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VZ - Verizon Communications Inc. Sellside Analyst Meeting

EVENT DATE/TIME: JUNE 18, 2019 / 9:00PM GMT



JUNE 18, 2019 / 9:00PM, VZ - Verizon Communications Inc. Sellside Analyst Meeting

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PRESENTATION

Brady Connor - *Verizon Communications Inc. - SVP of IR*

Okay. Great. We're going to get this started. Welcome, everybody. We're live on the webcast tonight here from 1095 at our headquarters location. My name is Brady Connor. I'm joined tonight by Hans Vestberg, our Chairman and CEO; and Matt Ellis, our Chief Financial Officer. The event is being webcast, so there'll be a replay made available on our website after were done.

First order of business is the safe harbor statement. Thank you, Hans. We're going to make forward-looking statements tonight, which are subject to risks and uncertainties. Please reference Verizon's filings with the SEC, which are available on our website.

We've got a great session planned for you tonight. We do ask that you hold your questions to the end. After the prepared presentations, we have ample time for Q&A. And during Q&A, because it's webcast, we ask that you wait for myself or Scott to hand you a mic and feel free to introduce yourself as you ask the question.

With that, let me turn it over to Hans to get us started and we'll have a good session.

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

Thank you, Brady. Good afternoon, everyone here in the room in New York City and whoever is on the webcast.



JUNE 18, 2019 / 9:00PM, VZ - Verizon Communications Inc. Sellside Analyst Meeting

So today, basically, we have 2 main objectives. One is, of course, talking about our strategy and connecting Verizon 2.0 that we have been talking about, how they are connected, but also then integrate that into how we're now going to have recasted our financials. And Matt will have an ample time to go through the recasting because we know that it's extremely important for you guys to understand how we tie it together when you translate from -- you can call it Verizon 1.0 to 2.0, so the numbers hang together. So when we come out in the second quarter, what we're going to report this model for the first time and the first of August you will have ample time to analyze and then we can with the first actual figures. So that are the 2 objectives. But for me, it is also very important to connect this strategy in Verizon 2.0 to why we're doing the recasting. So that's why I want to spend some time in the beginning here explaining how we tie it together and why it's so important for us doing this at this moment.

This slide I have shown before. This is sort of the Verizon strategy fundamentals and this is sort of what we've been -- the strategy for -- at Verizon. I mean, the first piece is, of course, the network. The network is such an important piece and core part of our overall strategy.

There are a couple of things we're doing here that have been ongoing for a while. There, of course, we're building the Intelligent Edge Network. That is -- the team is building where we're basically thinking about that all the way from the data center to the edge of the network is the commonality. It's commonality of all those elements. And then at the end of the network, at the edge, then at the edge, you will have options for your customers. If the customer want copper, they want fiber, they want 4G, 5G, mobile edge compute, that's where you will make the selection for the customer. It's a huge transformation and very important.

At the same time, of course, we're doing the 5G. And we pride ourselves to be first in the world in 5G Home, first in the world with 5G Mobility. We launched this morning the third phone on 5G, an LG phone. So now, we have a Motorola phone, a Samsung phone and a LG phone. So we're really kicking it off here. We have our target for the year, more than 30 markets. And the team is fighting everyday, but that's the target we have and that's what we're going to deliver. So that's sort of the network side, the key fundamental for the strategy of Verizon.

The customer-driven model, that's what we're now -- we're reengineering to. In order for us to actually take the maximum usage of the networks and the investments we have done, we are now changing from a technology-driven structure to a customer-driven structure. Its not, that -- it sounds like, yes, that's not a big thing. It is a big thing when you have being technology-driven from the beginning and how you do it and what type of things you can unleash in the organization by doing that.

Then, of course, we'll also do a change when it comes to our brand. And it might be visible for you, but it's, for us, a big thing and a fundamental change because we were a house of brands. We're going to a branded house. So that means that wherever we are ending up doing businesses, regardless of business we have, trust and innovation and all the brand values we want to show up with. That's what's different before because we had different brand values for the different assets with different names. Diego and his team is working hard on that. And together with that, of course, our social responsibility business becomes important. Ultimately, that should all lead to the best of business and, of course, leading us to have the right people and the right talent and the right customers that gives us the right returns.

I think the fourth fundamental in all this is, of course, our financial discipline, the balanced capital allocation and the cost models that we want to have the most efficient one. I think that part of the transformation we're doing is really supporting that. Ultimately, long-term goal, as you know, target, GDP plus that is creating strong earnings and cash flow. That's what we want to achieve.

So if we have these as fundamentals, then what we're doing is, of course, the transformations we're doing. And we're doing transformation from a position of strength. And sometimes I get the question not only from you guys, from others as well, yes, it's a reorganization. This is far more than a reorganization. That is the conclusion of the strategy we have set. We build a network for network-as-a-service and we do that in order to have the best return on investment on the investments we're doing in the industry. That's why we're doing that. So ultimately, it should give the right type of returns and the best return in the industry. That's what we're doing with the network in Intelligent Edge Network, straight into how we see the financial modeling going forward.

The second part was the process changes we start doing. Part of the change of doing sort off the Intelligent Edge Network, the go-to-market, we also saw that we can change the processes. We have 10,400 employees that will all have left by the end of this month. The majority were ordered out. We changed the IT model to be very similar to what we have done in the network model, meaning one eye to organization. That means also outsourced, more flexibility, lower cost base at the same time.



JUNE 18, 2019 / 9:00PM, VZ - Verizon Communications Inc. Sellside Analyst Meeting

And we did the brand. I talked about the brand, what we're doing there. And that is, of course, creating more loyalty. And ultimately, we find synergies to take out cost the same on processes. So that's also supporting our long-term target.

Then, of course, the business model going to a much clearer go-to-market should ultimately give us the opportunity to sell much more of our portfolio as well as doing offerings that we couldn't do before. So suddenly, the Consumer segment with Ronan, he has everything from the home solution to the mobility solution, and that's how our consumers buy. We have time Tami that can actually go to a large enterprise having all products from the advertising platform to fiber to 5G, 4G, et cetera. Big transformation in that as well.

And also, of course, we have a transformation as well. We have a fairly new leadership team. You saw them in February, the majority of them, but we also have a lot of new talent coming into the top 300 as we did these transformation as well.

So all in all, this is supporting where we want to go long-term with a target of GDP plus as well as strong earnings and cash flow. And we do this in a position of strength because we come from a position of strength and we can do this transformation. So we're going to be even stronger in the marketplace and compete even better. So it's far wider than a reorg, what we are doing right now. And the team is really coming up well and doing a lot of good things and then we already, right now, see a lot of benefit from it. And then the voluntary program is, of course, a benefit. The customer engagement we have, a lot of other things coming into our business side is actually happening. Long-term, you should judge us that we continue to actually create the best return on investment and creating the strong earnings and cash flow.

