

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

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

EVENT DATE/TIME: NOVEMBER 13, 2019 / 10:30AM GMT



NOVEMBER 13, 2019 / 10:30AM, VZ - Verizon Communications Inc at Morgan Stanley European Technology, Media & Telecom Conference

CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Simon Flannery *Morgan Stanley, Research Division - MD*

PRESENTATION

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

Okay. Good morning, everybody. So it's my great pleasure to welcome back to Barcelona, Matt Ellis. Matt, welcome. Thanks for taking time.

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

Thank you for having us again, Simon, and thanks, everyone, for the continued interest.

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

Right. And just before we get started. Morgan Stanley disclosures are available on the Morgan Stanley website.

QUESTIONS AND ANSWERS

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

So lots to talk about here. You've been very busy. There's a lot to come next year with 5G. And perhaps we could just step back and take just a bigger view, as we go into 2020, what are the key things that you're focused on and that investors should be focused on?

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

Yes. So before I get into that, obviously we'll make some -- I'm assuming we'll make some forward-looking statements. So I would draw everyone's attention to our safe harbor statements in our SEC filings and on our Investor Relations website.

So as I think about 2020, really building on the activity you've seen from us this year in 2019, whether that be on the network side and continuing to lead in network, both in 4G and the development of 5G; the continuation of really pushing the customer-centric model that really started with the reorganization that we had earlier in the year; continue to operate and deliver services that are consistent with the brand promise; and then the continued financial discipline, whether that be in the cost management or the way we operate the balance sheet. But all of that obviously starts with the network.

And so as I think about all the things that we have going on in the network, a lot of milestones in 2020 from a 5G standpoint as we move forward, we like where we've got to this year. We're in 15 cities as of right now, expect to be at 30 cities by the end of the year. We turned on 5G Home on the global standard in Chicago last month and that will continue to roll out. And then that will expand our One Fiber footprint as we've seen that steadily build up pace this year. And as we got into 3Q, we're getting closer to that kind of run rate going forward. So a lot of things going on around the network that really position us for the future, not just 2020, but many years after that.

And then on the customer side, we've seen good momentum this year. And obviously, the last example of that was the third quarter results. And as we come into fourth quarter now, we said we saw that momentum. On the earnings call, we said we've seen that momentum continue into

NOVEMBER 13, 2019 / 10:30AM, VZ - Verizon Communications Inc at Morgan Stanley European Technology, Media & Telecom Conference

October. And then yesterday, we had obviously the Disney+ launch and all of our unlimited customers having access to that. I'm very excited to see how that goes. So that momentum within the customer base, taking advantage of that great network experience, together with the personalization offers that the teams have put in together, so we feel good about the position we're in as we approach 2020.

Simon Flannery - Morgan Stanley, Research Division - MD

Great. Well, that's a great rundown. Well, maybe we start with the wireless business. And I think you touched on something that's been a nice feature for the last few quarters is the positive service revenue growth. And as you've mentioned, that's been stronger with the adds last quarter. Talk about the ability of the industry and Verizon to sustain that. I think you've still got a number of people to move to unlimited, to move to smartphones, et cetera. How do you see that evolving?

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

Yes. So as you look at the service revenue growth, so year-to-date, we're in the low 3% range. We guided on the call sort of the fourth quarter to be between 3%, 3.5%. Obviously, that math would imply that for the year as a whole, we'll be in that low 3% range as well, which we're pleased with. But in addition being pleased with that, we see runway for continued momentum. If you break apart the performance -- and I know we spend time answering questions around the pricing moves we have in the customer side. But when you look at the third quarter results, 444,000 phone net adds, it was more than 200,000 in both consumer and business. So it's not just the consumer side that's driving, this is the business side. And when you look at the service revenue number, business service revenue is actually north of 6%. So we continue to perform very strongly in the B2B space.

