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# EDITED TRANSCRIPT

VZ - Verizon Communications Inc at JPMorgan Global Technology, Media and Communications Conference

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## CORPORATE PARTICIPANTS

**Matthew D. Ellis** *Verizon Communications Inc. - Executive VP & CFO*

## CONFERENCE CALL PARTICIPANTS

**Philip A. Cusick** *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

## PRESENTATION

**Philip A. Cusick** - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

Good morning. My name is Phil Cusick. I cover the telecom and cable space here at JPMorgan. I want to welcome Matt Ellis, CFO of Verizon. Matt has been CFO for about 18, 20 months, and with Verizon for 5 years. You have some housekeeping, so let's do that, and then we'll get into it.

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**Matthew D. Ellis** - *Verizon Communications Inc. - Executive VP & CFO*

Yes, good morning, Phil. So I draw everyone's attention to our safe harbor statement. Obviously, we'll be -- imagine we're making some forward-looking statements this morning. Obviously, there's risk associated with those. And I draw your attention to our safe harbor statement that you can find on our IR website. So with the formalities out of the way.

## QUESTIONS AND ANSWERS

**Philip A. Cusick** - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

Okay. So a year ago, Lowell was here, and you just cut price -- or sorry, you had just gone to unlimited, and the business had gone through a lot of disruption the last year. Where are we now in that process? And how do you see the sort of revenue and customer mix progression over the next few quarters?

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**Matthew D. Ellis** - *Verizon Communications Inc. - Executive VP & CFO*

Yes. So look, a year makes a big difference, doesn't it? When you look where we are today, it's really about building on the momentum that we have in the business right now. So the transition to unlimited has really helped as we've got an offer out there in the marketplace. It allows customers to really compare very easily our offer versus others. And we're seeing that resonates with customers. You see strong customer growth over the past 12 months, great churn, continue to lead the industry in churn. We're certainly not the cheapest out there. And so what that really speaks to is the fact is the performance and the experience on our network continues to be something that resonates very strongly with customers. So that's the foundation of everything we do as we transition to unlimited. The network has continued to be the standard by which all others are measured, and that will continue to be the case as we go forward. So that provides the platform from where we are. So we've grown accounts over the past 12 months. We got through the initial transition of those customers that had the opportunity to reduce their bills by moving to unlimited. They moved very quickly. What we've seen over the last 6 to 9 months is customers stepping up to unlimited. And so we will see the opportunity to customers to increase their bills, to get to unlimited, we increased the number of connections per account, and you've seen that show up in the service revenue trajectories over the past 2, 3 quarters, where we've seen us get back to, on an apples-to-apples basis, flat service revenue, working through the transition from 2-year subsidy to the device payment model. And we see growing service revenue from this point forward.

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**Philip A. Cusick** - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

Growing from this point forward?



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**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes. We think, on an apples-to-apples basis, obviously, you've got the new noise issue with the new revenue recognition standard, where you've got that in the '18 numbers, the '17 comparison is the old standard. So we were flat on an apples-to-apples basis in the first quarter. It was negative 2.4 when you just took the GAAP numbers on an apples-to-oranges basis. And we said that will be flat by the end of the year as well. So we see service revenue on, as I say, an apples-to-apples basis, growing through the year.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

Okay. So we're past the negative. 2Q will be positive year-over-year, and now we expect we'll be accelerating through the rest of the year?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes, when you say 2Q positive year-over-year, that's when you say when you adjust alpha rev rec this year compared to last year.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

Right. Okay. And in terms of the customers stepping up to unlimited, how's that pace been, better or worse than you expected a year ago?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes, it's been pretty similar. We have some pretty sophisticated models that predict what customers would do based off of their current price plans. Any new pricing plans that we're planning on launching, how much of a change that is and, therefore, the rate at which they change over. So we've had a good amount of migration, but there's still a good chunk of the base that has the opportunity to get to unlimited, and we see that occurring every single week.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

And that's despite pretty high competitive intensity in the first quarter. And even though things may have backed off a little bit lately, how do you see the market? I think you've argued that it's not a benign market out there.