This model I haven't shown before. I talked about it, but just visualize it, what we mean when we talk about network-as-a-service and how we maximize our capital investments. We have the Intelligent Edge Network in the bottom. We are now having product, again, seamless lingo between them. Think about the agreement with, for example, we did with one partner, YouTube TV, that is offered to our Fios customers, our wireless customers or the consumer mobility and to the 5G Home. Suddenly, we can actually move a product in between 3 areas. In this case, we decided not to do it ourselves. Remember, we had an OTT platform that we're planning for. We decided not to do it. So in some cases, we will do the product ourselves [inaudible] and in some cases we will only do connectivity, if you think about the MVNOs we have for example. But again, you use the networks which is our main strategy and where so far we've had the best performance on 4G by far in all the measurements, as you know. And ultimately out there, we have all these customer groups, I have said it before and I'm going to say it again, if I would have another type of customer groups, I would probably build the networks differently. But Verizon is very unique, we actually serve all customers in the market with technology. And if you then can horizontalize the network and productify that and move it around, you get a lot of efficiencies but again you both get efficiencies but also potential for growth, which we haven't had before. So that's the whole idea with the network-as-a-service and the Intelligent Edge Network.

And that ultimately led to how do we then organize ourselves? How do we set up an operating model? So the operating model is pretty simple. We have the Intelligent Edge Network. We have Verizon Consumer Group, which is Ronan. Ronan is handling everything from the retail, the home and mobility, but he's also managing the wholesale wireless, which is going to consumer. So that is what he is managing.

Then you have the Verizon Business Group, which is Tami Erwin. She's had basically 4 subsegments: Large enterprises, small and medium, public sector and wholesale. That's what she is managing with her team in order to do their best of delivering to our customers. And here, it's a lot of work. This has been wireline, wireless and many other segments. So here, it's a lot of opportunity both for synergies, but more importantly, even growth.

And ultimately, Verizon Media Group that you all know that we have been working with and define what we want to do. We have our media verticals where Yahoo! Finance, Yahoo! Sports, Yahoo! Entertainment, Yahoo! News, et cetera, where we want to be the best on online over the top. We have increased our spending there in order to do that. And we have gone from 7 advertising platforms to 1. Internally, we do use that advertising platform for our Verizon brand. Not only that, on the media verticals, they are now present in our Fios offering and will be in other offerings as well. And we have also taken the resources in IT and data that's also in Verizon Media Group and are now in one organization together with the network and the IT on the kind. So we get the full synergies. So this is the holistic view, what we've done.

And of course, when you have done all of that, then you also need to report accordingly so you get the right accountability and the right way to follow your business because this is how we allocate money and this is how we're going to work with our customers. And that's why we wanted to get you here to go through how it looks if you go back 3 years, 9 quarters and all of that. And Matt will walk you through that right now in detail then we'll come back and you can ask whatever you want to ask about. Matt?



JUNE 18, 2019 / 9:00PM, VZ - Verizon Communications Inc. Sellside Analyst Meeting

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

Thank you, Hans. Hello, everyone, and thank you for joining us this evening.

So this has been an exciting time at Verizon as we recently made the transition to Verizon 2.0 effective April 1. And with the release of the financial information under the new structure, our focus is on providing transparency and a clear understanding of the movements within Verizon 2.0. So in an effort to be as transparent as possible, we wanted to take time ahead of our second quarter earnings to walk you through the changes you will see in the financial reporting and provide assistance as we go through this transition.

So Slide 10 shows our reporting structure under Verizon 2.0. We have 2 reportable segments, Consumer and Business. The Consumer segment encompasses both wireline and wireless products and services, targeting retail customers as well as our wireless wholesale operations. Our Business segment includes wireless and wireline products and services provided across 4 customer groups: Global enterprise, small and medium business, wholesale and public sector and other.

Please note that our telematics business, Verizon Connect, is predominantly a business-to-business service and, as such, it is now managed in our public sector and other customer group whereas previously, it was included in Corporate and Other. Also, our wholesale revenues will only reflect third-party revenues under the new structure. Under the old structure, wireline wholesale included inter-company sales to Verizon Wireless and these were eliminated in consolidation.

Our third operating segment, Media, will continue to be consolidated -- will continue to be included in consolidated results under Corporate and Other. Other functional organizations within the new reporting structure, including network and technology, finance and others, will continue to be allocated to the appropriate operating segments based upon applicable drivers.

Within the new reporting structure, the balance sheet and cash flow statement will continue to be presented on a consolidated basis. However, with the shift to a customer-centric model, we will no longer be providing capital expenditures by segment and will only be disclosing such expenditures on a consolidated basis. For the remainder of 2019, we will continue to disclose supplemental schedules for our wireless and wireline businesses to help with the transition to the Verizon 2.0 model.

So let's begin the transition from Verizon 1.0 to Verizon 2.0 by sizing the revenue streams, and Slide 11 shows the revenue breakdown for 2018 under both the old and new segment reporting. As the chart shows, Consumer represented nearly 70% of our consolidated revenue, roughly the same percentage as wireless contributed under the old segmentation. Business accounted for nearly 25% of the revenue, Media 6%, with Corporate and Other accounting for the remainder.

Slide 12 shows that in the first quarter of this year, the components of the business were relatively constant to those shown on the prior slide. Consumer revenues accounted for 69% and Business, 24%. We expect full year 2019 to show a relatively similar composition of revenues compared to 2018.

Slide 13 shows a reconciliation from Verizon 1.0 to Verizon 2.0 for both Consumer and Business revenue. The waterfall charts show the bridge from wireless revenue to Consumer and for wireline to Business. The top chart shows wireless, which had \$91.7 billion of revenue last year. The addition of Consumer wireline brings in \$12.8 billion and the subtraction of Business wireless removes \$14.6 billion, resulting in Consumer segment revenues of \$89.8 billion.

The bottom chart shows a similar reconciliation from wireline to Business revenue. We start with wireline revenue of \$29.8 billion, add \$14.6 billion of Business wireless and \$0.9 billion of Verizon Connect and then subtract \$12.8 billion of Consumer wireline to ultimately arrive at total Business revenue of \$31.5 billion in 2018.

This slide also shows the new segment margins with Consumer margins slightly below those of wireless and Business margins above traditional wireline. These margins reflect the shift in both the higher-margin Business wireless revenue and the lower-margin Consumer wireline revenue to the new reporting segments. Consumer margins for 2018 were 44.5% and Business margins were 26.7%.



JUNE 18, 2019 / 9:00PM, VZ - Verizon Communications Inc. Sellside Analyst Meeting

Slide 14 highlights the same reconciliation for the first quarter of 2019, which closely resembles the previous slide. The margins here have a similar impact with the transition to Verizon 2.0 as they did in 2018 and provides a good baseline for moving forward.

So before we dive into the respective data points for Consumer and Business, I'd like to highlight a few characteristics of the 2 segments relating to wireless trends on Slide 15. As you can see, Consumer represents a larger portion of total wireless revenue. However, Business wireless service revenue grew at a faster rate in 2018. The move to Unlimited, for example, weighed on Consumer revenue trends in 2017, though as adoption of these plans increased, Consumer wireless returned to service revenue growth last year.