But as you look at the consumer space, as you say, we're at about 50% of the base on unlimited. The vast majority of the base that's not unlimited today would step up in monthly pricing to get to unlimited. Obviously, when we have activities like yesterday's launch with Disney+, it gives those customers not on unlimited an extra motivation to get there faster than they otherwise would have done. So we like that dynamic. And when you add those things together, together with the network performance, which ultimately is the thing that drives our customer engagement, you add those things together, we feel like the momentum that we've been building up, not just this year but even over the course of the past couple of years, puts us in a good position as we head into next year.

Simon Flannery - Morgan Stanley, Research Division - MD

Great. And you've mentioned Disney+ a couple of times. I was hoping you could give us subscriber numbers this morning. But I guess it's a little bit early.

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

Still early. The folks back home haven't woken up yet, so...

Simon Flannery - Morgan Stanley, Research Division - MD

If you have any color from yesterday, great. But going back, can you just talk about your philosophy around these partnerships and then how Disney+ came about and what you're expecting to get out of it?

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

Yes. So when you look at Disney+, just isolated. This is really a good partnership. This isn't a case of going to an existing service and asking for a wholesale rate. When you look at the way this came together, Disney obviously brings a very exciting product to the market with their best-in-class



NOVEMBER 13, 2019 / 10:30AM, VZ - Verizon Communications Inc at Morgan Stanley European Technology, Media & Telecom Conference

content catalog. And they think about how do they want to have that be the best possible launch, you want to get it out to as broad a base of customers as possible, but you also want those customers who have access to all that great content to get a great experience while watching it. And so to do that, you put it on the best network. So Verizon gives them the best network experience. It gives them the biggest base of customers to partner with and we think the best base of customers in the industry. So this is really an example of 1 plus 1 being something greater than 2. And it's a win-win for them and us as we go through this. So it makes perfect sense to bring that type of content to the Verizon base. And it's really the continuation of a couple of things. You've heard us talk about network as a service. And you create the best network experience, you have the capacity in the network and then we can partner with different people, whether that be Apple Music as we have earlier this year in wireless; whether it be YouTube TV in our initial 5G Home launch and with Fios as well; and then in the B2B side, the recent announcements we had at Mobile World Congress a couple of weeks ago with the likes of Corning and SAP.

The ability to partner with people, we do the thing that we're great at, they do the thing they're great at. It's a lot faster than an inorganic approach to bring in new capabilities to our customers, gives us more flexibility and agility as we do that, certainly good for the balance sheet as well. But really, you think about that network as a service as a whole, this is an extension of that philosophy. It's also an extension of the work that Ronan Dunne and the team in Consumer have been doing for the past couple of years since we had the initial launch of unlimited, where you say, "How do we bring personalized offers to customers," because not all customers want the same service. So we've got different layers of the unlimited offering. Within that, there's different pieces. And you can picture us over time continuing to add to that, so the customer can pick the personalized offer they want today. But then as their relationship evolves with us, they can continue to alter the nature of that rather than just kind of a one-size-fits-all approach. So Disney+ fits very well within both the network as a service strategy and also the continued personalization that we see in our consumer base.

Simon Flannery - Morgan Stanley, Research Division - MD

And this will encourage more people to take unlimited, but it's also on the Fios side as well, right?

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

It's available to our Fios customers as well and also as we get into 5G Home, too.

Simon Flannery - Morgan Stanley, Research Division - MD

Okay. And so how should we think about the financial impact to the company next year?

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

Yes. So as we say, it's a partnership, so the costs associated, there's a joint investment in getting this. As I view it from the CFO seat, we obviously spend some amount of dollars on promotional activity. And this is a way of spending some of those promotional dollars in a way that we think has the biggest return. So it's just another way that we think about marketing the service. In terms of how it will show up in the financials for the -- during the first 12-month period that the customers on it and the service is free, it shows up in the cost of service. And then if the customer decides to continue to subscribe to the service past that 12 months and they pay the \$6.99 a month, they can do that through their Verizon bill. And then we obviously pay Disney some portion of that. And you'll see that \$6.99 show up in the revenue and the part that we pass on to Disney show up in the cost line.