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes. I think when you see the activity from our competitors in the first quarter, I wouldn't say it was -- it certainly wasn't a benign market in the first quarter. I think we were disciplined in our response and competed where we needed to, to be effective. And when you got the quarter all said and done, when you look at our phone net adds in the first quarter and compare it to first quarter over the last 5 years, it was a decent-enough result. So we will continue to compete in the marketplace, and we'll adjust as necessary to be competitive. Second quarter has probably started a little softer from a overall promotional activity than we saw in the first quarter. It was -- second quarter is pretty much end-loaded, though, as you obviously just got through Mother's Day, then you get it to dads and grads in June. So April is typically the quieter part of second quarter and then it builds as we go on. So -- but what we've seen so far would suggest it's maybe not quite as aggressive as 1Q was.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

Typically, we see competitiveness to ramp up into the new phone launches in the fall. Do you see any reason that this would be abnormally higher or low versus a typical year?



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**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

At this point in time, it's too early to tell. When you talk about the fall, it's really the combination of you get some of those new device launches. You also, of course, have the holiday season, too. And that combines to make our fourth quarter certainly typically the biggest quarter of the year, but we'll wait and see what comes to the market later this year.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

The cable companies have been coming in, Comcast a year ago; Charter, any sort of week now. How do you think about that entrance in terms of driving incremental competition in the space?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes. Look, it's -- we've had incremental competition in the space off and on for the past 25-plus years. And I think when it's all shaken out, we've liked where we've ended up. We've been in the wholesale business throughout that time period, and we've always fared fairly well with that. So look, Comcast has launched, obviously, and it's not had a material impact on our business. And it's -- the key for us is how many of their customers are trading out from being a Verizon retail customer versus the other guys. And as long as that ratio stays where we want it to and we get that wholesale revenue and we get to monetize that traffic on our network, we're very happy to be in that business.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

How do you think about the sort of long-term direction of them? We've watched cable and telco competing in different markets year-after-year, and it seems to be increasing every year. Eventually, do they need to own a network? Or could they be on an MVNO long term with you?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

We certainly think, for us, we need to own the network. I'm not going to comment what other people think they need for their business. But certainly, from our standpoint, owning and running the network has worked out pretty good, and we think it will continue to do so.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

Okay. On the cost side, you've talked about \$10 billion in cost savings. Can you just walk us through what is that on a sort of annual target basis and then the OpEx versus CapEx mix?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes. So the \$10 billion is a cumulative cash savings over the 4-year period. Whether that be CapEx or OpEx, it's not really something that we're focusing too much. It's taking the cash outflows out of the equation. So there's a number of tools in there we're using. Obviously, we're using zero-based budgeting. We're just really getting into that in detail. We had about \$200 million of year-over-year savings in the first quarter of this year, but I would expect the benefits to increase over the course of the next couple of years. And in terms of the split between OpEx and CapEx, when you look at our total spend today, the majority of it shows up as OpEx. I would expect the majority of the benefits of that \$10 billion to be in the OpEx side as well, but it will be a mix of both.



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**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

And how much of that will we see coming through in the numbers versus being reinvested in more aggressive growth or more aggressive network build?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes, I think it will show up in both. What we've discussed with the team, the reason we do this activity is to make sure that we have the resources necessary to pursue all of the opportunities that are in front of us that can generate a return. And so we go back, we look at where we spend money today. One of the things about being a business that's been around a long while is you have processes that made sense at some point in time, but maybe there's better ways of doing things today. Or maybe there's things you did 10 years ago, you don't need to do today at all, let alone more efficiently. So you go out, you make sure you're not inefficient in those areas. And that gives us the opportunity when opportunities come up to grow the business and be able to do as much of that as possible. So some of it will fall to bottom line, some will get reinvested in the business. And as we get through the program, we'll see how that mix shakes out.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