On the Business side, wireless small and medium business trends tend to follow consumer behavior fairly closely, while enterprise and public sector customers are more likely to be on metered plans rather than Unlimited. We also saw an impact from the migration away from device subsidies within the consumer base over the last 4 years. The subsidy model is still prevalent for business customers, particularly outside of SMB. As a result, ASC 606 accounting changes last year more significantly impacted Business wireless revenue, while the effects of Consumer wireless revenue was relatively minor.

In terms of seasonality, we see a significant jump up in Consumer wireless activations in 4Q, driven by holiday gifting and the timing of iconic device releases. In Business, net adds are more evenly distributed throughout the year, but can also be impacted by churn from large corporate accounts.

Lastly, the source of service revenue growth reflects the specific trends of each segment. Business segment growth is being driven largely by an increase in the size of the customer base. The Consumer service revenue growth is primarily a result of step-ups to Unlimited and migration within Unlimited to higher-tiered plans. And additionally, Consumer benefits from an increase in the number of connections per account.

So now let's take a deeper dive into Consumer -- into the Consumer segment on Slide 16. Total revenue for Consumer is split between wireless and wireline, with wireless representing the lion's share. The return to growth in wireless service revenue highlighted in the previous slide was partially offset by continued declines in legacy wireline services, resulting in roughly 3% total growth for the segment in 2018. We expect continued growth in wireless service revenue driven primarily by an increase in the average revenue per account or ARPA.

The bottom chart show the profitability of the segment and highlight our strong margin performance. As you will recall, the implementation of ASC 606 had a large impact in 2018 due to the deferral of commission expense. Excluding the impact of ASC 606, 2018 margins in our Consumer segment were consistent with the healthy levels of 2016 and 2017.

Slide 17 reflects the same data but on a quarterly basis, beginning with the first quarter of last year. We experienced continued year-over-year growth in Consumer wireless revenue with Consumer wireline revenue remaining relatively flat as Fios growth was offset by legacy declines. Consumer wireless service revenue was growing at stable low single-digit levels with first quarter 2019 benefiting from strong customer growth in fourth quarter last year. Quarterly profitability trends were similar to low -- to those on the previous annual slide as you can see in the lower charts. We should also note that the volume-driven seasonality in fourth quarter margins is consistent with historically reported wireless results.

The Consumer segment is where the seasonal fluctuations in net adds and profitability are most prevalent as we typically acquire volumes in the fourth quarter and lower activity levels in the first quarter. This is consistent with historical wireless segment trends. Phone churn remains low as we continue to deliver value to our customers through our mix-and-match Unlimited plans and award-winning network. Phone churn in Consumer is lower than our overall wireless average. We are also seeing customers hold onto their devices for a longer period of time, reducing the upgrade rate.

Slide 19 takes a look at the financial trends within our Business segment. You can see that our revenue is divided up into 4 customer groups. We will report revenues at these levels in our filings going forward, which aligns to our leadership structure within the Business segment.

Total Business revenue grew nearly 5% in 2017, though this included the full year benefit of telematics acquisitions completed in 2016 as well as the early 2017 acquisition of XO Communications. Excluding the impact of ASC 606, we grew Business revenue at low single-digit levels in 2018, driven by mid-single-digit wireless service revenue growth, partially offset by the declines in legacy products and price compression that we have

JUNE 18, 2019 / 9:00PM, VZ - Verizon Communications Inc. Sellside Analyst Meeting

previously discussed in the wireline business. ASC 606 accounting changes benefited reported Business segment growth by approximately 50 basis points.

And as you look deeper into each line of business, global enterprise is predominantly wireline and therefore experiencing the secular declines we have discussed previously, while small and medium business is growing, driven primarily by wireless services. Public sector and others is growing modestly and, as I mentioned earlier, now includes Verizon Connect. Wholesale, which includes a portion of the acquisition of XO Communications in 2017, experienced revenue declines in 2018. As a reminder, our Business wholesale customer segment now only includes third-party revenues.

So Business wireless service revenue experienced the majority of the total company impact of ASC 606, which you can see in the 2018 results on the top right. Reported revenues showed a 5.5% decline. However, if you exclude the \$1 billion plus impact from the accounting change, wireless service revenue grew 5% in 2018 on a like-for-like basis. Business segment operating income and EBITDA increased year-over-year, both on a reported basis and excluding ASC 606. This was driven by favorable revenue mix and ongoing cost discipline, including the benefits of our \$10 billion expense reduction program.

Slide 20 highlights the financial trends over the past 5 quarters. And on a comparison basis, Business wireless service revenue percent growth is higher than that of Consumer and is being driven by healthy account growth. EBITDA trends of Business reflect the high concentration of legacy wireline services. Wireless customers within small and medium business often take advantage of promotions available to consumers, which drive seasonality in the trends. Typically, fourth quarter margin performance of Business will exhibit a lesser degree of seasonal variability than Consumer. However, fourth quarter of 2018 was also impacted by softness in the wireline business.

Similar to the details we presented for Consumer, we included key wireless metrics for our Business customers on Slide 21. And you can see from the chart that our Business segment exhibits far less seasonality than our Consumer segment. Churn is slightly higher in Business and it can experience elevated levels of volatility when large customers change carriers.

So Slide 22 provides an update on the timing of additional disclosures in the weeks and months ahead. Second quarter earnings are scheduled to take place in August 1 and will be under the Verizon 2.0 structure, with required SEC filings following closely behind on August 8. We will also be providing recast filings at that time, including MD&A, which will support the recast financials that we released today. As mentioned earlier, we will continue to report supplemental wireless and wireline results with a reconciliation back to Verizon 2.0 structure for the remainder of 2019.

The 2020 reporting supplemental information will be provided for wireless and wireline revenue and operating metrics. Profitability will only be provided on a consolidated basis along with the Business and Consumer segment levels. Wireless and wireline EBITDA will continue to be provided within supplemental information throughout 2019. A list of the operating metrics and financial information that will be available is located within the appendix of this presentation and posted on our Investor Relations website.

So as I said upfront, the intent of the meeting today is to provide transparency around Verizon 2.0 and visibility into the trends of our Consumer and Business segments. We have put this presentation together to ensure you have as much information as possible to help you digest the changes. And hopefully, you'll feel we've accomplished that.

So with that, I'll turn the meeting back over to Hans.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thank you, Matt.

Before we go to Q&A, just some updates -- or I think I had 1 slide here, just summing it up at the end here. So what we'll try to accomplish, as Matt said, is of course, bringing this all together, all the way from the network transformation, the operating model and all the things we are doing with how we're going to report them in the future. We are on a standard. I think it's super important to you guys to be able to follow us.



JUNE 18, 2019 / 9:00PM, VZ - Verizon Communications Inc. Sellside Analyst Meeting

I have to say Matt and team has done a stellar job. We actually implemented this organization the 1st of April and they have all these things recasted already so we can actually have a chance to analyze it before we come to the first actual quarter. So I have to thank them because this is not an easy thing they have done. And they have done a great job with Tony and Matt, of course.

So coming back to the strategy, it is focused on the strategy on the network. That's clear that we want to do with our assets we're having and monetizing that better than anybody else in this industry. We are putting in place in this Verizon 2.0 an operating model that is customer-focused that's going to benefit the shareholders and the customers. There's no debate about that. Our ambition to reach our targets has very much to do with how we structure ourselves and how we support that structure. We believe that 5G is a game-changer for us. That's why we have been talking so much about it and outlined what we did in February at the Investor Day when we believe it's going to hit, but you need to be early building that in order to get those revenues that we feel that is going to be a game-changer for us.