Simon Flannery - Morgan Stanley, Research Division - MD

Great. So when we were here a year ago, you were just getting started with 5G. And now you've got, I think, it was 15 markets you set up and your first 5G Home market on the standards-based 5G. So share with us what the network experience has been like and what we should be looking for here.



NOVEMBER 13, 2019 / 10:30AM, VZ - Verizon Communications Inc at Morgan Stanley European Technology, Media & Telecom Conference

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

Yes. Very happy with where we are today. If you go back to the Investor Day in February and we talked a lot about the 5G plans, where we are today certainly is where we wanted to be when we discussed it back in February. So as you say, we're in 15 markets. We have our 5G Ultra Wideband service on. We refer to this as 5G built right. At CES at the start of the year, Hans introduced this concept of the 8 currencies within 5G. And to deliver all of the promise that 5G has to offer, you have to build it the right way. And so bringing all of the spectrum that we have with the millimeter wave spectrum we have to those 15 cities means that you're seeing customers have the experience when they have the 5G device. We're seeing download speeds between 1 and 2 gigabits a second. And that's before we fully deployed all of the software capability that's still ongoing. So we have all 3 of our network partners represented in those 15 cities. So we have good support across the ecosystem. We've got 15 more to go between now and the end of the year.

And Kyle Malady and the network team are planning for a busy last few weeks of the quarter here to get that done. So we look forward to that happening, so -- but the build is going as expected. We're seeing the performance we expect and the ability to deliver 5G built right and the customers getting that on the consumer side. And then on the B2B side, as we start to work with all our enterprise customers, tremendous interest in what 5G can mean for their businesses, how they run both in how they interface with their customers, but also how they run their operations. And the partnership we announced with Corning a couple of weeks ago, where they're using 5G and the 5G MEC functionality within manufacturing facility, kind of a showcase there for what 5G can mean to our business customers. So a lot of tremendous progress. As you said, we turned on our first 5G Home market in Chicago last month. And so that's coming along as expected as well. And we're very optimistic about the ramping of 5G Home as we get into 2020 and beyond. So the network build going great. We're seeing the performance we expected. And now it's just a case of ramping up to speed as we go forward.

Simon Flannery - Morgan Stanley, Research Division - MD

Great. So let's come back to 5G Home. You had 4 initial markets and now you've got this one. What's different about having the standards-based 5G and the new CPE? And what have you learned about fixed wireless? It sounds like it's still an important initiative for the company because I think obviously investors are looking for subscriber numbers and other things. But it seems like we still see that big opportunity there.

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

Absolutely. One of the exciting things about 5G, it's the first time we built a wireless network where we can generate multiple revenue streams in the -- every other generation, it's been about a mobility revenue stream. And those have been great. But it has been pretty much that one stream. Now you bring -- yes, I do mobility in 5G, but I also have 5G Home and the B2B applications as well. And it's built off the same network. So that's an exciting part of it. So as you think about 5G Home, what we had last year when we launched was under the non-global standard, the proprietary standard that we developed as part of the 5G technology forum. And as we were getting close to that launch, the global standard was finally crystallizing, and we wanted our supplier partners to pivot to that global standard because that's where it made sense for them to invest their R&D dollars, get to the economies of scale that you get from being on a global standard. So we had a fixed amount of network equipment, a fixed amount of customer equipment. We deployed that network equipment in parts of those 4 markets. There wasn't the opportunity to expand it further because there wasn't any further equipment there. So we launched in those 4 markets and we've learned a heck of a lot.

