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PRESENTATION

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

Good morning, everyone. Thank you for joining us for the 7th Annual MoffettNathanson Media & Communications Summit, our first and hopefully only virtual summit. Hopefully, all of you will have gotten the agenda for today's and tomorrow's conference. We've done our best to try to keep the conference to a single track because we, as you know, try to keep these series of sessions to have a narrative flow to them.

So we're going to start with Verizon this morning. I'm delighted to welcome Matt Ellis, Matt, for, I think, your third consecutive -- or third time at the MoffettNathanson summit. Thank you very much for being with us, and I think you have a safe harbor slide to present or at least safe harbor warnings to present.

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

Yes. Good morning, Craig, and it's good to be with you. It's a shame not to be able to see everyone in front of us, in person, but these are obviously interesting times in which we live.

So before we get started, as you say, our safe harbor statement. Probably going to make some forward-looking statements this morning, and I'd refer everyone to our safe harbor statements that's both on our IR website and in our SEC filings.

QUESTIONS AND ANSWERS

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

So Matt, I want to -- before we start on the financial impacts that the COVID crisis has had on Verizon, I want to talk about some of the other impacts. Maybe we could just start off and you could talk about some of the things that you've had to do as a company to keep your employees and your customers safe through this process.

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

Yes. Yes, Craig, you touched on something that's been really a really big effort around the organization, especially in mid- to late March when this really kicked off obviously. And our first priority, as it always is, is the safety and security of our employees. So we have approximately 115,000 of our 135,000 employees working away from their normal work location. And not just that sheer number but the speed at which we did it was a phenomenal exercise.

And at the same time that we were doing that, we were also making sure we took care of our customers as well. So our networks continue to operate at a very high level at the same time as making that transition for our employees; at the same time, also taking care of our customers. So you think about our stores, we were down to about only 30% of our stores open for most of the last 2 months. And since then, we've -- those stores that were open, we put practices in place to protect both our employees and our customers so that our customers can come into those stores. If they have a need to do something that requires them to come into one of our stores, we're still open for them. They can still come and get the service they need, but we do it in a way that's safe for them to.

Last week, we got back up to about 40% of stores open. We expect that to get to 50% in June. So a lot of great things going on, but it starts with balancing the needs of our employees, making sure they feel safe in the way they work.

But look, we've got everything done as normal. And from a finance side, you saw us -- we did our quarterly earnings on schedule. And again, a little more virtual than normal, but we released our earnings, we released our 10-Q per our original schedule. So as an organization as a whole, we've made this adjustment but also being -- continue to do the work that we do to continue to support our customers and continue to build out our network. So it's been a big shift, but it's wonderful to be part of an organization as ours, so agile and able to move and adjust in times like this.

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

Two threads I want to pull out there, Matt. One of them, you said the network has performed well. I've seen your releases and others that have sort of talked about the types of traffic that have increased, VPN traffic up a lot, gaming traffic up a lot. But it's always a little hard to parse -- to just say what's happened to overall levels of traffic in aggregate. I would have thought that it would be down -- certainly, changing locations from urban to less urban, but I would have thought overall traffic would be down. What's happened? And have the trends leveled off?

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

Yes. So as you look at it -- and I think we provided some of the statistics on the earnings call but really an update to that as well. So we saw an increase in total traffic across the wireless network. Certainly, the location of that traffic has moved, less of it where people normally work and now more of it where they live. So we're certainly seeing more of that. So the geography has moved.

The time of the day has moved some as well. Obviously, we've seen huge increases in collaboration tools as people have -- like you and I are right now sitting at home, using VPNs and the like, so a massive increase in that type of data but also big increases in gaming and video streaming as well as you can imagine. So significant changes there.

But as I say, total usage across the network up significantly. We saw those increases in the first couple of weeks, and then it's been pretty consistent since then. And so the network is...

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

And that's across wireless and wireline?

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

Absolutely. We've seen it across both networks. Wireless -- wireline, obviously, as people are spending more time at home. The Fios network, we're seeing more usage there than we were before this. But even on the wireless networks, we're seeing total data traffic is up over where it was previously. As I say, the geography of that usage has moved, but the data usage is very strong

And then just the number of phone calls as well. I mean we sometimes forget about the phone call these days, but we're seeing phone calls on a weekday typically twice the normal Mother's Day volume. Obviously saw a good day yesterday as well as people remembered to call mom. But it was -- we continue to see that core volume there as well be at very steady highs every single week at this point as you have more and more people, obviously, out of the office, out of their normal place of work.