All in all, I think that, and hopefully you feel the same, we are, with this structure and what we are doing, are setting ourselves up for a sustainable growth given what we have today and what we have in the future. And ultimately, that should drive long-term shareholder value. And then that's our commitment and that's what the whole team is geared around and all this model that we're doing right now. As I said, we have worked a lot with our team. And this is, for us, an extremely important moment in time. We build for a position of strength. We're doing this transformation in order to be ahead and competing even more with our competition and be even better.

So by that, I move to Q&A. And remember now, the questions -- you need to have the microphone because we're live on the webcast, so they can hear it. And our friends here will deal with the microphones.

Brady Connor - Verizon Communications Inc. - SVP of IR

We're going to walk around and give everybody a chance. So if we don't get to you right upfront, we're going to get to you in time. So let's -- everybody throw up their hand and we'll start picking.

QUESTIONS AND ANSWERS

Brady Connor - Verizon Communications Inc. - SVP of IR

Okay. So we'll go here. John Hodulik first.

John Hodulik - UBS

Great. Maybe -- right in front of him. Maybe just a general question on your view of the wireless market. The -- Verizon, over the years, has been sort of characterized by increasing margins. You have a pretty steady rate of up to 47%. Do you see -- although we might not know this in the future, do you think that the sort of table is set for a continued margin expansion given what you're seeing from a competitive level, from an upgrade level and that kind of thing?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

I think we have 2 different forces here. First of all, I mean, you saw when we reported the first quarter, of course, a softness in equipment market. Nothing strange at the end of a technology cycle. That's happened in the end of 3G. It happened in the 4G, a little bit less on that.

What I'm really proud of is the team, how they have been working with the service revenue on the wireless side and now in Consumer and in Business. And what we also know that we have roughly 50% of our customers today on Unlimited and in majority of those on Go, which is the lowest level. So of course, we see that both -- and I have a lot of confidence in Ronan and team. They continue with a lot of new offerings, working with our Unlimited, which now has gone beyond and above in order to see there. And then, of course, over time, as we have outlined before, we



JUNE 18, 2019 / 9:00PM, VZ - Verizon Communications Inc. Sellside Analyst Meeting

also have the 5G. But it's not saying that, hey, you need to wait for 5G to continue to have a good sort of continuation here. So you have that. At the same time, we're taking working with cost, which we're getting extremely disciplined with what we're doing. We have our \$10 billion commitment. You have seen what we have done the last 6 months.

So I think that we have ambitions all the time to improve. And I think that -- again, I have a lot of confidence in Ronan and team, what they're doing right now because you have seen what they have done since the Unlimited where, and remember, you might have been skeptical, and I wasn't even here so -- but how are you going to manage the network? How are you going to manage the profitability? They showed that they can do it. And then they have broaden out. Now, they have military. They have veterans. They have kids. They have the different Unlimited. And still, it's a lot of runway as you only have 50% of the customers on it. And remember, we became accretive after a while, because in the beginning, the ones that -- the meters that are spending the most went first to Unlimited. And remember, we came down because of that. Now, we are earning for this different position. And again, the network team is doing a fantastic job. We're digesting this without any problems in the capacity.

So that's how I see the business going forward. And Matt gave some points on guidance, both here in the speech but also in the first quarter. So again, I'm confident that they're doing a good job. But again, the equipment side is fairly natural at the end of a cycle. Matt, anything you want to add?

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

No.

Simon Flannery - Morgan Stanley

Great. Thanks a lot. On the earnings call, Hans, you talked about dynamics, spectrum sharing and the opportunities that it gave you to use some of the existing spectrum. Can you give us a little bit more clarity, where are you today in terms of time line, what you're hearing from the vendors? And I think you had an ex parte, you met with the FCC. So just talk about your broader spectrum strategy.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Craig filed that one. So yes, no, I think that 2 portions of it. First of all, I've said it before and I'm just going to say it again. I know I repeat myself often. We have all the assets we need today to deploy a 5G network, coverage and millimeter wave. We have that. So we're clear on that. Number 2, some things in the software need to be developed. And they will come out in release 16, that's a dynamic in spectrum sharing, which means that agnostically, the spectrum will deal with 4G and 5G. And there is no change in the time lines from the vendors. Some vendors lead me to handle the others. That's how it works. They are competing into being first. We want to spare the competition. So that is, of course, important.

Then the second part, which I also alluded to and it comes back to the ex parte from a discussion with the chairman Pai is that we are always looking how to best manage our data growth. Buying spectrum, densification or new softwares, that went in all enabling (inaudible) or things like that. And of course, we want as many options in every of these different type of (inaudible) in order to grow. And so that's why we talked about C-band, that's an option we have.

But remember, we're going back to the very prudent and balanced way of capital allocation. We always want to look what is the best. Should I densify more? Should I bring in more software? Do I need to change my handset base? That's a ROIC versus, hey, should I have more spectrum? So we're going to continue to be very prudent in our way of capital allocation. And I have to say and I sometimes can say that I'm a little bit new to the company. If there's something Verizon is fantastic on, it's this.

Walter Piecyk - BTIG, LLC, Research Division - Co-Head of Research and MD

Did I understand the description properly that you're not going to be breaking out wireless EBITDA in 2020?



JUNE 18, 2019 / 9:00PM, VZ - Verizon Communications Inc. Sellside Analyst Meeting

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

That's correct. We will provide wireless and wireline EBITDA for the remainder of this year in the supplemental disclosure. And it's -- about the time we get to the end of this year, there will be 4 years of EBITDA and revenue and everything else from 2016, 2019 in the old structure and new structure. Right now, when we produced both of them, as we will for second quarter and the remainder of this year, we're essentially looking at the books 2 different ways that requires additional work. We're going to do that for the remainder of this year, but it doesn't make sense for us to keep doing that on a long-term basis. So as we go into 2020, we'll continue to provide a revenue breakout between wireless and wireline in supplemental disclosures. We'll have the KPIs you're used to seeing, whether that be gross adds, net adds, churn and whatnot.

Walter Piecyk - BTIG, LLC, Research Division - Co-Head of Research and MD

Can you give commitment on at least subscribers for some period of time? I mean, you're not giving us wireless CapEx. You're not giving us wireless EBITDA. Can you at least commit to give us subscribers for some foreseeable future?

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

Yes. It's part of the KPIs, including gross adds and net adds, subscribers will be part of that.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Churn, operational metrics.

Walter Piecyk - BTIG, LLC, Research Division - Co-Head of Research and MD

And if you could just comment on the C-Band Alliance proposal on the auction. Is this something that Verizon would be going to participate in? If the FCC approves that?

And also a secondary spectrum question.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

I'm thinking on that, yes.

