

THOMSON REUTERS STREETEVENETS

EDITED TRANSCRIPT

VZ - Verizon Communications Inc at Morgan Stanley European
Technology, Media & Telecom Conference

EVENT DATE/TIME: NOVEMBER 14, 2018 / 9:40AM GMT



NOVEMBER 14, 2018 / 9:40AM, VZ - Verizon Communications Inc at Morgan Stanley European Technology, Media & Telecom Conference

CORPORATE PARTICIPANTS

Matt Ellis *Verizon Communications Inc. - EVP & CFO*

CONFERENCE CALL PARTICIPANTS

Simon Flannery *Morgan Stanley, Research Division - MD*

PRESENTATION

Simon Flannery - *Morgan Stanley, Research Division - MD*

All right. Good morning. So continuing the North American telecom theme, it's my great pleasure to welcome Matt Ellis, CFO of Verizon. Welcome to Barcelona, Matt. Thank you for coming.

Matt Ellis - *Verizon Communications Inc. - EVP & CFO*

Thank you, Simon. Thank you for having us here.

Simon Flannery - *Morgan Stanley, Research Division - MD*

Great. And as Emmett mentioned, one of the impressive trends on the last few weeks has been the strong performance of some of the U.S. telcos, none more so than Verizon. So we're looking forward to hearing about what's been going on this year and the priorities for next year.

QUESTIONS AND ANSWERS

Simon Flannery - *Morgan Stanley, Research Division - MD*

One of the big changes since last year, obviously, is Hans Vestberg has taken over as CEO. He's announced some organizational changes. So it'd be great to just give us a perspective of the first few months and what his priorities here and how he is structuring the company going forward.

Matt Ellis - *Verizon Communications Inc. - EVP & CFO*

Yes. So good morning, everyone. Before I jump in to answer the question, I'd like to remind everyone of the safe harbor statement, and we'll make some forward-looking comments I'm sure. And obviously, the full statement is available on our IR website.

So in terms of the priorities for this year, and I think we've done a good job of executing against them, it's really 3 major things: executing on the fundamentals in the core business, positioning the company for future growth and then maintaining the disciplined capital allocation. So if I look at each of the 3 of those, in terms of the -- executing on the fundamentals in the core business, it begins with continuing to lead in network performance. And when you look at the third party studies and so on this year, you see we continue to do that.

There was a concern a year ago when we launched unlimited. And when you took our large base and opened up unlimited, what would that do to the network? The network continued to perform well last year as we added that extra volume on it. And as we've come into this year, we've seen us continue to actually increase the performance on the network. So that piece, we continue to do the things that you would expect from Verizon.

And then we're focused on maintaining and then growing our base of customers. And what you see when we do that right, when we pair the network experience up with the right customer offering, we get good results in terms of KPIs with net adds or churn. And when you combine that with what we've been doing on the cost side, our business excellence program and the \$10 billion of cumulative savings over 4 years that we're

NOVEMBER 14, 2018 / 9:40AM, VZ - Verizon Communications Inc at Morgan Stanley European Technology, Media & Telecom Conference

aiming for, made good progress on that. So you combine all those things together, and you get the financial results and set the business up for long-term value creation.

So the second piece I mentioned was positioning the company for future growth, that obviously starts with 5G. It's now nice to say we are officially in the 5G era. We have a commercial product in marketplace in terms of our residential broadband offering. And so we're glad to be there. And as we get into '19, a lot more to come. And not just 5G, but as you think about the applications that we're -- and platform layer above the network, whether it be what we're doing with telematics or digital media as well.

And then the final piece, we talked about the continuing the disciplined capital allocation model. And what you've seen us do this year is continue to invest in the business, reposition us for that growth in 5G and other things, while also being able to strengthen the balance sheet. We made good progress on that. You think about from the end of last year through the end of the third quarter, a 0.2x reduction in leverage in that 9-month period.