Sticking with revenue for a minute. On the wireline side, we've been hearing that the enterprise base is looking up a little bit better lately. What are you seeing in that space? And is there an opportunity to see improving numbers there?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes. Look, I think there's nothing major that we've seen at this point in time. That space continues to be competitive. We're happy to be in that space to compete. As we talk about our network assets and especially moving from our legacy network architecture to the Intelligent Edge Network, which is really a combined transport layer, whether it's enterprise or anything else, it gives us the ability to additionally monetize that core network. So we're glad to be in that space. Some of the products we've launched in that space over the past couple of years have ensured that we continue to be competitive. But I don't think the pricing intensity in that area has changed in any significant way. So I don't think you're going to see a massive uptick in the spend that we're going to see flow through our numbers.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

Okay. So the combination of those 2, we get a lot of questions about the 5G effort that you're doing. And so start with where we were a few years ago when you made that sort of densification versus spectrum decision. And when you start to densify, what does that do to the rest of the network, and what else has to happen? It's not just cell sites. There's a lot more going on.

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes. So there's, as I said, the combining the transport layers of the network into one network will increase efficiency significantly. Densification was something we did in a much larger way after the AWS-3 auction. And we had talked at that point in time about the cost of densification was starting to come down. At the same time, the cost of spectrum was increasing, and there was going to be a time when those 2 numbers would cross. And in some markets, in the -- in that auction 4, 5 years ago, those numbers did cross. And we said, hey, we're not going to buy spectrum when there is a more cost-efficient way to add capacity to the network. And so we've been doing the densification process for 5-plus years now. And in addition to helping us add capacity in 4G in a cost-efficient way, it really helped pre-position the network for 5G and using millimeter wave spectrum. So the spend to add, to build out 5G is going to take advantage of a lot of the spend over the past 4, 5 years. And that really -- you'll see that as we deploy 5G over the next few years here.



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**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

So Lowell announced yesterday that you'll be building 5G in Los Angeles as one of your starting markets this year. Can you talk about the densification in L.A. at all over the last 5 years and sort of give us an example of what's happened there?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes. So if you look at a lot of the dense urban areas, whether that be L.A., whether it be a large number of other cities, you think kind of top 50-plus cities, when you go into the dense urban areas, we have significantly densified. So the amount of sites that we have to add for 5G that aren't already a 4G small cell site is a small fraction of the total need. And in fact, in some parts of the network, we -- because we've densified so much, not because of propagation in 4G, but just because of capacity needs, we may not need to put a 5G antenna up on every 4G site we have today just because of the capacity on 5G versus 4G. So as you get in those dense urban areas, the densification of the network means we've done a lot of the hard work that will be required to establish the 5G networks in those locations.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

How is a market like L.A., where you sold your consumer business a few years ago, different than Boston, where you have a consumer business that's in the ILEC territory and you're building fiber aggressively today?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes. So if you go back to that Frontier transaction, although we had a presence in L.A., we didn't have a presence throughout the market. It was a partial presence. And it was also a very copper -- still a lot of copper in that market, too. If you think about Boston being the ILEC, not a CLEC, it was -- it made sense to continue to expand with Fios there, and that's going well. And we're about 2 years into that build. But when you look at other cities outside of the ILEC footprint, offering consumer services using 5G is, we think, going to have a lot of upside for the company.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

And as you roll fiber in the market, and you've talked about this in New York and some areas as well, you can take copper out of the network.

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

What does that do to the economics of the business over time? And how widespread could that get across the ILEC footprint?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes, that's going on -- it's been going on for a number of years, and it's really changed as well. If you look what we did in Boston when we announced that 2 years ago, the design for putting Fios in Boston was very different than the initial cities we did Fios in 12, 13 years ago now. I mean, back then, we weren't even talking about fiber as a key part of the wireless network. And so we built Fios as the single-use network initially to just get into consumer homes. As you think about when we came here in Boston a couple of years ago, it was really one of the first locations where we put out this one fiber Intelligent Edge Network design, where you put the fiber up and down the streets, not just for Fios, but also to do wireless backhaul and small business and enterprise as well. So you create that one network that you have multiple revenue streams off of. And that's going well. At the same time, as you say, you get to pull out some of that copper network that, in a city like Boston, has been here for 100-plus years. And I

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guarantee you, after that large storm we had last night, the field teams, they got a large number of work orders this morning, and they're working on them. And copper and water don't mix too well. And so you take that cost out of the system, and that's pretty significant in some of these markets, too. So the combination of the revenue opportunities and the cost reduction makes a compelling return.