First of all, the penetration rate we see, where we have the service available, is very competitive against other opportunities customers have. And then when customers have taken the service and being on it, we see really good engagement and high customer satisfaction scores. So that tells us that certainly the product works and it resonates with customers. And so we've been doing a lot of work with them and continuing to refine the product. But as I mentioned, really no ability to expand it within those geographies. So what's exciting about now we're on the global standard is how do we get to turn it on in Chicago? And this applies to other markets, too. As we turned on 5G mobility in Chicago in the first week of April and made it the 1 of the 2 first cities in the world with 5G mobility, Chicago and Minneapolis. You start that build, you concentrate that initial build where the highest use is, which is typically the central business district and the areas surrounding. So that you turn on the mobility and then you add to the capacity. And I think we've said that in Chicago, the coverage in Chicago now in our 5G network is 3 times what it was when we launched. So you're building that coverage out. And as you build that coverage out, you start also hitting residential units. And then as you do that and you



NOVEMBER 13, 2019 / 10:30AM, VZ - Verizon Communications Inc at Morgan Stanley European Technology, Media & Telecom Conference

get to a critical mass of residential units, it now makes sense to turn on 5G Home in that market, which is what we did in Chicago. And then that build continues and more residential units get exposed to being open for sale as well. So that's where we are on Chicago.

One difference between what we're doing in Chicago now and what we did in those first 4 initial markets is offering the customer the ability of self-serve. So when we did those first 4 markets, we obviously wanted to learn a lot about it as well. So we gave what we call white glove treatment, which was somebody in a van came around and we gave the customer the traditional 4-hour window that they all enjoy so much and -- but that was important to make sure the service was working as we expected. And we got the feedback from it. So now that we've done that and we move into doing it in new markets, we're now offering customers the opportunity to do self-serve. And we're seeing in the initial customers that have signed up for the service in Chicago, we're seeing a good degree of interest in doing self-serve rather than waiting for a 4-hour window and everything that comes with that. So that's an important next step here. And so as we go forward, we expand the area in Chicago. We bring other cities on. And then next summer, we'll get an updated chip in the customer equipment willing, which will increase the amount of homes that we can service for any 5G node as well. So as you get into the back end of next year, you've got that improved customer premise equipment. You've obviously got more network coverage, both in the 30 cities we'll have this year and then also the ones we'll add next year. And you bring all that together and we'll be in a position where we not only have high confidence and the expectations for the product, but we really then push it hard in the marketplace.

Simon Flannery - Morgan Stanley, Research Division - MD

Okay. So that's really when it starts to scale?

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

I think you'll see it to start to scale now. But when we get into the back half of next year, it will become even more meaningful.

Simon Flannery - Morgan Stanley, Research Division - MD

Great. So you're rolling out a lot of 5G. You haven't given coverage targets yet. So how should we think about that as competitors talk about nationwide coverage and you've talked about dynamic spectrum sharing as well?

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

Yes. So a couple of things. We think it's important, and this is in any industry. When you move from one generation of technology to another, the improvement in performance, it shouldn't be a 10% improvement in performance, it should be a 10x improvement in performance. And you see that in the 15 markets where we've launched 5G Ultra Wideband, what we call 5G built right, where it can deliver all of the functionality of -- that 5G offers. And we see that in the performance there. So if a customer is going to see a 10% improvement from an uptick in technology, we're not sure that's exciting to a customer. So we're focused on building out 5G, using millimeter wave and doing it the way you see us doing it.

Now as you say, dynamic spectrum sharing is an important part of the strategy because as that comes in, and we expect to see that in the next few months, it allows us to -- remember, 4G and 5G are interoperable. And so then you bring the DSS in, and it allows us to use a band of spectrum that we're using today for 4G and have dynamically use it for both 4G and 5G at the same time. So we have a path to increasing the coverage. But our focus is on delivering those 5G experiences that really demonstrate to a customer, consumer or B2B, 5G is fundamentally different from 4G, the same way that 4G allowed you to do things you couldn't do on 3G. And just a 10% increase in performance really isn't that step change that we think customers are looking for.