Walter Piecyk - BTIG, LLC, Research Division - Co-Head of Research and MD

There's been a press report. I think Scott had a note out today about DISH willing to spend \$6 billion. You're willing to let DISH do this deal with Sprint and T-Mobile and then have that spectrum not be available to you in the future?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Good questions. I'm not sure how we are going to attack them. But the C-band I've said before and then we have made our filing to what we think about it again. We want create optionality for that spectrum as one of the optionalities we have when we look forward on our migration of our subscribers. So we have filed that and we will stand by that. So -- but they're all different filings on different -- people have different opinions. I am not going to comment on what the others think. We have said what we think about the process.



JUNE 18, 2019 / 9:00PM, VZ - Verizon Communications Inc. Sellside Analyst Meeting

On the rumors around what's happening around the merger, there's so many rumors. There's a new rumor every day. So I'm not going in to comment if DISH is going to do that or if the founder of Boost is going to buy that. I think, for us, in this moment of time, the most important is execute on this we have presented today. That's the most important we can do. And then there's a legal process. There are many things that have to be gone through and we are not the ones to have the opinion about this right now. I mean, that's my view. And our view is if we execute on this, we're going to be better situated to compete regardless what's going to happen there, and we're going to be more ahead. So that's what my team and I am really focused on.

You want to add something, Craig? Craig Silliman is our Chief Legal Officer.

Craig Silliman - *Verizon Communications Inc. - Executive VP of Public Policy & General Counsel*

We have said for a long, long time, we're interested in getting as much spectrum in the marketplace as possible. Just as we've said for a long, long time, we're going to streamline build-out -- the hurdles to build out on the infrastructure side. We have not made any public comment about the specific band plan that's been filed by CBA.

Unidentified Analyst

(inaudible)

Craig Silliman - *Verizon Communications Inc. - Executive VP of Public Policy & General Counsel*

Or the auction plan we've got...

Unidentified Analyst

Help them if you supported it.

Craig Silliman - *Verizon Communications Inc. - Executive VP of Public Policy & General Counsel*

And we have not made any public comments in this -- on that at this time.

Brett Feldman - *Goldman Sachs*

So the whole point of reorganizing the company this way is so that you can approach your customers differently. So let's just use your Consumer segment as an example. I mean, how are you going to market differently as you approach your Consumer customers versus what you've done in the past? I mean, how is it going to be apparent to them? And then as analysts, how do we look at the Consumer P&L to figure out if you're doing a good job? And just to use an example, the way you're reporting looks more like cable companies. Cable companies talk about things like household penetration. Are you looking at all households in the U.S. now and trying to think about gaining traction on that?

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

In the -- it's a very good question. The household thing will be a very big part of it, of course, and then we have 2 metrics. One is, of course, what we're doing with Fios and then we have our ambition on the 30 million households with our 5G. And of course, important for Ronan and his team is thinking about what is the user interface, the omni-channel, regardless where you buy from us. So they feel -- the customers feel that, hey, I'm a customer of 5G Home and 5G Mobility. It's the same look and feel. Or I do Fios or I do mobility, I get the same feeling. So that's what really is going to make a difference for the customer. And of course, then we can have -- spend money much more efficient on marketing, both less but also more

JUNE 18, 2019 / 9:00PM, VZ - Verizon Communications Inc. Sellside Analyst Meeting

directed to that consumer group. We are retooling the IT systems. So the IT system is going to be the consumer insights. All of that is sort of have been totally separated in different models. Ultimately, how I think about it, if I do a better job there, I can keep my loyalty, I can keep up my margins or even improving my margins and I can deliver new services. That's the task that I give Ronan everyday to think about, and not only think about, I think, hopefully, execute on. Almost my Swedish coming in through there. Think about it. Okay.

Matt Niknam - *Deutsche Bank*

So this event was around Verizon 2.0. So maybe you can just comment on how it's been going so far? Any positive or negative surprises that have surfaced now 2.5 months in? And then any comments you can share or updates on 5G Home later this year?

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

Yes. I think that there's a lot of things we've already seen. I mean the whole voluntary program, the whole IT outsourcing could not have been done without doing this thing. I think the deals that we started doing with partners like YouTube TV, we're offering that in 3 different channels, we couldn't have done that before because that was sort of piecemeal. We have seen an enormous energy boost inside the company, which you cannot measure. But for me leading a large corporation, that is important stuff. If I get 10% more out of the organization because they believe in the purpose, where we're going, that's going to ultimately benefit you in all dimensions. So for me, I see a lot of proof points across the company right now around those type of things.

I think as you -- a couple of customers anecdotes. So on the enterprise side, I'm meeting large enterprises. I met a ton of large enterprises recently, and I met one of the biggest companies in the whole country. We came there and we actually came as one unit offering 4G, 5G, fiber, advertising platforms that we have and capabilities. The Chairman of that company basically said that, hey, the last 3 years, you have shown that with 6 sales guys in this company and we have no idea who is doing what. Now you come as one unit. Now we can talk solutions. I've seen that. I probably have met 10, 15 of the largest companies in this country the last 3 months with my new go-to-market. Now is our path to execute on it, having the technology behind and the right solutions. But I have the free sort of access to all large corporation because they want to work with us given our brand, our distribution, our technology.

So for me, that's proof point. Ultimately, we need to prove it to you that we also are making it to the shareholders and the financials and doing some of the things that we do in 5G, for example, we have to be this model because the 5G is a shared technology for any of our company groups. Fiber as well. You cannot say fiber is wireline and wireless. It's for everyone. So the whole model was a necessity for us to actually use the assets. So these are proof points.

On 5G Home, is that the next question? Yes. So the update on 5G Home is going to resemble what I said before. So we have the 4 cities. We're not going to expand that. No more base stations. No more cities. It was limited because of the TF. So there's no evolution on the software, nothing. Still we are consistent though with 300 megabits per second, use 700 to 800 in the -- with customers we have today. What's happening right now is the evolution in the industries that now will come with NR chipsets. The NR chipsets have come for phone, for smartphones. Next generation is going to be chipsets -- NR chipsets for CPEs. They are slotted for the latter part of this year because it's another chipset, and of course, the core [content like] are folks mainly on smartphones at the beginning. So when that is coming, we're going to launch. Wherever we have the 5G Mobility, we're going to have a 5G Home.

So as we build 5G Mobility, we're preparing for 5G Home. We work with our team with the set top. We work with the new design on the devices and all of that. So the team is really working it. And with all the information we have on the millimeter wave and work and design, we're going to be even better prepared when the 5G Home comes based on NR. But it's a technology challenge right now because the chipset is not there. Right now, it's slotted for the end of this year.



JUNE 18, 2019 / 9:00PM, VZ - Verizon Communications Inc. Sellside Analyst Meeting

Frank Louthan - *Raymond James*

So say you have all the assets that you need, are there any that are maybe less core to your strategy? You're focusing on the consumer and the business, and you still got sort of media there. Are there any other -- is that an asset that's still as critical to you? Or are there any other assets within consumer and business that may be less critical at this point?