So you take all those 3 things together, the executing in the core business, repositioning for future growth and then the capital allocation maintaining discipline, we've been executing against each of those priorities. The other thing you asked about was the reorg and -- so really, this was the right time to do this. I mean, Hans has been in the company now for 18 months, so he had a chance to obviously make an impression on the network organization when he came in and then he had a -- obviously, promoted a few months ago. He spent some time with a number of people, identifying how we set the business up going forward.

And when you think what's happening with the products and how they're coming together, having a go-to-market approach focused on the product set rather than the customer you're serving, especially that those products are coming together in a way they hadn't previously, this really is the right time for the business to make that move and to make sure that we're approaching each of our customer segments with a unified voice, a unified set of offerings for that customer segment, and that's going to help position us as we go forward here as well.

Simon Flannery - Morgan Stanley, Research Division - MD

Right. And what's sort of time line for sort of operationalizing that?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes, so we'll -- some of the organization changes will kick in at the start of the new year. From a reporting standpoint, it will be the second quarter before we are in a position to report under the new structure. And we'll obviously provide additional reporting as we go through that, so that people can pivot with us as we do that. But we'll start to see that change in the org structure starting in the new year.

Simon Flannery - Morgan Stanley, Research Division - MD

Great. So you returned to wireless service revenue growth this year.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes.

Simon Flannery - Morgan Stanley, Research Division - MD

And the whole industry has done better on wireless service revenue growth. You talked about the adds, the churn has remained strong. Talk a little bit about what's driving this both at the industry as a whole and for Verizon, and is it sustainable?

NOVEMBER 14, 2018 / 9:40AM, VZ - Verizon Communications Inc at Morgan Stanley European Technology, Media & Telecom Conference

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. So I'm not going to probably comment for the industry as a whole, but looking at it from our standpoint, certainly, we all went through this transition over the past few years from the 2-year subsidy model to device payment, which led us to really bifurcate the revenue between service revenue and equipment revenue. So there was some noise in there.

But when you look at really what's driven it this year, it's been around the performance, and we're really starting to see that the full benefit now getting back to, as I talked about earlier, having that customer offering that matches up with the quality of the network. When we get both of those pieces right, we do well. In 2016, the -- we didn't really change our customer offering, but the customer offerings in the marketplace moved, such that we didn't really have the offering that was continuing to resonate with customers. And so, obviously, in the first quarter of '17, we moved to unlimited, which is where the market had moved to. And as soon as we did that, we saw a change in the -- both the gross adds and the churn side of the business.

And then from a service revenue standpoint, what you initially saw was the customer who was paying for that big bucket of data, they could actually migrate to unlimited and save money. And so you saw that happen very quickly. Certainly by the end of the second quarter last year, those customers had migrated. And so you get that initial hit to service revenue, which we fully expected when we launched unlimited.

But since then, we've now had the ability to migrate the rest of our base, the majority of the base was paying a service revenue below where unlimited was priced, and so we had the ability to step them up. And we've seen that occur for the past 1 year, 1.25 year, 1.5 years now of customers stepping up to unlimited, getting the benefits of it. And within unlimited, we started with one unlimited plan. Since then, we've added 2 other unlimited plans based on speed and quality of service.

So within unlimited, we -- customers can choose which is right service for them. You see a lot of customers initially come to unlimited at the base level and then we see some of them step up as well. So we continue to have runway within the base of customers who aren't on unlimited, the opportunity to step them up. And then the other driver is continuing to add connections per account, whether that be a smartphone or whether that be a tablet or, more recently, obviously a lot of interest around wearables. And so we continue to add connections to account, increase the relationship with the customer.

So between the adding connections to the account and customers stepping up in the core service plan they have, that's driven the increase we've had this year. 2.6% year-over-year both over the last 2 quarters when you back out the noise from the revenue recognition accounting. So we're glad to have got back on that trajectory, and there's certainly space ahead of us to continue that as we go forward.