Simon Flannery - Morgan Stanley, Research Division - MD

And a lot of your radios are software-upgradable for DSS 5G, I think?

NOVEMBER 13, 2019 / 10:30AM, VZ - Verizon Communications Inc at Morgan Stanley European Technology, Media & Telecom Conference

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

A large part of the network equipment is now software-upgradable. There are still certain parts of the network equipment out there in the ecosystem that's a few years older that as part of our regular course, we're upgrading. And therefore, the percentage of software that is software-upgradable increases every day. And so that, by itself, doesn't cause any significant uptick in how we think about capital spending.

Simon Flannery - Morgan Stanley, Research Division - MD

Okay. So I think you've talked about some work you're doing in unlicensed CBRS. Perhaps you could expand on that and then also your interest in the mid-band spectrum and how you see that evolving.

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

Yes. So certainly, as you look at CBRS over mid-band, there's -- we always look at every piece of spectrum that's either becoming available or potentially becoming available. I want to be clear. The 5G strategy we're executing today and into next year, as you think about low and mid-band is based off the assets that we currently have in low and mid-band. But as we look at CBRS, there's certainly an interest there to complement our existing low and mid-band portfolio there. And there are some things that with carrier aggregation that it can do to add to network performance. And obviously, that's something that we're typically a leader in. So we'll look at CBRS, there's some things about it that -- I mean you couldn't use it as a base layer by itself, but it's certainly something we absolutely think is complementary to our existing assets. And the team is actively engaged in working with it.

Other mid-band, by which I assume you mean C-band, we are -- as we've stated before, we would certainly be very interested in C-band coming to market. We think it has the opportunity to accelerate what we would -- could do in 5G. But we're not in control of that process. So that's why I said earlier, we're building out 5G as we think about our plans for low and mid-band with the assets we have. And if C-band gets to the point we have an approved approach by the FCC and we can move forward here, we certainly look forward to participating in that. But right now, we need the CBA to get a process through the FCC process. And we look forward to them doing that.

Simon Flannery - Morgan Stanley, Research Division - MD

And any comments on some of these recent sort of stories you think we can get something through in the December, January meeting?

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

Well, the December meeting will be based off the agenda that gets published November 21, which is next week. So the clock is ticking for something to happen there. And we're very appreciative of the FCC's efforts to allow more spectrum to come to market. And I know they would like to see something that they can work with. But we'll all know by the end of next week whether it's on the December agenda or not. So there's probably a path to get there. But whether it happens or not, I don't know at this point in time.

Simon Flannery - Morgan Stanley, Research Division - MD

Okay. And on the spectrum point, let's say that there's no additional spectrum for a little while. Some focus on your spectrum per subscriber and yet your network performance, your subscriber growth continues at very strong levels. So just talk about the philosophy on the network side to densify and use other techniques to drive network performance, given your spectrum position.



NOVEMBER 13, 2019 / 10:30AM, VZ - Verizon Communications Inc at Morgan Stanley European Technology, Media & Telecom Conference

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

Yes. We seem to have the conversation about our spectrum position for a number of years now. And it's a testament to the engineers in the organization because we have continued to produce the best-in-class performance with the assets we've had we talk about as you add capacity to the network, obviously spectrum is important. But that's one of the ways that we can build out -- continue to add to the network and enhance the features. The architecture of the network, whether that be densification, cell splitting, whatnot, is also important and it's opportunities to add. I'm sure you recall, when we came out of the AWS-3 spectrum auction and we didn't win a couple of key markets, like Chicago and New York, we said that the price of the spectrum had actually in those markets had crossed the threshold where it's cheaper for us to add capacity with densification.

At that point in time, there was a lot of questions around whether densification will really work. And I think those questions are now clearly asked and answered. So the architecture is a second way. And then the third piece is the deployment of the technology within there. So the 4G network we have today is very different than when we launched in 2011 with the additional things like carrier aggregation and all the incremental technology it comes along. The way we deploy that also has the ability to add capacity to the network to meet the increasing need without having to bring extra spectrum along. So the team does a great job of building a network using all 3 of those. And you see the results year-after-year in the third-party awards.