So -- but the network has performed phenomenally well in what wasn't a kind of gradual change to this. It was an overnight from Friday, the amount of uses, the location of the use has moved, and we've seen continued very strong performance.

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

Well, old timers like me will remember the old Bell Lab tables for which the entire network in the old wireline days was designed to handle the peak volumes yesterday on Mother's Day.

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

Right.

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

That was the big day that you planned around. Let's dig into the wireless business specifically for a minute. As you mentioned, the stores is now just starting to reopen. In general, you would think that having stores closed is going to do 2 things. It's going to, first, suppress activity levels, so lower churn and, therefore, lower gross adds for everyone. But that also will reduce the overall growth of the market because the market's been pretty dependent on things like BOGOs and add a lines that will presumably be suppressed as well.

So I wonder, as we think forward to the picture of subscriber projections through this crisis, how you are thinking about what happens to subscribers industry-wide and for you specifically in this crisis.

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

Yes. So as we look at what happened immediately, and maybe a little update to some of the numbers we reviewed a couple of weeks ago, so we saw in the mid-March through mid-April period phone gross adds -- or sorry, total gross adds down 50%, upgrades down about 40% as people initially were reacting to being stay at home, not sure what's going on with the economic environment. Since around mid-April, we've seen a little bit of an uptick from those low levels, certainly not back to pre-COVID levels. But we've seen some improvement in those volumes, whether that's because of stimulus checks hitting people's bank accounts or just people getting a sense of okay -- starting to get a sense of what this environment feels like, and some of those things that we held off on spending for a few weeks, we were planning on doing, we'll go back and do.

So we've seen a little bit of an uptick then, which is encouraging, and we'll see how long that plays out, if it's just related to the stimulus checks or if it's a more sustainable uptick.

But certainly, as we think about this thing over the course of the next few months, our stores are an important part of where customers come in. And it's not just having the stores open because a lot of our independent agents had stores open during this, but obviously saw the reductions in volume as well. So it's also about consumer behavior. So I think that's the key determinant here.

Customers inherently want that great experience on their wireless network. And they get that better experience through: one, being obviously on the Verizon network; but secondly, having the latest devices with the features in it. So we do think we'll continue to see a lot of good volumes there. We've seen a significant uptick in online activity during this as well, and it would be interesting to see how that lasts, if we get, as a result of this, a more long-term shift in transactions, hardware transactions taking place through the digital channels, not just through the store channels. But certainly believe, especially as we come into 5G, we continue to roll out of that, that's going to give customers the reason for coming in and having a -- making that handset transaction that will drive volumes as we go forward.

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

So there was -- before the crisis started, there was an expectation from at least some of your peers that this was going to be a very big upgrade cycle year and that the 5G handset cycle in the back part of this year would be a particularly large one. I think you were perhaps more skeptical about that proposition than most. What's your best guess at Verizon? And how do you model expectations given that we don't know how things are going to reopen and -- geographically and what have you? But with unemployment rates high and, therefore, disposable income levels suppressed, how do we put all that together and think about what kind of a 5G upgrade cycle you think you're going to see in the back half of this year?

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

Yes. So as we came into the year, I think we've kind of felt it'd be a year of 2 halves: one, the first half of the year that would look a lot more like what we've seen in the last 2, 3 years, and that was certainly playing out pre COVID. And then as we got into the holiday season with more 5G devices coming up -- we talked at the start of the year about expecting 20 5G devices to launch on our network during the course of the year, and by the way, we're still on track with that. And you combine with -- the availability of more devices with an increase in the coverage of our 5G network, and we thought the second half of the year would certainly have a significant uptick.

If you recall, our revenue guidance that we gave at the start of the year said we didn't expect equipment revenue to be the headwind that it had been over the past few years, so not that it was going to be necessarily a massive tailwind but certainly a change in the overall trajectory from what we had seen. Obviously, we've withdrawn that guidance since because of the impact of COVID, but that was our view coming into the year.

But we thought the second half of the year had some opportunity to be significantly better than what we've seen, and we still feel optimistic around you get the right devices out there, there is demand for customers to see what 5G can bring. So I think the question is not so much just for our industry, it's the broader question of, as we open the economy up, how comfortable are customers going out to stores and resuming a lot of the activities that they did prior to COVID. If we see that level of activity out there, I think we'll still see stronger handset volumes in the second half of the year. But of course, that's part of the variable right now.