Simon Flannery - Morgan Stanley, Research Division - MD

Great. And this is despite cable competition coming in, obviously, you have the MVNO arrangements. But how have you seen cable impact the market?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes, they've certainly come in. They've approached existing customers with the offer and there's been some impact, obviously you see their numbers in the quarter. But we continue to have a very strong relationship with our retail customers. And those customers, they get -- as we've said all along, we're very happy with the terms of the agreement. And as long as the proportion of customers they're getting is roughly in proportion to the market share we have in the industry, then that's a good financial trade for us. And that's absolutely what we've been seeing. We're very comfortable with the proportion of their adds that have come from us, and so it continues to be a good transaction.

What it allows us to do, you think about our industry, we create capacity with the investments we make upfront. And so then the ability to create as many revenue streams as you can off of that investment drives stronger returns, and I think that's something we've demonstrated over the years,



NOVEMBER 14, 2018 / 9:40AM, VZ - Verizon Communications Inc at Morgan Stanley European Technology, Media & Telecom Conference

is being focused on driving those returns. So I like the retail customer base, but I also like the wholesale business we have, too, and it allows us to drive the best return out of the asset we've invested in.

Simon Flannery - Morgan Stanley, Research Division - MD

Great. I think you made some comments maybe on the quarterly call that you expect churn to increase in Q4. Is that primarily seasonality?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes, it's-- we expect to see increased activity in the marketplace in the fourth quarter. We see it every year, so we might see -- well, that reference wasn't that I expect like a 20-point increase or something, it's just a few points that you would typically see around seasonality, nothing major. I like where we've demonstrated this year that we've competed effectively in the marketplace, over 500,000 smartphone net adds in the third quarter, so we're doing the right thing. So as volumes tick up here in the fourth quarter, I would expect us to do well. But obviously, we've got the heaviest part of the quarter still ahead of us, so look forward to reporting out on it when we get to January.

Simon Flannery - Morgan Stanley, Research Division - MD

Great. And you made some moves on your prepaid offer recently. I mean, how does Verizon think about prepaid? And you've got exposure through your MVNO relationships as well. What's that strategy there?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. So as you mentioned, we obviously participate in prepaid with wholesale as well. There's been a long-term arrangement primarily with TracFone. That's been, I think, good for both sides. But when you look at some of the moves in the past few weeks, our move was really in response to moves that others made in the marketplace. And I think that's fairly consistent with what you see, whether it's prepaid, postpaid, is that we will make the adjustments to our customer offerings necessary to remain competitive.

So we have changed our focus in prepaid in terms of our branded prepaid over the past year or 18 months to make sure we're focused on the parts of the prepaid market, at least for our retail business, that actually generate a return. And as we looked at that prepaid business, we had parts of it that made a return. We had other parts where you had very low usage. You think about that proverbial one-and-done customer, they get a device, they pay for 1 month service, and they don't renew. There's really not a return there. And so we reduced focus on some of those parts of prepaid where we weren't getting a return. So the number of adds we have in that sector has come down a little bit, but it's -- net-net, it's more profitable than it was previously. That will continue to be heavily focused on prepaid.

Simon Flannery - Morgan Stanley, Research Division - MD

Great. So October 1, you turned on 4 cities with 5G Home broadband. So what have you learned so far?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

There's been a lot of good learning. I'd say the first thing that I would say about the experience in those 4 cities that the customers have got is that the product works exactly as expected. And in some cases -- a lot of cases, at speeds higher than the minimums that we promised in the commercial offerings. So it's great to have a commercial 5G product out there.



NOVEMBER 14, 2018 / 9:40AM, VZ - Verizon Communications Inc at Morgan Stanley European Technology, Media & Telecom Conference

Simon Flannery - Morgan Stanley, Research Division - MD

Maybe for this audience, maybe not everybody is familiar with what the offering is.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes, a couple of pieces about it that's important. It's a residential broadband offering. So this is the ability to get broadband in home without having to have a wire literally come into the house. So it's -- you got the bandwidth throughput capabilities on 5G that are different from prior technologies that make doing residential broadband over wireless now feasible at scale.