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

In general, to lead a company like this, you're always looking for assets that you have and are they right or wrong and should you do something. And sometimes you shut them down. You don't dispose of them in the market. So I think that's what we're constantly doing. And if I look at my portfolio right now, I think we have really done a decent job with the Verizon Media Group. We know where to focus. We have them in a good spot. They know what to execute on and we have high ambitions. But we have high ambition in certain segments. It's not the super content strategies. Online, we want to be best in Yahoo! Finance, Yahoo! Sports, et cetera. That's where we want to have our footwork and our engagement with our customers. And then we have one advertising platform. That's what we're leveraging right now.

So it's nothing like hey, I want to get rid of that asset or not. But it's normal pruning. We need to continue to do it, and I think we did a lot of pruning in 2017 and '18. And we shut down our OTT platform, a couple of other things. We also decided to reset a little bit the plan for what we call the Oath, which is now Verizon Media Group, which you all know what happened in the fourth quarter. So I think we are -- we're never in a perfect place, but we know the assets need. And we're going to continue with pruning, and if there's something that is not performing, they're not performing, and then you take action.

James Ratcliffe - *Evercore ISI*

With the new base of segments, how are you handling the capital allocation process between these? Because I certainly see scenarios where Ronan and Tami have different ideas of whether that residential neighborhood for 5G or that office park and who's making those decisions on those allocations.

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

Yes. Let me talk and then -- because Matt and I have been doing this together. And actually, when I started at the firm, we started with a new capital allocation model because we knew that we were changing the network. So you need to change the capital allocation. So think about it that you have an engine in the middle, which is the Intelligent Edge Network. Of course, there's a dimensioning that much highly is doing together with Matt and me taking decisions. Then on the front end, on the access, that's where Ronan and Tami are dimensioning what type of coverage, what type of capacity needs, where they need it and what type, they are doing that from a customer side.

And that model we basically already started with last year, and now we're fortifying it. And what you've seen in 2018 was that we actually got ahead of our plan we're so efficient. And sometimes I get the question from you guys, why don't you spend all the money you guided for? We did that and more. But it's just that efficiencies in the whole new capital allocation model that we have built is so much better than we had before. So the whole Verizon 2.0 is built on the new capital allocation model. Matt is part of the design team working with daily. We have the capital allocation meeting today. You shouldn't report on that, but you should tell them what we have done.

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

Yes. So if you think about it, it's really a case of, as Hans told you about previously, you've got a much more multipurpose asset today than historically when wireless and wireline assets are very separate with what you did with them. So as you bring that multipurpose asset base together, the challenge that we have as we determine where to spend the money is what's going to provide us the best rate of return? And that rate of return is going to come from more than one revenue stream.



JUNE 18, 2019 / 9:00PM, VZ - Verizon Communications Inc. Sellside Analyst Meeting

So just as you think about 5G, we talked about it's a network that's going to have multiple revenue streams, which is different from how you're seeing us with the network builds in the past. So that's changed how we do the capital allocation model. And we look holistically at what revenues of the different parts of the business going to get off the multipurpose asset and then we decide where best to spend the money. But as Hans said, within that, the efficiency we're seeing as well, but we're doing everything we want but at a slower capital intensity than those activities would have cost us previously.

So as we go forward, we're looking at the spend across the totality of the company, not this is wireless, this is wireline. It's managing the totality and then figuring out what's going to give us the best return, continuing with a very disciplined capital allocation model as we go.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

And the new model also, maybe I want to comment on that, Matt, is much more dynamic. Before we were more static yearly. Now we are basically on monthly. We can change if we see that we need to change to ramp up or we see a vendor doing better now. We see a segment of the market we need to do more in. We get a lot of new enterprise business. We have that flexibility in our dynamic model given whatever guidance we're giving you. So we're also much more dynamic.

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

Yes. I think what I would use to describe it is agile. As you think about as we come into the year historically, we would have set up a process. We gave people the capital to go execute against that irrespective of what needs -- what may be going on in the marketplace. And as Hans said, we changed the model a couple of years ago and so we actually have set out now where we adjust the capital plan during the year more frequently based on what we're seeing and where we're seeing the needs of the network. And I think you're seeing the benefits of that show up in the results.

Tim Horan - Oppenheimer

It seems like you're trying to get down to one company, one wireline/wireless integrated network, integrated organization, you know, completely, and the key to that seems to me that your fiber rollout, once you get the fiber out there, you can do small cells. You can use that same fiber for all sorts of different assets. And a lot of studies historically would say you can kind of replace 5% of access lines a year with fiber. And you guys are talking about doing it in, I think, a 5-year period over half the country. Can you update us on the pace of that and what enables you to kind of do this? That's an incredible civil engineering project because we've been trying to roll out fiber for 20 years and we're still not covering half the country.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. Again, the fiber is multipurpose used for different customer groups. And as we said from the beginning, that go into different type of customers. We have been, for the last 2 years, building fiber. I think we're now reaching sort of the capacity levels that we want to deploy. We deployed roughly 1,000 route miles a month right now. We are aiming for some 60 cities, as I said before. So that is ongoing, and of course, that's an important piece of the whole strategy. But again, it's an important piece in the Intelligent Edge Network we're building. That is a little bit different, of course. Here in the Northeast, we've already a lot of fiber based on the Fios, and that's a separate strategy that we're doing there.

Now we're talking about that rest of the country where we're building right now. And again, there are (inaudible) wireless network, which is needed for all the cells. But then of course, it's an enterprise. It's small and medium company and it's a wholesale all the time. So suddenly, you have 4 different customers on the same fiber that you're laying down. But we always look into the economics here or the scale. Is it better to rent or lease or build it yourself? So far in many of the cases, we find it's best for us and for our shareholders to build it ourselves because it's an investment on our investment. Matt?



JUNE 18, 2019 / 9:00PM, VZ - Verizon Communications Inc. Sellside Analyst Meeting

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

I'd add on to that. Really as you think of the start of the question there, it's not one company. It is more than one company. You think by the way we go to market in different products and also within the networks. So even though there is some of the activity going on that is providing significant efficiency, there are continued different networks, different customer groups, and you should continue to expect us to see those as we go forward.

Jeff Kvaal - Nomura Instinet

Thanks, Brady. It's Jeff from Nomura Instinet. I have a short-term question and a longer-term one. The short-term one is I'm wondering if you were seeing any different pricing dynamics in the market ahead of the Sprint and T-Mobile merger, if anybody's behaving differently. And then the longer-term one is really the 5G one that we've all -- you see in the press every day, et cetera. How is it going? How is the rollout? And do you think you'll be able to get us to spend more to upgrade our plans?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

So there's a risk when you come up from the 5G governance meeting or the day before yesterday and we're meeting you guys. So I just need to separate questions here. So I'll calm down before I answer that. The first question about do I see any difference in the marketplace, I think it's been competitive all the time through this process. I don't -- there are flavors every week what different carriers are doing. I wouldn't say that -- I would ask Ronan because they are seeing it practically every day. But Ronan wouldn't say that there's anything different this week than for the month ago. It's always a competitive marketplace out there. And as Ronan and Matt said for the first quarter, when there's less equipment transformation upgrade because -- on the technology side, of course, it's very competitive. So I couldn't at least say anything different. But maybe Ronan should answer it and he's not here. But I don't see it.