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

So if that's the volume side, now let's think about ARPU, and I want to make sure I understand how to think about ARPU because there's so many puts and takes. On the one hand, the international TravelPass, for example, has gone. Roaming revenue is down sharply. The FCC pledge limits your ability to charge for overage charges and that sort of thing. On the other hand, you are seeing a steady stream of upgrades into unlimited plans and that sort of thing. Put all that together, just how should we be thinking about the trajectory of ARPU for the next couple of quarters and then longer term?

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

Yes, yes. So we -- most of the time, we, as you know, Craig, talk about ARPA, average revenue per account rather than per user, but the same trends apply in general. And so as we think about what we've been seeing, which was a nice steady increase in ARPA driven by customers moving to unlimited, giving customers more value, really helping drive that, that's been going on. You saw the progress we made on ARPA last year.

And don't forget, within that, we take a lot of those handset promotions that you mentioned. A lot of the cost of those actually gets amortized over a 2- to 3-year period within service revenue as well. So as we mentioned, we expect to have a little bit of headwind from that in the first half of this year from that accounting that comes with the revenue recognition treatment of those handset promotions. But even once you -- with that included, we still expected to see good growth. We saw wireless service revenues grow in the first quarter, where there was minimal impact from COVID on the service revenue numbers at that time.

But then as you get into the second quarter, obviously, we expect a much more significant impact, as you said. So we expect service revenue growth rates to be 3% to 5% lower than they otherwise would have been. And you can basically split that into 2 major pieces. Half of it is actions we've taken, whether that's the FCC pledge around not charging late fees, not disconnecting customers whose ability to pay has been impacted by COVID; and the other half by customer behavior changes, primarily roaming, international roaming especially, which is likely to obviously be impacted for some period of time. Think about those 2 sides: our -- the actions we've taken, the customer behavior ones, roughly an even split in terms of the overall impact.

So look, I think the actions we have taken, we'll see how long those play out. We extended the pledge around late fees or not disconnecting customers through the end of June. We extended the extra 15 gigabits of data and opening up the hotspots for unlimited customers through the end of May. So we'll see the time lines that those have as we go forward.

But certainly, customers still having the opportunity to get on unlimited, we're still seeing customers step up in the environment because of the value that's there, and we expect to continue to provide customers those options that give them the opportunities to do so. But of course, you're going to have some of those other factors weighing on there as well for some time. All of us are eager to know the macroeconomic environment and how long those things are going to be an impact here. But certainly, that's how we see the second quarter at this point. And as I say, we'll see how long those impacts carry on from there.

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

We -- you, in the first quarter, presented data that I think was sort of a tale of 2 cities in your wireless business, where the commercial side of your wireless business actually had a blowout quarter as companies were preparing to -- for the lockdowns and sort of furiously ordering VPN services and what have you. Can you just talk about the trends, whether those trends have continued on the business wireless side into the second quarter? And what kinds of services -- has there been a shift in the kinds of services that your business customers are looking for?

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

Yes. So you're right, we had -- within the total wireless service revenue growth, you had a higher number in the business segment than we had in the consumer segment. That really wasn't a first quarter phenomenon. If you look back into last year, once we started breaking the business now under the new segments rather than old, we saw that we've had very good momentum in our business segment for a number of quarters now. We've had good progress in our consumer segment, too, but that's where more of the headwinds from the handset promotions are showing up on the service revenue piece.

But the business segment certainly has been doing a fantastic job of contributing to the overall wireless growth, 7% at the end of last year, 6.9% in 1Q. Really no major impact in that service revenue number in the first quarter from the actions you saw our business and public sector customers take. That was the ongoing momentum in the business.

But as you say, businesses reacted differently than consumers once this happened. And so as you think about what we saw immediately, we saw small/medium business act a lot more like consumers, right? Obviously, as we shut down the economy, immediately, you saw a lot of SMB businesses very much impacted. So we saw their gross adds go down significantly just like we saw consumer.

On the other side of business, in large enterprise and public sector, we saw those adjustments that those organizations made as large numbers of employees are moving home within the public sector space. All these school children suddenly studying from home not necessarily having all the tools and so on they needed and so we've seen significant activity there that we're proud to have been able to help support. So what we've seen is in March and into early April, very strong volumes in those areas. We saw gross adds across enterprise and public sector up 163% in that mid-March through mid-April time period. Now since then, I would tell you the enterprise piece has come back down to something more normal because once you've given your employees the tools they need to work from home, you get back to more of that normal run rate. We're trending towards that more normal run rate now as we get into the middle part of Q2 here.