Simon Flannery - Morgan Stanley, Research Division - MD

Great. Well, maybe we'll pivot to the wireline side for a minute. If we start with Fios, how -- I think you were one of the early companies to talk about the challenges linear TV was going to face. So how are you managing through that process now on the Fios broadband versus TV pivot?

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

Yes, certainly. And to that point, I think if you go back to 2014, I think it was, when we launched Custom TV, the first attempt to really bring a skinny bundle option to customers there. So we've been fairly consistent in our view on the approach here. As we think about Fios, it's an important part of our business in the footprint it's in. The broadband quality is best-in-class. If you're going to be a cord-cutter and you still want video entertainment, you need to have a strong broadband experience and Fios brings that. So you park that piece, that's good. Okay. What about the video side?

And there's been a big transition in just the 13, 14 years has been now that we've operated Fios in the video view. Back when we launched the product, a customer taking the triple play and adding the video to the broadband didn't just increase the revenue line, but it was margin accretive, too. And in that time period, we've really seen the margin from the video component of Fios compress to the point where today, I'm largely ambivalent between getting a broadband-only customer and a bundled customer. Obviously, the revenue line is a little higher in the bundled customer, but the margin dollar line is essentially the same. So that's what we -- and if that continues that trend, it's really not sustainable from a distributor standpoint. So that's why I think you're seeing the cord-cutter stuff take off and we continue to think that model will evolve. But however it evolves, you're going to want that high-quality broadband experience and Fios certainly provides that.

Simon Flannery - Morgan Stanley, Research Division - MD

And on the enterprise side, you talked about the strong service revenue momentum in wireless in enterprise. On wireline, we continue to see headwinds from legacy products across the industry. Is that steady state? And what can you do on the cost side to offset that?

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

Yes. So break it between the 2 pieces there, the revenue and the cost management. On the revenue side, if you think about our wireline business within Tami Erwin's business segment, you've got those legacy products and then you've got the newer, next-generation wireline products, such as SD-WAN and some of the managed services. And obviously, 5G MEC will come into that. But right now, the legacy products is a bigger chunk of the revenue than those areas that can grow, though the legacy revenue stream is going to continue to decline just because of the nature of the functionality that you can get off those services. And so that will bring some margin pressure within that business because there's



NOVEMBER 13, 2019 / 10:30AM, VZ - Verizon Communications Inc at Morgan Stanley European Technology, Media & Telecom Conference

not a lot of variable cost in some of those products that automatically disappears when the revenue comes down. And so the way that we get to revenue growth within the wireline part of our business segment isn't necessarily try to spend a whole bunch of calories trying to slow that down. It's more putting our efforts behind driving the new products. And 5G really gives us the opportunity to change the nature of the conversation we're having with enterprise CIOs as part of that and grow that piece at a rate that it offsets the decline you're getting from the legacy side.

And so there's a lot of good effort going around that. And over the course of the next 2 to 3 years, we'll obviously be able to judge whether we've been successful on that or not. On the cost side, there's a lot we continue to work there. There's -- we've made good progress on our \$10 billion cumulative cash savings goal over the 4-year period. We're almost 2 years in and we've got already up to \$4.6 billion, as we mentioned on the earnings call. So we're on track there. But I actually see incremental opportunities to continue to push that as we get in and do more and more of the work, the ability to retool business processes and really change the cost structure of the business. So that work is ongoing. A lot of the low-hanging fruit we've done, as you would expect, in stage 1. But the teams are very motivated and engaged in now getting after those -- some of those bigger opportunities on the cost side, too.