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**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

How do you think about owning the fiber that the small cell and 5G networks are going to rely on versus outsourcing that? And do you want to future-proof your network and really own everything?

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**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

I think it's more about how do you get access to the assets you need, and fiber is an important asset for the network. There's multiple ways I can get access to fiber. I mean, I can lease, I can build or I can buy. And we've done all of those over the past couple of years. As we look at it, there's a number of situations, when we run the math, building our own fiber, we think, has the best economics. But it's really an economic decision as to the way we get access to the fiber that we need to build the network.

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**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

And the other side of capacity in a wireless network is spectrum. And you specifically made a decision a few years ago to densify versus buying spectrum, a very cost-driven decision. As you build more cell sites, does spectrum become more useful to put it on a network? Or does it -- do you really need less and less spectrum over time as you densify the network?

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**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Look, so if you think about the 4G network today, we're still using only about a little over 50% of our low- and mid-band spectrum to deploy the 4G network today. So we have the ability to roll out additional spectrum that we own today to support that existing network. It's really about how do you build a network and have the capacity in it. And there's numerous tools out there, whether it's spectrum, whether it's densification or whether it's the technology in the network continues to advance. The 4G network today is very different from the 4G network we started deploying in 2010. And there will continue to be advances in the 4G network, whether it's things like carrier aggregation, MIMO, et cetera. And there's more to come around that and as we get into 5G, too. So we look at it from the standpoint of, what are the resources we need to add capacity, whether that's densification spectrum, technology advances. And we work with all of those, but spectrum is an important part of the network and it will continue to be. But we feel good that we have the assets today that we need to execute our strategy, both 4G and 5G.

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**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

So let's go down the 5G path a little bit further. You talked about a sort of a broadband replacement earlier. How should I think about the go-to-market of that product? If I'm a consumer in L.A. or in Stockton, what's the offer going to look like for me?

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**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes. So if you think about what you see and -- you said Stockton? You mean Sacramento?

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**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

Sacramento. Yes.



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**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes. So we're launching 4 markets this year: 2 of them, we've announced Sacramento and L.A.; the other 2, we'll announce as we get closer to launch. What you'll see in those launches, the offering will evolve over time as well, as you should imagine, especially as we get into more cities next year. But I would say you should expect to see an offer that's broadband-centric. And it's going to provide what we believe is the best broadband experiences in those marketplaces. And obviously, as more and more consumers get their entertainment needs OTT, that broadband connection becomes more and more important in the home. So it will be broadband-centric. I would expect us to have a video offering, a traditional-type video offering but in an OTT format. At this point in time, in the initial launch earlier this year, I would expect us to partner with a third-party OTT product for that initial launch. But that offering will evolve over time as we get onto the global standard next year and we get to combine mobility with the residential broadband product. I wouldn't assume that the product that we launch later this year is certainly what the product will look like 3 to 4 years from now.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

What's the value of partnering with a specific OTT provider rather than just being an arms merchant for anybody who wants to come along?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes, it's -- depending on what the consumer does today, if a consumer gets their broadband and TV from the same person today, and you're asking them to swap out, you make it easier for them to do so. If that consumer is very comfortable bifurcating those 2 pieces, we're happy to do -- work with that consumer that way as well. It's really about making sure you've got variety of ways so that different consumers to get what they need.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

And do you see a point where you need to have your own sort of OTT offer? Or is it better to just outsource?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes, we've looked at that quite a while. And one of the things we've not been interested in is just doing a me-too-type product. So we continue to look at that. There's still ways that there may be something that we can do that's a different type product. If there are, we would move forward with it. But until we get comfortable, we really have something that's a compelling offer to consumers, we're happy to work with other solutions for customers to get what they need.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