The public sector side will still continue to see very strong volumes come through there. So we'll see how long that lasts. But certainly, again, reinforcing the very strong relationship we have with the public sector area across all areas, whether it be federal, state, local; continue to be a provider of choice for them as they look to meet the sudden needs that they have. So it's been a very different response from the different parts of business, say SMB, enterprise, public sector all moving a little differently, but certainly, it's still all built off the fact that they need a high-quality communication solutions.

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

And how do you think about -- so first, I guess, in that business wireless segment, now that we've started to see some enterprise customers and lots of SMBs taking fairly significant numbers of layoffs, are you starting to see those disconnects from terminated employees coming through yet? And then there's the question of bad debt, of just -- everybody is, I think, scratching their heads over how do you forecast bad debt in the SMB community when so many of those businesses are at risk of bankruptcy. Can you just talk about that and how you've made those estimates for both of those things, for the layoffs and head count reductions and then for bad debt?

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

Yes. So within the 3% to 5% lower service revenue growth rate, under the customer actions piece that I mentioned, the roaming revenue. The other piece within there that we looked at is customers choosing to suspend a certain number of lines on the account. So if you're a small business owner, you got 20 lines on the account, maybe you don't need all of those right now. You're not sure, when the economy reopens, if activity's immediately going to pick up. So you don't want to disconnect, but you may suspend some number of lines, which will have an impact on service revenue. So that's part of our assumption there.

But you get into one of the challenges that I think that we had when you got to the end of first quarter, and we said, okay, this is obviously a very different environment. And we're doing -- we're now under the CECL accounting standard for assessing credit losses. And so as we did that, we chose to use the number of customers that had informed us of their intent to or their impact in terms of paying their bills due to COVID. We used that as the basis of making the bad debt reserves that we did at the end of the first quarter. When we get to the end of the second quarter, we're obviously going to have a lot more data, not just in terms of number of customers who have availed themselves of the FCC's pledge but just in terms of actual behavior coming through.

So certainly, as we look at SMB, that's an area we're looking at very closely, right? Because obviously, as you say, small/medium businesses have been significantly impacted. The question we don't know is whether all of the stimulus we've thrown at the economy, right, the PPP and everything else, does that provide an effective bridge for these businesses to come out the other side of this, once we reopen, and get back to some level of business that allows them to keep on running and paying their bills or so on or if there's a different outcome. So we're going to watch that very closely. As I say, at the end of the second quarter, we'll have more data on which to assess that.

And then within consumer, likewise, I can tell you over the past few weeks, we've actually seen some good progress in terms of customer payment patterns. And while certainly, there's some pockets here and there we're looking at and we're seeing numbers that aren't quite as high as we normally would, overall, we're seeing some positive signs. It reinforces the fact that customers -- first of all, we have a product customers want and need to use, and they want to continue paying for it, which is great to see.

On the earnings call, we gave you a number. We said 800,000 customers, that includes some small business in there as well as consumer, had by mid-April told us that they were -- they wanted to avail themselves of the FCC's pledge. And I know we had a lot of follow-up questions to that. But to put that number in perspective, 800,000 on a base of roughly 35 million, is less than 2.5%. At the same time, by mid-April, we were seeing, I think it was, 6.4% of mortgages had some type of forbearance, right?

So we're seeing a continuation of trends we've seen in prior economic downturns where people are electing to pay their phone bill, and we're continuing to see that right now. So certainly, there are some impacts, but we're seeing some good trends as well within the payment space. We're going to monitor it very closely. Obviously, it's incredibly one of the most important things for us to stay on top of right now.

But we have a very good process for helping customers stay as Verizon customers. We go through a lot of effort to help them become a customer in the first place, and we have great tools and processes for helping them stay as a Verizon customer even when they may have come across some economic difficulties. So we'll just continue using those processes that have served us so well for many years.

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

Well, encouraging to hear. I want to zoom out a little bit to something longer term. And now let's talk about 5G a bit. And sorry to be so mired in the present tense of the COVID crisis, but do you think that the crisis will have any lasting impact on -- or maybe not lasting impact, but do you think it will have an impact on the appetite for 5G? If I think about particularly from enterprise customers that were likely to be sort of the vanguard of 5G users, is your guess that the whole 5G cycle may get pushed out a little bit by the economic pressure that's on so many enterprises?