Simon Flannery - Morgan Stanley, Research Division - MD

28 gigahertz for this product.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

So we're doing it on the 28 gigahertz that we own right now in those 4 markets. The other piece to understand is, why is it only 4 cities? And within those cities, why is it not a city limit to city limit? And this really goes back 4, 5 years ago, when we had the belief that 5G should be a pre-2020 technology, and there weren't a lot of people who agreed with us at that point in time. And so we formed a coalition called the 5G technology forum, which was really ourselves, carriers in South Korea and Japan, and some of the network equipment OEMs, such as Nokia and Samsung and Erickson. And we pushed for the proprietary 5G spec.

And by doing that, we drove the global standards body to actually get to 5G -- their first 5G spec called Release 15 that they had the outline of in December and the full technical spec in June of this year. Without that pressure from the coalition we formed, that wouldn't have happened in December of last year and we'd probably still be talking about 5G as a post-2020 technology. So we're very glad we put our shoulder behind that, made that happen. What it meant is as soon as the global standard came out, that absolutely is the focus of where we want to get to and the other members of the coalition.

So the amount of equipment that we have on the proprietary standard is fairly limited, whether that be the network equipment or the customer premise equipment. So that's why it's limited to those 4 markets and specific geographies within those 4 markets. But we are very excited with the results we've got. Just like when we launched our Fios product 12 years ago, our first installs were very different than what they evolved to over time and very quickly. So we're getting great experience with the consumer in terms of doing the installs. We -- as these are early customers, we're not just doing the install and leave them, we're staying in touch with those customers and getting a lot of good feedback in terms of they like the significant increase in speed they're getting versus their prior broadband that they were getting from another third party. So it's been good. And then, obviously, we want to transition to the global standard as soon as equipment is available.

Simon Flannery - Morgan Stanley, Research Division - MD

What's the timing on that?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

So as you went -- as I mentioned, the full specification was published in June of this year. And that was important because it allowed the chip manufacturers, your Qualcomms and so on, to actually start printing 5G chips at commercial scale. So obviously, that is now starting to happen. We are deploying 5G radios in the network onto the global standard, not just in those 4 cities but in other cities as well. And then we'll get ready for putting a device on those.



NOVEMBER 14, 2018 / 9:40AM, VZ - Verizon Communications Inc at Morgan Stanley European Technology, Media & Telecom Conference

So we should expect to have the first smartphones in the first half of next year. And then we'll start to receive the global standard version of the residential broadband equipment during next year as well, and then we can launch into a broader market than we are right now. But taking advantage of all that learning, we're getting right now. As soon as we're -- we have the global expand standard equipment and we come to those other cities, we'll hit the ground running there because of what we're doing right now in those 4 cities.

And just one point to note that you may have seen overnight is, yesterday, we actually did a 5G call on a commercial handset, the Motorola device that we've been working with for a number of years, the latest version is a 5G moto, like a number of mods it can attach to that device. And so where we -- we had the first call on that commercial device yesterday. So we continue to roll out the -- and lead in the development of the 5G networks and very confident that we're on track to start to see that really appear next year. Not a massive impact on revenue in 2019 as the base starts to build, really see it have an impact on the financials starting in 2020. But really great to see the progress it's made across the ecosystem, getting to the global standard, the scale that comes with that, start and deploy across the network and then having the devices on the cusp for those becoming available, too. So...

Simon Flannery - Morgan Stanley, Research Division - MD

And you're still committed to 30 million households?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

On the residential broadband, we've said we see the size of it and it's really based off where you see the density of homes. And so we certainly still see line of sight to getting to 30 million households in the U.S. with that product over the next few years.

Simon Flannery - Morgan Stanley, Research Division - MD

Great. So what are the other use cases that you're most focused on?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. So and this is an important point. And like I mentioned earlier with on the wholesale piece around wanting to create as many revenue streams off of an asset as you possibly can. 5G will allow us to create more revenue streams off that wireless network than previous generations. So obviously, we talked about residential broadband, that's a new revenue stream for us as you think about our wireless networks. Obviously, it's an existing market, but it's a market that outside of our Fios footprint we don't really compete in and we think it's going to be a great product. We know it's a great product. We think it's going to resonate well with the consumers. So that's one.