On the 5G, how's it going, I think we as an executive team, we meet extremely frequently and reviewing where we are with 5G. The only thing I can say, what we have said earlier, meaning that 30 cities by year-end coming back with 5G Home, 5G -- 30 cities on the 5G Mobility, the 5G Home, launching our first 5G mobile edge compute by year-end. We're not changing that. We are chasing every piece of this -- of the supply chain. Remember, it's all the way from getting the permits, the power, the installation, the fiber, the ecosystem, have everything. It's a big, big transformation we're doing and we are basically leading the work here.

So of course, the guys are testing them. You saw it in our launch on 5G Mobility in Chicago and Minneapolis. It's that the first phone that came out with the Motorola, yes, we got peak rates of 600, 700 megabits per second. 2 weeks later, with a couple of software apps, Samsung was doing 1.3, 1.4. Okay. It's an enormous improvement we'll see. And of course, we want to see that robust and then you can roll it out.

But again, we are pushing the envelope for the whole supply chain, including the vendor's capability to produce equipment, and we will continue to do that and secure our part and our portion of whatever is coming up. And I think our supply chain has done a great job. So it's work all the way from the handset, the chipset, the network and then the municipalities and our own software team here. So it's a big work, and I can only say that I see a great work in my team and this is super important for us.

Michael Rollins - Citi

Just a clarification and then a question. Just in terms of clarification, do you see a lot of transfers between business and consumer wireless customers in any given period or a year that we should be mindful of as we look at now the new segmentation? And then just a higher-level question. If you can delve further into the wholesale wireless business and maybe size it in terms of units and talk about the strategy that you have, whether it's with the cable MVNOs or prepaid or connected cars, and just give us a sense of what's happening in that segment.

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

Yes, I'll take the first one.



JUNE 18, 2019 / 9:00PM, VZ - Verizon Communications Inc. Sellside Analyst Meeting

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

I'll take the second one.

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

If you like. So on the wireless between business and consumer, you shouldn't see people bouncing around backwards and forwards. But let me give you an example. So depending on the company that you work at, sometimes an employer will give an employee a phone that's paid for by the employer. In addition to that, the employer may negotiate a discount with us and the employee can go and set up their own account but take advantage of that discount.

So those lines that the corporation is paying, the employer is paying for, which are in the business segment, if you were able to go into one of our stores, get an account in your name, take advantage of the discount because of the company you work for, that is still what we refer to as employee liable. It's you as individual are liable for it. We're treating you as -- even though you're getting a discount because of your employer, that's a retail relationship with you in a consumer fashion. So depending on who's paying for the handset, will determine do we see that as a consumer or part of business.

Michael Rollins - Citi

Makes sense.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

On the sort of the MVNO business that we have, I can only say that the end of the first quarter, very happy with sort of our engagement with both cable companies that are using our network as well as the prepaid that are using -- and that's quite a big business, I mean, in terms of -- because there's quite a lot of subscribers of our network. Again, we built the network as a service. So this is playing ultimately into how we want to use our investment and seeing that our shareholders get the best return on investment. So that's fine.

And then on the IoT side, we see that picking up. But there's so many technology choices to be done. And we just launched our narrowband IoT technology, which is, of course, great because you use much less of it and you get better throughput. And you have still a lot on old technologies on IoT, but clearly, we see that as being another way of monetizing the network. And in some cases, of course, that connectivity goes together with the telematics business, which is our Verizon Connect business. So I think that yes, we see good uses of the network and we balance that in our investments. Again, the model we have is really key for us in managing that. So I said before, we're happy with all those engagements. And hopefully, our MVNO customers are happy as well.

Mike McCormack - Guggenheim Securities

What's the long-term view on Fios? What's the strategy around that as you look out over the next 3 to 5 years? And I guess for Matt, the new reporting structure, any change to your view on what you're going to provide from a guidance perspective?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

On the Fios, of course, we still have areas where we continue to roll out Fios but not at the pace that we've done before. We have come pretty far in the franchise. There are areas where we're doing more. Over time, I've always said that but it's not the initial focus. Of course, ultimately, we want to give optionality for our customers how they want to have their Internet connection and what they want to have in Internet connection all the time.

JUNE 18, 2019 / 9:00PM, VZ - Verizon Communications Inc. Sellside Analyst Meeting

Of course, outside the Fios footprint, we are now working with 5G Home. And then we basically tell our customers, "Do you want a YouTube TV? We include this with the thing you sign on, but it's your choice." We want to give them choices all the time, and I think that's what we should be able to do as a company for consumers, give the choices. And we see certain trends in the market that you see as well. I mean, the so-called bundles are less attractive nowadays. We just need to follow our customers and give the optionality both for the over-the-top TV as well as having sort of the traditional TV. We're going to offer it all to our customers. That's the most important for us, but we want to be able to give optionality to our customers all the time.

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

Yes. To your second question around guidance, so historically, our guidance has been at the consolidated level. So the transition from 1.0 to 2.0 really won't change that. At this point in time, we have no plans to change the guidance, focusing kind of typically on revenue, EPS and CapEx levels.

Brady Connor - Verizon Communications Inc. - SVP of IR

Andrew, next.

Andrew Beale - Arete Research Services LLP - Senior Analyst

Can you talk about your emergency services exposure in the business wireless side and what the new go-to-market gives you in terms of ability to defend against FirstNet? That's one question. And then the second one, I mean you've talked about second generation modems for 5G Home. I mean I guess they bring HPOE. You've got millimeter wave potentially coming down the track. Where can you get to in terms of self-installed for 5G then?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

I'm not sure I heard the first question. If you did, you can answer.

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

I'm not quite sure I got it, I think it was around FirstNet.

Andrew Beale - Arete Research Services LLP - Senior Analyst

Yes. No, it's emergency services exposure in business wireless.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Okay. Okay. I'll just start with second one because I remember that one. No, I didn't remember that one. That was a 5G Home question, the second one. Should you take the first one on first responder? In general, we have a good position on first responder. We are developing new product for our customers, and we have a good market share. We are continuing to fortify our products and our solutions. Our customers feel -- I mean ultimately, it's all about the most reliable networks when you're a first responder. I think that we have proven to have that, and we have a high loyalty with our customers, our first responders. We're not giving that market up. Of course, competition is always there but we're not giving that up. The whole new structure that we have is also giving a much better way for us to serve that market with much more new products in Tami's shop. So I think I -- of course, it's competition and others are getting assets, but that doesn't mean that we're abandoning that. We're going to take the fight and that's our market today and we're not giving that away.



JUNE 18, 2019 / 9:00PM, VZ - Verizon Communications Inc. Sellside Analyst Meeting

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

Yes. So first of all, as Hans said, we have great relationships in the first responder space, a great history with them. And we're obviously very appreciative for all the efforts and everything they do. But as you think about it today, again, you have wireless type products we brought to them, wireline products we brought to them. This gives us the ability to bring holistic solutions into that particular customer. And it's not something the customer said that you want to bring a more holistic solution given the work that they do for all of us. So I think we will continue to compete very effectively in that space.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

And when I was thinking about the first question, I forgot the second question.

Andrew Beale - Arete Research Services LLP - Senior Analyst

I mean what does technology in terms of HPoE on second-gen modems [movement away from] repeaters and so on help you get to in terms of self-installed rates...