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

Yes. We continue to work very closely with a lot of our enterprise customers on 5G. And if anything, businesses understand that they will need to keep getting more and more efficient as we come out the other side of the current situation. And they see 5G as one of those things that can help them be more efficient. And so while certainly, normally, you do see a slowdown in enterprise total spend during an economic downturn, we actually think it's -- 5G provides an opportunity for businesses to change the cost profile of their business. And also, some of the things they couldn't do previously that they'll be able to do going forward, that will become an important part of how they serve their customers.

So we are cautiously optimistic at this point in time that some of the normal downturn that you'll see -- and we'll see some of that occur, obviously, in this environment. But if anything, it will make businesses need to understand how they're going to find those efficiencies that they're going to need to have going forward, and 5G will continue to be a significant part of their thinking about how they do that. And we're partnering with enterprises across every industrial sector on developing those use cases that create those opportunities for our customers.

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

And does it change some of the use cases that are most exciting for you? I think about -- it's -- one reasonable expectation is that we'll see more factory automation that could potentially be a strong case for factory of the future types of use cases. On the other hand, smart cities and that sort of thing, while -- as appealing as that might be, depend on municipal budgets being flush enough to be able to afford it. That's very much in question. How do I -- how do you think about the different use cases that are sort of ascendant and descendant because of these changes?

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

Yes, yes. So I think about -- you mentioned a smart factory, and we're doing a lot of work with Corning as an example of one of the customers we're working with right now for how do you bring 5G to the factory floor. A lot of good progress being made there.

A lot of the other use cases we're working at in terms of bringing the compute to the edge of the network, what does that allow in terms of low latency. Obviously, we announced the partnership with AWS in December, working with Bethesda gaming on the use case as a -- yes, obviously, that's more of a consumer use case, but you can also see how that type of latency can bring changes to the factory floor and other parts of enterprises as well.

We demonstrated at the Super Bowl, I think -- and it's hard to believe that's like only 3 months ago now, so much has changed in that time period. But we had a camera there that was part of the actual -- the broadcast of that game that -- unlike all the other cameras in the stadium that had all the wires and cabling to them, taking the picture from that camera back to the control truck, it was transmitting the picture from that camera directly to the control truck without any wires, right? And when you think about, okay, that changes how I would set up a number of things. It makes logistics so much easier than the traditional way of doing an activity like that. So we're seeing a lot of those type of activities where customers are saying, "Okay, where can I reduce some of the physical connectivity?" but then also, "How can I do things different when I can move the compute to the edge?"

When I think about, "Okay, I can imagine a use case I could have had previously, but it was just going to be too expensive," well, if I can take the compute out of the device, now all of a sudden, all these sensors and cameras and whatnot out there in the ecosystem are so much more cheaper and some of these use cases now economically viable. So we continue to see good progress being made on the development of those opportunities across a number of industry sectors. And we haven't seen any significant slowdown as a result of the current situation. As I say, I think customers know that this is something that they have to understand how they use it to make their business more efficient, but also just change some of their models and some of the products and services they can provide. So it's an exciting time.

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

So Matt, on the conference call a couple of weeks ago, I asked you about the strategy that you guys have pursued around millimeter wave spectrum. And necessarily, because of the nature of millimeter wave spectrum and its relatively short distance propagation, your capital spending has been very much targeted at dense urban and, in particular, within dense urban, gathering places, so stadiums and arenas and airports and what have you, places that, at least today, Americans are necessarily avoiding. Does any of that change the way you think about your capital investment priorities? And does it change the way you think about the need for mid-band spectrum?

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

Yes. So in terms of the build-out of 5G, the reason we built 5G using millimeter wave is because we're excited about all of the functionality that comes with 5G. We talked about the Eight Currencies. You've heard us talk about that for a couple of years now. But you're only going to get the benefits of 5G if you have enough spectrum to go with it. And the best place to get enough spectrum was in millimeter wave, which is why it's been years and years now that we've been focused on that as a primary delivery of 5G to the market.

So it's not just in dense areas. Obviously, that's where we've started because it's where most people have been, a lot of usage has been. But really, the usage of millimeter wave has been around how do I deliver 5G in a way that brings all of the functionality and make 5G about what you're really capable of doing with it and not just a marketing campaign.