Obviously, mobility, it's what we do today. We expect to see migration over to 5G as the network becomes available and handsets become available because of the increase in the quality of the core connectivity and then the applications that will be developed using that connectivity over the next few years. So that second stream is the mobility piece. We believe, because of the way we're building the 5G network to deliver the full functionality that 5G offers, that there's going to be the opportunity to -- as in previous generations, to increase market share in the mobility space.

And then the third revenue stream, and this is a piece that's -- where 5G is really going to be different from some of the other technology changes. Most of the prior generational changes in wireless technology have been about improving the consumer experience. And certainly, 5G will improve the consumer experience too, but the B2B side is going to be far greater as you go into 5G than it is in previous generations. Because of the massive throughput, because of the low latency and a whole host of the other improvements with 5G, we think, over time, the B2B adoption of applications and technologies using 5G in ways that fundamentally changes how their business is run is a significant upside as well. So you've got 3 major revenue streams versus really only having one of those in 4G and prior technologies. And as we think about the overall 5G model, it's based off increasing the revenue streams available to us.



NOVEMBER 14, 2018 / 9:40AM, VZ - Verizon Communications Inc at Morgan Stanley European Technology, Media & Telecom Conference

Simon Flannery - Morgan Stanley, Research Division - MD

Great. And you talked about 28-gig spectrum. What other spectrum do you think you need for 5G? There's a lot of interest in the mid-band CBRS, C Band. Is that of interest to Verizon?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. So yes, first of all, obviously we're in the quiet period under the FCC's auction rules. So we are happy with the spectrum portfolio we have and it certainly allows us to fully deploy 5G in the way we intend to. And so that's what we're focused on right now. But as we've said over the years, in our wireless business, we like spectrum, but I like spectrum at the right price. And spectrum is one way that I add coverage and capacity to the network. And I can also have the architecture of the network, the way I design, densify and so on, and also we deploy the technology in the network or other ways that I can add capacity and coverage. So we look to do that from a least-cost formulation and that changes over time. So we'll see what spectrum comes out.

I think what's interesting is the FCC understands that the industry is going to need incremental spectrum so that the ecosystem fully develops to 5G. And so I think they've done a good job over the past couple of years identifying where that additional spectrum will come from and then trying to find ways to bring it to market as quickly as possible within the other rules they have as well, obviously. So a lot of support there to allow the ecosystem to develop.

Simon Flannery - Morgan Stanley, Research Division - MD

Great. On -- one of the interesting things about your 5G Home product is you're bundling it with YouTube TV. So you've -- in your Fios Video, you have a traditional, more cable-type model; here, you're using a third-party solution. So how do you think about content? We just had AT&T up here, obviously they'd acquired content. But what's Verizon's perspective?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. So as you think about content in the traditional sense, as you say, in our Fios footprint which we launched 12, 13 years ago, we created a traditional bundle between broadband, home phone and video product, that triple play. And then that video product, we went around to the individual content guys and had all the individual agreements and created that linear TV offering. That model has changed fairly significantly. I mean, the continued increases in content costs, 7%, 8%, 9% a year, is really the consumer not being exposed to all those increases. You see that something we started about 4 years ago now with our custom TV model, where you take that skinny bundle to really try and attack the cost side of that. Because that model -- and you've heard us say this at a number of events over the past couple of years, we see that models as fundamentally not been the right model for the long-term.

And so as we launched the residential broadband product, we said we do know there are some customers we're going to offer the product to who, yes, they want the broadband experience that we're going to bring, the speeds that the customers are experiencing and enjoying. But there's a number of them want to get a video product along with that, rather than go find it themselves. So rather than curating our own Fios TV-like bundle for that where we manage all of that content, we said -- we felt the right approach here was to stay there are some viable OTT offerings. And if you've got a great broadband experience, which is what our 5G Home product is, OTT is the right way to deliver the content that the customer wants to have.