Simon Flannery - Morgan Stanley, Research Division - MD

Great. And maybe we can turn to the balance sheet. You've made strong progress with deleveraging. You've got strong free cash generation. You continue to raise your dividend. The payout ratio is coming down. So what are the key kind of priorities for use of free cash flow at this point?

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

Yes. So obviously, as we went through really last year, we were making good progress there. When we did the Vodafone transaction, we said we wanted to get back to a pre-transaction credit rating profile. And with the progress we made last year, we started getting questions about, "Okay, it feels like you're getting close, so be a little more specific." So at the Investor Day in February, we did that in 2 ways. One, we gave the leverage ratio, net unsecured debt-to-adjusted EBITDA, 1.75 to 2.0 range. And we also -- we're more specific about how we prioritize the spend. We said priority one was investing in the network.

Priority two was the dividend is important. As you mentioned, that increased since then. The Board has given the 13th annual increase in the dividend. We know that's important to our investors. And then priority three is strengthen the balance sheet. So obviously, the last 2 quarters, we've been at 2.1x on that ratio. And so we're getting closer to being at the top end of the range. We've still got a little work to do to get there. So we're focused on that. But priority one is investing in the business and that will come first. We talked about within investing in the business, CapEx. And we have a good track record of the capital intensity being pretty flat and predictable.

Simon Flannery - Morgan Stanley, Research Division - MD

And that's continuing?

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

And I see no reason at this point in time why you expect that to change in any material way. But also within investing in the business, we also talked about bolt-on, tuck-in M&A and also spectrum. And spectrum is, by the very nature of the way it comes to market, is going to be lumpier from a spend standpoint. So priority one is that. If we've done everything we want to do, that we have capabilities do to invest in the business and then we've taken care of -- given the Board the ability to increase the dividend on an annual basis, then we get -- continue to delever and get within the range. And then we can have additional conversations at that point. And to be clear and reiterate a couple of things I said on the earnings call, absolutely no desire to do anything apart from live in the range. So we're not going to go through the bottom end of that range. And we're not going to store cash on the balance sheet for any extended period of time. So we look forward to future conversations about how we manage the balance sheet.



NOVEMBER 13, 2019 / 10:30AM, VZ - Verizon Communications Inc at Morgan Stanley European Technology, Media & Telecom Conference

Simon Flannery - Morgan Stanley, Research Division - MD

Okay. So you're open to buybacks, given those kind of constraints?

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

I think as you look at that, if you work through priority one, priority two, priority three and there's excess cash left over, certainly there's a limited number of things to then do.

Simon Flannery - Morgan Stanley, Research Division - MD

Okay. Great. Well, we've got time for a couple of questions. There's mics in the back if anybody has questions. All right. We'll continue -- we have one at the back there.

Unidentified Analyst

Just on the Disney+ partnership that you talked about, maybe you could elaborate on kind of your marketing strategy and plan and how we should be thinking about uptake in terms of the 17 million eligible customers that you guys have flagged.

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

Yes. So thank you for the question. So the expectation, we haven't discussed exactly how many customers we expect to go there. But certainly, given the nature of the offer, we have approximately half of our base, I think we said that means approximately 17 million accounts, are on unlimited. And we would expect a pretty significant number to ultimately take advantage of the offer. As you think around the marketing of it, and I think you saw Hans and Kevin Mayer on TV, when they announced the deal, mention that there is joint marketing investment that will go along with that offer. And we look forward to participating in that.

And then just more broadly, I come back to what I mentioned earlier, think about this as the ability to market to our customers the fact that they can get the personalized bundle of services and so on that they want by being a Verizon Wireless customer and doing that while getting the best network experience. And if you view it through that lens, I think the future things you see around how we market it will make sense.

Simon Flannery - Morgan Stanley, Research Division - MD

Okay. Maybe we can touch on just the meat of -- we got one over here.