Okay. So fixed broadband is sort of the near-term 5G opportunity, it looks like. What about mobility? At what point does -- do people in this room actually start to notice that they have a 5G Verizon phone versus the sort of improved 4G that we're going to see from you and from your competitors?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes. So I would expect, at this point in time, it looks like we'll see mobility handsets available in the first half of next year, but that's really in the hands of the OEMs. And what we're working on is making sure that there's a network ready to use those devices when they're available. And then it's really the combination of having the network, the 5G network deployed, having the hardware out there for customers to have and then the applications that use the 5G functionality for consumers to get that real benefit. So that will build over the next couple of years. We're going to be an important part of driving that ecosystem forward. And so 5G mobility is an important part of 5G in addition to residential broadband. And then





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you get into really the third major revenue stream on that network will be, as you get into some of the new technologies around IoT, some of the smart city applications and really, I think the B2B aspect of 5G is going to be much more significant than the 3G to 4G shift was.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

So we've heard about the B2B aspect and the IoT aspect for a long time, and you can see a lot of things that can develop. But at what point do you think this starts to create material new revenue for the company? Are we looking at 2, 5, 8 years from now?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

In that particular space, it's not going to be a significant revenue stream in 2019. As we get into the 2020s, it will build, and I think it will start to build fairly significantly from there. But it's going to be the combination of the network being deployed the right way and then the solutions being developed, and that will determine how fast that revenue stream develops. But just as with the basic network architecture where we've pushed that ecosystem to where it is today, we'll be pushing those solutions as well as fast as possible.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

Okay. If there are questions in the audience, I'd be happy to take a couple, otherwise, I'll keep going. There's a microphone back here. If you want to raise your hand, we'll have it brought around to you. So from here, you mentioned Oath, and let's get into that just for a minute because we -- you've owned AOL for a few years, Yahoo! for a while. It seems like the early expectation was that this was going to take off a little more quickly than we've seen. At this point, when should we start to see real growth from those -- that Oath property?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes. Look, I continue to be very excited about the opportunity that we have with the combination of those assets. Obviously, the timing of when we got to combine those assets and close that transaction was later than was originally planned when we announced the -- when we signed the Yahoo! deal. So that's kind of pushed back some of the -- getting on to where the integration were. You can't start it until you close the transaction. But we did the organizational integration last year. 2018, there's a lot of systems integration going on, not just internal, but customer-facing. So as you think of the advertisers coming on to those platforms, they still see AOL and Yahoo! And it's not that combined experience that ultimately we'll get to. So 2018 will have a lot of that going on. And then we will -- as we jump off into '19, that business should really be set up for strong growth at that point forward. But certainly still feel as excited as we did about the opportunity of bringing those assets together and combining it with the core Verizon business, and we think there's significant upside.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

Does that excitement -- does that drive you to want to own more content assets?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

No. I think as you look at the business today, when we got AOL, AOL had a great ad tech technology. The challenge AOL had was not having enough inventory for marketers to buy against. And so Yahoo! was a great opportunity for us to increase the scale of that business. So now we have approximately 1 billion monthly active users. So the challenge now is to increase the engagement with those consumers and get the same level of engagement as some other digital properties. And so you're seeing some of the activity we've done, whether it be the NFL deal when we changed that last year or the NBA deal. The intent there being you get digital content rights that bring people to the platform, and then we'll see us do other things in content that will keep people there and increase the value of those users to advertisers over time. But -- so we'll do -- continue to do things in the digital content space, but that's where you should expect to see our focus.