So we've partnered with YouTube in these 4 cities and you should expect to see us continue to look for ways to be disruptive to that distribution model. In terms of overall content, you see us focused on more of the digital model for content, obviously, what we're doing through the Verizon Media and Oath, and that's around -- what we are going to be participating in content is providing in that digital sense, whether it's -- you think about the platforms they are focused on -- news, sports, entertainment and finance. So obviously, we've done some things with the NFL and NBA



NOVEMBER 14, 2018 / 9:40AM, VZ - Verizon Communications Inc at Morgan Stanley European Technology, Media & Telecom Conference

around content for -- that you see in Yahoo! Sports and other places. So you'll see us continue to do some things in content, but it's going to be focused on those super channels within the Oath platform as opposed to the kind of more traditional content.

Simon Flannery - Morgan Stanley, Research Division - MD

While you mentioned Oath, we've had leadership change there. So any change in strategic direction now with Hans and with Guru taking over.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. I think you saw this early this year, so we're going to be focused on those 4 major channels with -- Guru's joined the team early this year, and he's focused on doing it. Obviously, we're seeing some parts of the revenue in that business not expand in the way that we thought it would. But there's some legacy kind of desktop side and the search side, but we're really driving more of the mobile and video experience, and seeing some good growth there. So we've got some good properties within Oath, some -- definitely some good talent within Oath, and confident over time that will show up in the financials of that. So no major change in the strategy as we go forward here, just really need to be laser focused on developing the mobile and video side and driving revenue from that.

Simon Flannery - Morgan Stanley, Research Division - MD

And then on the wireline side, I think one of the concerns in the quarter was -- across the board was in enterprise, and I think there was a hope that maybe with tax reform, we'd see better spending. How that's -- but generally, there's been some of that weakness. Can you just elaborate on what you're seeing and what your outlook is in the enterprise space?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. Well, I mean, we certainly see our enterprise customers interested in how they continue to upgrade their IT systems. But that really means moving to some of the newer technologies. And our team has done a nice job over the past year or so of bringing some new products to the portfolio that we sell into large enterprises. But at the same time they're doing that, we continue to see continued rate compression on the older products that are there that are still a large part of that business.

And so good traction with some of the newer products. Certainly see enterprise customers looking to continue to evolve and upgrade their IT systems in the communication side of that. But they're looking to bring the new technology and replacing some of the old. So I wouldn't -- I think just like us, most businesses focus on spending their money as efficiently as possible. And just saying, "I got tax reform, therefore, I can immediately start spending," the vast majority of businesses aren't -- as you'd expect, are doing it that way. Are they looking at, okay, maybe I have a little more money to spend and I can spend on some of those things over time, potentially. But it doesn't show up in like this big surge in spend than some have theorized that it would.

Simon Flannery - Morgan Stanley, Research Division - MD

Okay. So you've mentioned earlier, you're working the costs side with your \$10 billion program and you recently announced the Voluntary Separation Program. Can you just update us on where we stand on that and what's the benefit to 2019?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes, so we're still in the period where the employees have the ability to decide if they want to be in that or not. So...



NOVEMBER 14, 2018 / 9:40AM, VZ - Verizon Communications Inc at Morgan Stanley European Technology, Media & Telecom Conference

Simon Flannery - Morgan Stanley, Research Division - MD

And this was out to 44,000, is that...

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Approximately 44,000 management employees. Look, as we go through the transition of how we run the business, which is around the business excellence program, as with a lot of businesses and I'm sure a lot of the companies that people in the room work for as well, you've got activities that the business has done for a number of years and maybe even a couple of decades. And this is a case of we need to periodically look at how we do things in the business, what do we just keep on doing because we've always done it that way and really it doesn't really need to still be done, or maybe the output is still needed, but there's now a much more efficient way to get there. So how do you go identify those things, and that's what we're in the middle of doing.

As part of that, we do think the business gets more efficient from a headcount standpoint. And so as we're on the cusp of changing how we focus going to market, as we're on the cusp of really the change in our product sets with 5G and everything that's going to bring, so it's the right time to give employees the opportunity to say do they want to come on that next generation of the journey with us or is this the time they want to step out of the business. And so, as I say, we certainly expect as we do the business transformation work, that we'll need fewer people and so we're letting the employees choose if it's a time for them to step out. And then we'll move resources around as necessary based off of who volunteers and who doesn't. But it really is just -- I think it's the right thing for our team to let them decide if they want to come along. But net-net, we will continue to drive the cost efficiencies through the business and retool a lot of the activities that we're doing.