So we've been focused on bringing 5G forward that has the ability to deliver all Eight Currencies to bring all the different use cases that different customers could want and need and millimeter wave as being the best way for us to do that. And as you say, obviously, there's different things that you have to do work with millimeter wave versus working with low band. But the great news is the engineers that we have, have been working with this for years, and they're showing tremendous progress.

You asked about spectrum. And look, we're very happy with the spectrum holdings we have. I'm obviously not going to talk about certain specifics because we're now under the anti-collusion rules for the CBRS auction that the FCC is going to hold here in July. But broadly, as I say, we're happy with the spectrum holdings we have. Our strategy is based off the spectrum we own today.

You -- I know C-band will be part of the conversation here around what's available in mid-band. And certainly, C-band brings some incremental optionality for us in terms of developing that strategy and doing things on top of that strategy. So we're interested in considering what that might be, look forward to that auction starting in December this year. I think the FCC has done a nice job of bringing all the different components of that together to get to the point that we're looking for a C-band auction later this year. So we'll see how that plays out. But as I say, we're very comfortable with the spectrum that we own today in terms of our ability to build out our 5G strategy.

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

I'm going to press you on that a little bit, Matt, just with the spectrum that you own today because you've talked a lot about a DSS strategy or dynamic spectrum sharing strategy that would let you share your currently LTE-dedicated spectrum also for 5G. That would satisfy a coverage requirement, I suppose, but it's very different than having large block widths that you were describing as part of the advantage of millimeter wave. How do you think about that trade-off as you get to the mid-band portion of your coverage map that expands coverage from the densest urban areas to something that is relatively broader. How do you trade off those larger block widths versus the DSS?

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

Yes. Well, first of all, as a CFO, DSS is incredibly exciting. It's the first time we've had the ability to take an asset, a particular piece of spectrum and use it for more than one technology, right? So as we went from 3G to 4G, we had to pass our spectrum holdings and say, okay, certain pieces of the spectrum continue to support 3G and then certain pieces of the spectrum support what was then the new 4G, right? And it's like -- and only periodically are you able to move them around.

So the idea that we can now get to DSS and you can take that same piece of spectrum and use it for both 4G and 5G off the same cell site and dynamically shift between the 2, in terms of the ability to generate returns on investments, as every CFO loves to do, it's a great development that we've not had in this industry before. So we're very excited about that. And secondly, it works, right? We've demonstrated that for a number of months now. We're in the process of deploying it in the network. We expect it to be ready later this summer. And then we can -- when we choose to turn it on will be based off of commercial decisions.

So it gives us that ability to provide a coverage layer and then you bring the millimeter wave in on top of that to provide the use cases, especially for business customers where they want those use cases to be provided. So we're continuing to work on the build-out there as well, but we do think that's complementary. And if there's the opportunity with C-band to bring in a mid-band additional component in there as well, we're excited about some of those opportunities that could bring up, too.

But we run the strategy today based on what we own today. And we will -- we're excited about that upcoming auction. But as you've seen with everyone, we will maintain a disciplined approach, and we'll see how it plays out. But as I say, between DSS and our millimeter wave holdings, we feel very good about our strategy.

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

One of the primary motivations for T-Mobile in their merger with Sprint was getting a lot of mid-band spectrum. And so they will arguably have a mid-band spectrum advantage at least temporarily. How do you think about competing against a newly merged T-Mobile/Sprint? And maybe also you can broaden that to think about what DISH may bring to the table as a potential new entrant.

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

Yes. So look, obviously, T-Mobile/Sprint is not something that's just surprised us. We've had a couple of years to think about this, knowing that they were aiming to get together. And look, they have -- while, certainly, when you bring those assets together, there are some things that, obviously, people see as being appealing, they also have a lot of work to do. And we know this from our own experience, having done numerous integrations over the years, including the last large one we did with Alltel. It takes 2 to 3 years to do the network integration, and that's if you do it right. It can take longer than that if you don't, as we've seen some examples across the industry.

So there's a lot of work to do there to take that portfolio and put it together. While they're doing that, we are executing our strategy. As I said, it's not something that suddenly come up. We've had a couple of years to plan and prepare for it. And I'm confident, with the strategies that we have in place, we'll continue to have excellence in our network performance. It sets the standard for others to follow. And when we combine that with bringing the right customer offerings to the table, whether that be in the consumer side or the business side, we'll continue to compete very effectively there as well.