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**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

And Lowell has made pretty clear that he doesn't have any interest in traditional media assets. Is that a fair statement?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

That's -- it's a fair statement that he doesn't. It's a fair statement that we don't.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

Okay, okay. Let's turn a little bit to -- well, so let's follow up there. So if you don't need content, and it doesn't sound like you need spectrum, where strategically is the company? Is there anything you feel like you're missing? Or are you pretty complete for what you need going forward?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

We feel that we have the assets today to execute our strategy and grow the business. But look, there's -- you always are aware of what's available around you. And if assets are priced at a certain level that make sense to grow the business and they're consistent with the strategy and allow you to execute that strategy faster, then we will look at that. I mean, we did -- if you think about the Yahoo! transaction we closed last year, it was a lot quicker to execute the strategy of growing that base than doing it organically and getting to that 1 billion number. So it made sense at that price to do that transaction. We knew we would need millimeter wave spectrum, and we did it with Straight Path. And what we did with XO, that helped us get there, too. So you look at the value of the asset versus what you can do with it. And sometimes, it makes sense; and a lot of times, it doesn't. But whether that be spectrum or anything else, there's -- we continue to look at the landscape. And if something makes sense, then we'll look at it. But we have the assets today to execute our strategy organically, and we'll continue to focus on that. And as different things come up, we always look at them. And most of the time, we do nothing.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

You mentioned spectrum. There's a 28-gigahertz auction this year. You own most of that already. I don't expect...

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

We have a good chunk of 28, yes.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

You might be interested on what could come there? How do you think about the CBRS spectrum and other things that could come down the pipe in the next few years?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes. Look, they're all interesting. I think what we do is anytime new spectrum comes to market, we look at, does it help us build our networks? When AWS-3 came to market, we said this absolutely helps, and we participated in a significant way. When 600 came to the market, we said we don't really see a way that this helps us build out the network. So we didn't participate in a significant way. As CBRS and C-band come to market, there's certainly ways that you could see that, that could be of use to us, but we'll do more work as we get closer to that happening.



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**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

In terms of capital spending, the budget I think this year is \$17 billion to \$17.5 billion.

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

\$17.0 billion to \$17.8 billion.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

\$17.0 billion to \$17.8 billion. So how do we think about the high and low end of that? Number one. And number two, what's the potential to sort of ramp that as your 5G experiments work out?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes. So look, if you look at that range, there's a consistency with how we spend CapEx. And that range, if you go back and look over the last 4, 5 years, that's actually the upper and lower limits of where our actual spend has been. So that guide for this year pretty much says that CapEx for '18 will be in line with where it's been for the last few years. And so as you think about continuing to deploy 5G, think about our CapEx over the last few years. While the total number has been fairly consistent, what we've been spending on has evolved, whether that was 3G to Fios, from Fios to LTE at a coverage layer and then LTE at a capacity layer. And even prepping the network for 5G, there's been a lot of change in the makeup of that number, but the total number has stayed fairly consistent. So I would expect that to be the case as we go forward. But as Lowell and I have both said, if we see an opportunity to accelerate some of the 5G spend to maximize an opportunity in the marketplace and we can do that in an efficient fashion, we're not afraid to do so. But we'll advise more on that as we get later into the year. But at this point in time, we're thinking about it should continue to be in that reasonably consistent range.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

Okay. And so as you generate excess cash, delever the business, how should we think about leverage over the next few years? And you've talked about getting to a single A rating. What's the value of getting there at this point?

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Yes. So one of the reasons for getting there is we said we were going to do that. When we did the Vodafone transaction, and we have a track record of following up on the things we say we're going to do, and we don't see this as being any different. Look, we talked about the capital allocation model having 3 components: we invest in the networks, strengthen the balance sheet and return value to shareholders. And that will continue to be the focus. Now we'll get down the leverage ratio as to where we need to, to get back to that rating. And then after that, we'll look at how we continue to deploy capital. But we're not that far away from being where we need to be. So it's probably just a few points of turn, and then we'll be -- we expect to be in line with getting back to that profile that we had pre the Vodafone transaction.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

A few points of a turn probably over the next couple of years on most of our models?



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**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Something in that type of time period.

**Philip A. Cusick** - JP Morgan Chase & Co, Research Division - MD and Senior Analyst

Something in that range. Good. I think that's a good place to end it. Thanks very much, Matt, for joining us. And thanks, everybody.

**Matthew D. Ellis** - Verizon Communications Inc. - Executive VP & CFO

Thank you.

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