Simon Flannery - Morgan Stanley, Research Division - MD

Okay. And this will happen over the next few quarters.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes.

Simon Flannery - Morgan Stanley, Research Division - MD

Yes, great. You talk -- that's OpEx. And then on the CapEx side, you've taken guidance down twice this year, which I think has surprised some people. Talk about what you were able to do to achieve that and how does that impact 2019.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. So as you said, we've taken it down twice. First, in end of second quarter, we kind of guided towards the lower end of the range that we gave at the start of the year; and then the third quarter, we actually moved the range down \$16.6 billion to \$17.0 billion. And really the reason that's happened, it's -- if you think of the P x Q side of the equation, it's not the Q side. We are getting the work done that we planned to get done at the start of the year. And as you think about the densification in the network, the repositioning for 5G, the fiber we're deploying, all of those things, that work is all getting done in line with expectations. What we've seen as an improvement in the efficiency side, so the price side of that P x Q equation.

And this is really the result of the work that Hans started last year when he came in, reorganized the network organization. And just a couple of different examples that we used. We've deployed a new capacity utilization model within the network, and that's created some efficiency. We've provided -- deployed some additional procurement analytics model, so those produced efficiency out there as well. So when you add those things



NOVEMBER 14, 2018 / 9:40AM, VZ - Verizon Communications Inc at Morgan Stanley European Technology, Media & Telecom Conference

together, you're seeing us get the work done that we want to get done at a cheaper cost than it would've cost us in prior years. And so we'll continue to be focused on making our CapEx as efficient as it can be while continuing to do the -- all the things you want to do to get done.

When you talk about CapEx and the fiber deployment in 5G, one of the other things I should mention is that -- that's going to be a help as we go forward here is the FCC order recently with a -- they suggested that municipalities should get 5G site approvals done within a certain time frame and at a certain cost that's lower than where a lot of them have been. And so we're certainly appreciative of the FCC yet again showing that they want to support the development of the 5G ecosystem. And putting that in place we think will help us as we go forward here, continuing to deploy the network and getting 5G built out as quickly as possible.

Simon Flannery - Morgan Stanley, Research Division - MD

Does 5G happen pretty much within the consistent envelope we've seen on CapEx? Or might you -- you've talked in the past about potential accelerating CapEx.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes, we -- I think as we talked about 5G, we've spoken about 2 things. One, our CapEx intensity has stayed very consistent for many years now. Now what we're investing on within that CapEx bundle has moved from the existing generation to the next generation, whether it's when we invested in Fios or moved from 3G to 4G at a coverage layer, and in 4G coverage to 4G capacity, really densifying the network more than it originally was. There's been that constant evolution of what the CapEx is spent on, while the capital intensity has stayed the same. And I know this has been one of those points of contention as we talked about 5G is, okay, well can you do that within your existing capital numbers. And the answer to a large extent has been, well, we've historically done that as we've moved, so there's no reason why this should be different.

Now the second piece of your comment, as you say, is we've mentioned that if there is the opportunity to accelerate the 5G build-out and do it in a way that creates a strong return, we're not afraid to do that. And certainly, with the balance sheet where it is and the cash flow generation where it is, we have the flexibility to do that. At this point in time, I don't see the ability to really spend a whole lot faster. I mean, the deploying the network, the building the fiber we're doing, I mean, there's a lot of real work there, and spending at a faster rate is actually harder than I'd like it to be. But the team's doing a great job getting that deployed as quickly as they can. But at this point, as you've seen this year, we're doing that work while the capital intensity has stayed fairly consistent.

Simon Flannery - Morgan Stanley, Research Division - MD

Good. Okay. Great. Well, we have time for a couple of questions. So there's some mics in the back. In the front row here. Just wait for the mic right here.