In relation to the new fourth player in the industry as a network operator, we'll have to see exactly how that gets built out. DISH has owned spectrum for a long time, haven't done a lot with it to this point in time. So we'll see how that goes from here. Just like everything that happens in our industry, we pay close attention because while we have been the leader, we also don't take that for granted. We know that there's always people out there trying new things, and you never know when somebody is going to find something that is a little different, that has an impact. So we pay a lot of close attention to what everyone else is doing. And we execute very hard against our strategy, and we're confident that we will continue to have both the network performance that others measure against and also the overall results of the business the same way.

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

DISH has talked about having a nationally competitive network for about $10 billion. You're closer than anybody to the cost of building and maintaining a network. What's your reaction when you hear those kind of numbers?

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

I've not seen a way to do that yet. You see how much we spend every single year on the network. And while certainly, there are advances in technology as we go forward here, in terms of the ability to build a network to cover the U.S. at that type of rate, that's -- we spend a little more than that annually on the network, and that's largely maintaining a network and putting the new generations on it as opposed to the initial build-out.

So look, we'll watch it very closely, but -- we'll see how they do, but we know certainly it seems to be something -- it's not just the building of the network, you have to maintain it. There's a -- the capacity increases year-over-year haven't slowed down yet. We think as we develop new use cases for 5G, we'll continue to need -- see increases in data capacity every year. And we've shown the ability to not just build a network in the first place but also continue to upscale it to meet those increasing needs. So we're very confident in our network build plan. And we watch others closely, and we'll see what happens.

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

Matt, can you update us on the 5G Home initiative? I think you had said at the beginning of the year, you were expecting another 30 markets this year. Is that still the case and -- as the new equipment becomes available? And how do we think about the rollout of the fixed wireless broadband project?

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

Yes, yes. So the 30 markets that we added, we mentioned at the start of this year, that was on mobility. We did 31 markets last year, and we said we'd do another 30 markets this year on mobility. As we build those mobility markets out and as we increase coverage in those markets, we start to get into more residences that are covered and then we can launch the 5G Home product as well. So we'd said we'd be in 10 markets by the end of the year on 5G Home, and we're very much on track with that plan even under this current circumstance.

So we launched our first NR standard for 5G Home in October last year in Chicago to go with the 4 cities that we launched the prior year on the proprietary standard before we had the global standard. So we're in 5 cities today. We're seeing a lot of good activity in there. Customer response when they have that product has been very high. So we're very confident in this strategy.

One of the things we've been waiting for is the next-generation chipset from Qualcomm. That is available now. They're in some of the handsets that have launched this year. We're now going to get that into the CPE that goes in the customers' home for 5G Home later this year. And then as we have that, that would lead to even better performance, and then we'll start rolling out more aggressively once we have the longer-term CPE in place. But we absolutely are excited about the 5G Home opportunities as we've been, and the customer reaction in the 5 cities we're in reinforces that point.

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

Well, the 5G Home has sort of cable as competitor. You also obviously have a significant relationship with cable as customer. Can you talk about the MVNO relationship for a minute what you're doing with the MVNO relationship? And there was obviously a lot of talk about potential new competitors for that MVNO relationship. Can you just talk about where you are with that and the relationship overall with cable?

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

Yes. So look, we are pleased to call the cable companies customers of ours through those MVNO relationships, and it's easy to overcomplicate how you think about this. But when you unpack it a little bit and you say, look, if we treat any of our customers right -- we spend a lot of time talking about churn in the consumer side. But the same things that we do to get to industry-leading churn number on the consumer side applies to business customers and it applies to our wholesale customers, our MVNO customers, whether that be the cable companies or whether that be any other MVNO customers that we have. And that is -- we spend a lot of time and effort getting customers onto the network, and we want to keep them there. And we keep them there when we treat our customers right, when we have the right product offering, when we evolve our products and services with them. And when we do that and we treat them in the appropriate way, we have a long-term relationship with them. And so we're very interested in maintaining that relationship with the cable companies and look forward to a long and healthy relationship with them.

(technical difficulty)

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

Sorry about that brief interruption. Let's turn, if we could, to the wireline business just very briefly because that's been a concern for us and lots of your investors worrying about the historical cyclicality of that business. How do you try to make forecasts for what is happening or is likely to happen in the wireline -- the business wireline segment?

