -- we've been building wireless network for decades. There is no scenario in which I'll get excited by a few megahertz of spectrum in a few markets

to build a network out. Second is it's a different product. When you start putting in WiFi and CBRS offload and things like that, it waters down the network.

But that's a strategy they have, we'll support it, but it's a very different product than we sell. For us, we want to be on our ultra-wideband network as far as possible. When you go home, you want to be on the FWA or you want to be on a fiber network, world-class best network.

This constant offloading, onloading, jumping off networks creates a suboptimal experience for us, but also the price points are different. So we'll support it as it does, but it's very difficult to architect a network with 5 to 10 megahertz of spectrum in a few markets, like for example, in the Philadelphia market, they have CBRS spectrum. It's a pretty small swath. You can't do much with that.

David Barden - *BofA Global Research - Analyst*

Okay. So industry structure, stable; pricing moving in the right direction. Churn should be moving in the right direction. Net adds should be getting positive. No real risk to wholesale, no real risk of a big upgrade cycle impacting cost structure or churn or the switching market overall. Cost moving down, no labor risk.

So current course of speed, it looks like you guys are on track to get to your target leverage ratio in the first half of 2025. What should we start getting excited about that Verizon can do once deleveraging is not the number one use of funds?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer*

Look, I'll come back to our capital allocation strategy. The first one for us is fund the business to drive shareholder value. Where we see opportunities to drive shareholder value, whether it's strong ROICs, good IRR, we'll continue to fund those projects.

The second thing for us is put the Board in a position to raise dividend. We want to be in a position where every single quarter, the Board feels comfortable raising dividends. So I think that's the -- I would say, the second thing.

The third thing is pay down debt. And then once we do that, we can explore buybacks and things like that. But we have no change in our capital allocation strategy. The first is you've got to fund the business where it can drive shareholder value, and that's where we are focused on right now.

David Barden - *BofA Global Research - Analyst*

And could you be driving more shareholder value by investing faster or more in fiber? Or faster or more in FWA or faster and more in the C-Band?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer*

Look, we're going to have to come back and talk to you about our broadband expansion. The trigger we wanted was we wanted to get to our initial guide of four million to five million FWA customers. We're likely going to get there this quarter. So that creates an impetus for us to come back and talk to you about how we want to expand footprint.

Look, we strongly believe mobile plus home is the right place for us to go. We want to be the premier provider of mobility and home broadband in the country there, where the mobility and then on the broadband side, it's FWA and fiber. Those are growth markets for us. We know how to operate that, and that's what the customers want as well. So we're very excited about that market.

David Barden - *BofA Global Research - Analyst*

But are you not at all concerned that if FWA is kind of your home broadband, that it's not enough broadband for the average home?

Sowmyanarayan Sampath - Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer

If you look at our FWA versus Fios, the consumption is not that different. It's kind of within the same zip code of consumption. So our FWA customers use it as primary broadband in the home. I have FWA in my house. I have two kids who do a little homework and a lot of gaming. And I do work as well, so does my spouse. FWA works really well in that space. And of course, you have fiber as well.

So FWA has a lot of capacity. But think about the NPS, Dave. It's got such a strong NPS right now. And we are focused on getting churn down. It's a new product, so we still are in the early phases of that. It's a very good product.

The last one is ARPU. We are seeing double-digit improvement in ARPU year on year in that space. We took down some of the early discounts. We actually raised prices in some cases. We also tiered our offering, and we're seeing really strong ARPU growth. But year on year, but even quarter on quarter, we're seeing ARPU growth in that space. So it's a good product. And that, together with fiber, where we have 20 years of experience, it makes for a really killer portfolio that we have on broadband together with the mobility space.

David Barden - BofA Global Research - Analyst

So I've got -- if I have time, I've got a couple of more questions on that. But you mentioned how strong the churn benefit is by merging a mobile product and a fiber product, stronger than a fixed wireless access product. If AT&T, which now has a plan to have 30 million homes passed with fiber, maybe going to 45 million homes passed with fiber or maybe more when you start looking at BEAD and out-of-territory footprint for them, does that not impede your ability to achieve your growth goals if they're not going to have as much switching the way you have not had as much switching in your fiber footprint?

Sowmyanarayan Sampath - Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer

Yeah. Look, just to reiterate where we have fiber and mobility, the customer has both. It's up to a 50% reduction in mobility churn, 40% reduction in fiber churn. I don't know what the AT&T equal numbers are.

David Barden - BofA Global Research - Analyst

I will ask them tomorrow.

Sowmyanarayan Sampath - Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer

Yes. But look, for us, as we increase FWA and fiber, we get more customers within that framework. So that creates an opportunity to hold on to our customers, but also attract customers who want to come to us for broadband as well. I think that's a very important value prop for us. So you'll see us growing the business largely on the backs of mobile plus home.

David Barden - BofA Global Research - Analyst

And the last question would be given that there could be a lot of fiber players out there without wireless networks, guys like T-Mobile have said that they'd be interested in maybe looking at partnering and using their brand and capabilities there, is Verizon in the market to do that?

Sowmyanarayan Sampath - Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer

Look, we have a wholesale department, which you know very well. We are always open for business. We're always open to partnering with others. But given our history with fiber, we like to own our own fiber assets. We like to own it, and we like to own it fully. We like to have operational control over it. We think it works much better for us.

David Barden - BofA Global Research - Analyst

So you want to buy Frontier?

Sowmyanarayan Sampath - Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer

We like to hold -- I have nothing to comment on that. We'd like to buy -- we like to own our own fiber assets for the most part. And I think that's important for us.

David Barden - BofA Global Research - Analyst

Okay. That's a great place to leave it. Sampath, thank you so much for coming out. I really appreciate it. Thank you so much, everybody. Next up here, we're going to have Matt Mercier, the CFO of Digital Realty. Thank you guys for coming.

Sowmyanarayan Sampath - Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer

Thanks.

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