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes, yes. No, no, I think we have come pretty far and we call it self-setup because it should not have been installed. It should be easy. So we are pretty far on that. As I said, I had a North Star from the beginning in the whole 5G Home. And that's basically you got all the equipment. You install it yourself. You choose what type of application you want to have on top of it. And you should be able to do that. That's our model. I can tell you that we had our 5G earlier this week. The team is working on that every day. I wouldn't say that I'm 100% through it or we are 100% through it. But I've seen good progress with the team to actually solve these types of things. So again, with all the knowledge we have acquired, the customer experience that we've already had with the 4 cities, the technology we know how it works, the equipment that we need, we're testing that all every day. (inaudible) apparently. So no, I feel good about it. I feel good about what the team is doing and I was really happy today or the day before yesterday when they talked about it. So we have a lot of things and self-setup is the North Star.

Brady Connor - Verizon Communications Inc. - SVP of IR

So we've gone through a bunch of questions. I want to make sure that we don't leave any unanswered or give you guys a chance there. I want to do last call for questions but let's do last call for questions here. All right, well back to Walter over here.

Walter Piecyk - BTIG, LLC, Research Division - Co-Head of Research and MD

CapEx on a combined basis since your combining EBITDA, I think your run rate basis is 16%, 16.5%. Is that kind of long-term run rate? Or as we have kind of this fiber push in the next couple of years, is there a long-term CapEx as a percent of service revenue?

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

Yes. So last year, we did \$16.7 billion, which was at the low end of what we've done. This year, we guided \$17.0 billion to \$18.0 billion. And if you actually look at the ends of that range, with our revenue guidance at the start of the year, it would kind of pull you at the high and low of our capital intensity over the past 5 years. So if you think about everything that's in that \$17 billion to \$18 billion guide this year, obviously, 5G and the rollout that we're spending there, the fiber build-out, the Intelligent Edge Network, the capital intensity of the business stays consistent. And that's been the story over a number of years now.



JUNE 18, 2019 / 9:00PM, VZ - Verizon Communications Inc. Sellside Analyst Meeting

What we're spending on evolves over time obviously, whether that's 3G to 4G, Fios changing over, 4G from our coverage to 4G as a capacity moving into densification. The spend has constantly evolved, but the actual level of capital intensity has remained very consistent. And we're confident as we go forward here with all the things we discussed, rolling out 5G, the fiber spend and so on that you should expect a continuation of a fairly consistent capital intensity.

Hans and I have said if we see the opportunity to accelerate capital, and I use the word accelerate deliberately, the ability to accelerate capital to bring forward revenue streams, we'll be certainly open to doing so if there's a return there on doing that. As we look at it today, the ability to go faster, we don't have line of sight to. But you should expect a consistency in the capital spend from us.

Walter Piecyk - BTIG, LLC, Research Division - Co-Head of Research and MD

On the upgrade rate, so you all saw similar consistency on the device upgrade rate. Because that's obviously an impact on working capital, they continue to decline, do they bottom. At some point, you're looking for an inversion and it's a capital issue?

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

Yes. We mentioned earlier where we are in the cycle on 4G, and so we're obviously seeing that in the upgrade rate. We already got 2 offsetting factors there as you think about working capital. On the one hand, upgrade rate has been going down. On the other hand, the average cost of the device has been going up. So as we kind of completed the transition with the consumer base to device payment, we've actually reached a sturdy level on working capital. As we go through a 5G upgrade cycle, we could see an uptick there. But that's why -- you mentioned a sharp increase in working capital but then you've also got the asset-backed financing separate from our own secured financing as we can kind of see those 2 things very differently. So...

Walter Piecyk - BTIG, LLC, Research Division - Co-Head of Research and MD

(inaudible)

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

Well, I think it will depend on how quickly customers decided they are going to adopt the 5G devices. So we'll start to see some of that this year, and we look forward to as more devices come to market as we bring more markets, turn them on, on the 5G network that we'll see customer excitement around moving on to the 5G network.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. In the CapEx side, maybe something that I said before that is so important. First of all, we do virtualization on the network as well, which, of course, bring efficiency in how we deploy the network from a cost point of view. The other is that it's a very big difference between our 4G deployment and 5G deployment. I mean I was on the other side of the fence on 4G, but that was basically ripping out all the CDMA or at least reducing it and then putting on the new hardware and the new radio and the antenna. This case and in the last couple of years, whatever we have bought, it's 5G compatible. So it's much more of a software. Then, of course, if you have now the frequency, you need the antenna, but we're much more prepared. And that's why sometimes you ask questions about how much are we spending on 5G. I mean we thought about that years ago, thinking about 5G with all the fiber investment, preparing the baseband and all of that. So it's a long journey when you are doing this. So it's very different from the 3G to 4G in Verizon because that was another situation.



JUNE 18, 2019 / 9:00PM, VZ - Verizon Communications Inc. Sellside Analyst Meeting

Brady Connor - Verizon Communications Inc. - SVP of IR

All right. So we're going to end the question period with Doug here. No pressure.

Doug Mitchelson - Credit Suisse

I was intrigued by the capital allocation model. I'm just curious if you're charging different products different rate of return hurdles, how 5G revenue outlook sort of midterm, longer term is influencing those decisions, and ultimately, as you get within your leverage target range does your return capital requirements change as you start to think about potentially being in excess capital position even though there's always more stuff you're looking at.

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

Very good question. I'll answer the last question very quickly. No, our return on capital requirements don't change. And as you think about 5G -- as we think about different projects, we have a fairly similar capital requirement. And if you offer new businesses or so, we may have a different hurdle there. And then as you think about things like 5G obviously, the time period for that return is going to be different and something that has a much more immediate revenue stream. But in general, we have a very disciplined approach to the return we require, and that doesn't fluctuate. And as we -- the balance sheet goes to where we said we want to get it to. That doesn't change from that point forward how we think about the return. When we're investing money, we're investing our shareholders' equity. And so we have to have the confidence that we believe we're going to get a good return on that. That doesn't change.

Brady Connor - Verizon Communications Inc. - SVP of IR

Okay. All right. Yes. So Hans, back to you.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. No, I will be very brief. Thank you very much for coming. This is an important event for all of us. We're transforming and going to a new model that we're going to report in. And hopefully, we've given you enough details and time to digest. And of course, our IR team are going to be here to answer your questions today, maybe tomorrow and the week after that. 1st of August, we're going to report on this structure. As Matt said, we will also have the old structure but we have the new structure. And hopefully, you have enough time to digest that. But I also wanted to connect it too. This is the large transformation we're doing, and this is how we create that accountability and actually how we want to operate as a company. And that's why the reporting has to follow that for all laws and rules and how you drive the company. And hopefully, you understand the importance of it. So once again, for the ones on the audio and the people in this room, thank you very much for coming. And so we're going to meet you somewhere again. Thank you.

Operator

That does conclude today's conference. Thank you all for participating. You may now disconnect.



JUNE 18, 2019 / 9:00PM, VZ - Verizon Communications Inc. Sellside Analyst Meeting

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