Unidentified Analyst

Matt, the cable wireless net adds have started to get reasonably large in the U.S. And honestly, that's benefiting your wholesale business. How do you think your relationship with those companies evolves over time as wireless becomes a bigger part of their strategy? Obviously, you compete with them in retail, but they're wholesale partners and presume that, that's going to evolve over time. So how do you think we should be thinking about that?

NOVEMBER 13, 2019 / 10:30AM, VZ - Verizon Communications Inc at Morgan Stanley European Technology, Media & Telecom Conference

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

Yes, we -- first of all, I'd say we like having them as customers. And so if they want to offer those type of services to their customers, we're happy they do that with us. I think another reason they do with us is they know that by doing that, they get to offer the best wireless experience to their customers they're doing that with and we're the best option for them being able to do that, so -- but look, we will -- we value the relationship we have with them. Look, we value the relationship with the postpaid customer. And we will treat how we view maintaining them as a customer the same way. We'll provide the level of service that they expect from Verizon and we'll have economics that play out based off of changes in the market over time. And if we do that, I think there's the opportunity for us to have a long-term relationship there that's both positive for them and us.

Simon Flannery - Morgan Stanley, Research Division - MD

So you talked about pricing 2.0 a couple of times and moving to the business and consumer verticals. And obviously, we see the reporting side of it. But it's harder for us to get inside the organization and see what exactly is changing on the ground, so...

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

We haven't given you a security badge?

Simon Flannery - Morgan Stanley, Research Division - MD

By all means. But if -- a few months in now, what surprised you? What have you been pleased with that from kind of that reorg?

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

Yes, I think a couple of ways if you look at it. Within the consumer piece, maybe not as big a change, although bringing the Fios and the wireline consumer element in and how does the team think about approaching those customers, there's probably more to come there. But really where the biggest change has been, I would say, is in the business segment. And so we've seen this -- as Hans and Tami have gone out and had top-to-top meetings with the CEOs and CIOs of a large number of our biggest enterprise customers, they hear the same message, which is, "Finally, we see Verizon come to us as one Verizon," not here comes a wireless side, here comes a wireline side and thinking holistically about their needs and how we can meet those needs.

And especially important, as we're on the cusp of 5G and what MEC and other 5G capabilities can do for a B2B customer, a tremendous uptick in the engagement level. And so we're seeing a lot of interaction there. That's something that we didn't have previously so that's certainly very additive and part of the value that we wanted to get out of the move to the new organization structure. So I think it absolutely is creating value. And it's -- I think there's a lot more upside to come, especially in the business segment as a result of that.

Simon Flannery - Morgan Stanley, Research Division - MD

And sometimes, when you're kind of changing people's account responsibility and whatever, there can be some kind of maybe air pockets or whatever. Is that -- are we all through all of that at this point?

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

Yes. I mean that's certainly something, as we did the whole change, we were very careful about how do we make sure we minimize any of those circumstances that happen. And we haven't seen anything -- any major. The other thing that comes along when you do that, when you bring a new person in a particular area and you look at the customer relationship or a product approach with a fresh set of eyes, you get that ability to see things a little bit differently that can certainly be positive. So I think we've done a good job of managing those pockets where you can, in handoffs,

NOVEMBER 13, 2019 / 10:30AM, VZ - Verizon Communications Inc at Morgan Stanley European Technology, Media & Telecom Conference

create a vacuum and drop the ball. I think we've managed that very well. And I think we're seeing some of the benefits of getting a fresh set of eyes on parts of those business, too. So the team is doing some nice work there. The difference between the business side and the consumer side is as you get traction in the consumer side, you see it come through the numbers relatively quickly, both in terms of the volumes and even the financials. On the business side, as you make that momentum, there's a little bit more of a lead time in terms of it showing up. But we're seeing good, positive momentum there and we're excited what that team is going to do.

Simon Flannery - Morgan Stanley, Research Division - MD

Great. Well, that's a great rundown, Matt. Appreciate your time.

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

Thank you.

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.

©2019, Thomson Reuters. All Rights Reserved.