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

Yes. So obviously, there's been a lot of secular changes in that business over the course of the past few years. And I think it's really exciting what we're doing under the new structure, where rather than having segments that are focused on individual product, we have segments that are focused on the customer. And the work that Tami's team is doing in the business segment is really doing a better job of saying, "Okay, what do these customers need going forward? And how do we make sure we're bringing those products and services to the marketplace?"

And part of that is understanding their needs. They want strong, obviously, collaboration tools, communication tools, whether that be wireline products, whether it be a wireless product. And around that, it could be a need for more video conferencing. And you saw what we did just a couple of weeks ago. We announced -- we signed the agreement with BlueJeans, and we hope to close that here very soon. Security, they want that embedded in all of that. And that's something we spent a lot of time on.

So I'm more excited about that part of our business today than I've ever been, and it's because we have the right focus on it. Are there products within there that are going to continue to decline? Absolutely. That's normal product life cycle. We're not going to spend a lot of energy trying to grow copper connectivity, right? That's probably not a good use of our time and effort.

But there are a lot of things that we can do to enhance the value of the relationship we have with our business customers, and we're doing those things today. And the team that's working on that now, because we're now looking at it from a customer viewpoint, not just a product viewpoint, I think there's a lot of positive things going on there. Obviously, over time, the results would tell how successful we are, but I think the strategy that the team is putting together there and the focus they have is very different than any time that I've seen since I've been with the company. So while, yes, there's things that will continue to have pressures over time, there's other new products and services that we're offering customers that we think have very strong and healthy futures.

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

On the residential side of the wireline business, we've seen cord-cutting happening now faster than ever before. We've always wondered whether Fios might be the first of the sizable MVPDs in the United States to go broadband-only. Arguably, your Mix & Match was, to some extent, a test of YouTube as a substitute. Can you just talk about the -- how you think about the cost and benefit of maintaining the traditional video product and whether there's a point at which you might say it's better to sell a third-party OTT service instead?

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

Yes. I think what it comes down to, Craig, is -- and this is on Fios but you also see it in our wireless product too, is when we give consumers choices, we end up with a good result. We end up with a good result for us, but more importantly, good result for the consumer, too. And so you've seen us take some of the approaches that we put into our wireless products over the last few years and started to bring that into the Fios product as well with the Fios Mix & Match early this year.

So at the end of the day, we'll let customers tell us what they want from us there, whether it is the traditional linear TV package or whether it's something else, but we're also going to help bring those options to them, as you mentioned, with YouTube TV and other options as well. So that will continue to play out, and we'll see how it develops. But we feel if we bring all of the different options that are out there to customers, packaged in ways where they can create choices, ultimately, that provides a great outcome for both the customer and for Verizon.

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

So Matt, I want to wrap it up with one last question here, and that is, one of your strengths is your balance sheet, that you are fortunate to go into this crisis with a manageable leverage ratio. But how do you think about managing your balance sheet particularly if this starts to drag on -- the recession starts to drag on for a long time? How comfortable are you with different levels of leverage? And then -- and are there ways that you can use your balance sheet to your advantage if opportunity arises?

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

Yes, yes. So I would say, we're -- I wouldn't necessarily classify us fortunate to have low leverage come in. It's -- the leverage has been lower because of the actions we've chosen to take to get that there. And certainly, none of us would have chosen this current situation we're in. But I think it's an example of why we've taken the approach to the balance sheet.

Our capital allocation model hasn't changed as a result of COVID. It continues to be to invest in the business is priority #1. Our second priority is around the dividend. We know how important that is to our investors. The third priority is around strengthening the balance sheet. And the fourth priority is, if there's cash left over, that -- finding efficient ways to return that to shareholders.

But as you think about the balance sheet, we will continue to focus on priority #1, which is to grow the business, invest in the business. And then we want to have a strong balance sheet. That continues to be important to us. But as we've demonstrated over the course of the past few years, when the right opportunities come up to invest in the business, to create long-term value that is priority #1 and it will continue to be priority #1.

So we will continue to manage our capital allocation model to deliver against each of those. And we don't see a scenario at this point in time where we're going to have to pick and choose amongst those. But absolutely, leverage will move up, move down as we go through this, as it always does, but having a strong balance sheet continues to be a key part of our capital allocation model as well as investing in the business.

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

So well, Matt, on that note, I want to thank you. I think on behalf of everyone on this call, I want wish you and all of your employees health and safety in these strange times.