Unidentified Analyst

Just on the 5G fiber -- or sorry, wireless broadband product, what do you see as kind of the key limitation for efforts to be able to roll out 30 million or potentially more or less? What are kind of some of the key limitation factors and what kind of cost per home are you seeing in terms of passing a home?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes, so we haven't gotten to as much detail around cost per home as we did with the Fios deployment. The key reason being, as we discussed earlier, unlike the Fios network where the one source of revenue for that network was the Fios product, we'll have multiple revenue streams coming off of the network. So -- but certainly, as you think the cost per home is cheaper because I'm not having to take the fiber all the way into the



NOVEMBER 14, 2018 / 9:40AM, VZ - Verizon Communications Inc at Morgan Stanley European Technology, Media & Telecom Conference

customer's house, right? I'll just -- and I'm taking the 5G node that I was building anyway for mobility and then beaming into the customer's home. So the cost per home is definitely cheaper.

In terms of the constraining factor, it's just a case of time line to build out the 5G network. And some of that, you mentioned fiber at the start of your question, that's a big piece of it, is getting the fiber in the ground in a number of cities to hook up the 5G network. So that work is ongoing. We've made good progress this year. We'll have good progress -- we've ramped up the pace of that, so as we head up into '19, you see more activity next year than this year on that. And we'll continue to roll out in the city. You should assume we'll start in a city in the central area, and once we got enough scale in that city, we'll launch the network in that city and then the build moves out within that city limit into suburban areas and so on. And as we do, we'll just add homes towards the 30 million number.

Simon Flannery - Morgan Stanley, Research Division - MD

There's one there.

Unidentified Analyst

In the recent past, recently you have mentioned the goal to get to pre-Vodafone transaction kind of profile. I think that was kind of notably absent, that comment that you had been making the last few quarters, this last earnings call. And I just wanted to know, is that still a goal?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes, it wasn't absent by design. The goal is still is the same commitment we made when we did the Vodafone transaction. The intent to get back to a credit rating profile similar to the one we had previously. And so obviously, I mentioned the leverage improvement we've made this year and expect that to continue. And well, we certainly want to get back to that credit rating profile. We're on track to do that and the reason for doing that is just to give us the flexibility to manage the business in a way that we need to, but if it was absent on the last call, it wasn't by design.

Unidentified Analyst

Matt, you made that comment before about the linear TV model not working well anymore for customers, programming costs growing high single digits. That's been an issue for a long time and I'm just wondering, as you look out over the next couple of years, do you see an opportunity to bend that curve in any meaningful way? Because it's the pressure that seems to be building, you see things like DISH dropping major networks and other breakage in the model, do you see an opportunity to actually change the model? Or is this just deal with it and manage it?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

You should assume that when opportunities come along to encourage disruption in that model, we will be as helpful as we can. So like you see us using an OTT product to support 5G residential broadband, we will continue to look for ways to help the evolution of that industry.

Simon Flannery - Morgan Stanley, Research Division - MD

Okay. And let's take one last one. Yes?

Unidentified Analyst

I didn't hear a lot of the acquired businesses of AOL and Yahoo!. Could you provide a brief update on the acquired businesses and what your plans are going forward?



NOVEMBER 14, 2018 / 9:40AM, VZ - Verizon Communications Inc at Morgan Stanley European Technology, Media & Telecom Conference

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes, so as you think about those businesses -- obviously, we took both AOL and Yahoo! and put them under the Oath umbrella. We continue to see opportunities to grow revenue in part of that business, and obviously we provided some update on the earnings call around that. So we'll continue to drive that, but we have some legacy pressure within those revenue streams as well, whether it be search or desktop, were still a big part of those businesses. And so we're in the process of that transformation from being desktop-focused to being mobile-focus within those 2 legacy businesses. And as we go through that, we still see some good opportunities with those assets.

Simon Flannery - Morgan Stanley, Research Division - MD

Great. Well, unfortunately, we're out of time. Matt, great overview. Thanks so much.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Thank you. Appreciate everyone's time.

DISCLAIMER

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

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

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

©2018, Thomson Reuters. All Rights Reserved.