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PRESENTATION

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

Okay. Good morning, everyone. I'm John Hodulik, the media and telecom analyst here at UBS. And welcome to the second day of our global media and telecom conference.

I'm very pleased to welcome Matt Ellis, the CFO of Verizon, as one of our morning keynote speakers. Matt, thanks for being here.

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

Good morning, everyone.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

I think you have some safe harbor statements to make, and then we can get going.

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

Yes. So on the screen behind us, we've got the safe harbor statement. Obviously, we'll be making some forward-looking comments this morning, and the full statement is available on our website. So I'd just draw everyone's attention to that.

QUESTIONS AND ANSWERS

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

Great. So Matt, as we sit here at the end of 2017, can you share with us your initial thoughts on priorities for the company as we look out into 2018?

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

Yes. So as we think about 2018, the jump-off point into that, as you look at the performance over the past few months, we've really been, I think, executing very well on the fundamentals, whether that be on the customer engagement side, retaining customers, gaining new customers. And then, obviously, the performance of the network has been incredibly strong, and that's generated some good results here over the past few months. So we'll continue on that path. And then as you think about heading into 2018 and the priorities there, it starts off being very confident in the strategy, and so really the priorities for next year are an extension of the things we've been talking about this year. And that's -- obviously, that starts with the network and continuing to build out the intelligent edge network and the additional functionality there. We'll continue to compete to, obviously, maintain the best base of customers in the industry and also add to that as we go through the year. And then we'll look to develop the ecosystems that we play in as well, whether that be 5G, which, obviously, we announced last week, we expect to launch the residential broadband product in 3 to 5 cities in the second half of the year, build out the ecosystem around 5G and also continue to develop the ecosystems in telematics and digital media and the broader IoT space. So -- and as we do those things, that will allow us to generate solid cash flow, we can strengthen the balance sheet and return value to shareholders. So that will be the priorities as we head into '18.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

The wireless business has seen an improvement and an inflection in fundamentals, and you're growing service revenue on a sequential basis at this point. When can we see a sort of return to annual growth? And what are the piece parts that get us there?

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

Yes, next year. As we...

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

First half? Second half?

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

Well, we'll get -- we'll see how the specifics play out. Look, you see the trajectory this year. Obviously, when we came out of the second quarter. We had negative 6.7% in the second quarter, and we said, okay, that's going to be the low watermark. We saw -- we could see clear line of sight once we hit at that point. We got -- 75% of the base was on unsubsidized pricing by the middle of the year. That got to 78% at the end of the third quarter. And we said on both of those occasions that we see service revenues actually getting better from that point. We exit the year under negative 4% and a clear line of sight to continuing to do that and then get back to service revenue growth in 2018. And when you kind of break that apart, there's 2 main reasons for it. One is just we're largely through the transition of the base from the old 2-year subsidy model to the device payment model, where you bifurcate the revenue between service revenue and equipment revenue. So as I said, at the end of third quarter, we're at 78% of the base now on that. It might move a couple of points higher or so, but not too much, because a lot of the B2B business isn't going through that same transition. So we're mostly done with that. When you look at the year-over-year delta between the percent of the base on unsubsidized pricing, that started to narrow, and that will continue to narrow as we head into next year. The other piece, and you mentioned it, was, in the third quarter, we saw a sequential service revenue increase for the first time in 3 years, and there are a couple of sides to that equation if you think about the P times Q. We continue to add accounts ever since we launched unlimited, so when the base is increasing. And then we also saw in third quarter sequentially ARPA increase as well. And so when the rate increases and the volume increases, you get to that service revenue growth. So we look forward to delivering on that in '18.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

If we could -- just the ARPU issue. One of the things you said is you reached the point where each customer choosing the unlimited plan is now accretive. Can you talk about -- versus, I think, at the beginning, the early switchers is more dilutive to ARPU. Could you talk about that dynamic? And what does that mean for sort of postpaid ARPU trends...

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

Yes. So what we do when the price plan changes, we look at the existing base and look at how their current plan they're all on compares to the new plan and which customers have the opportunity to migrate up and which ones are going to migrate down. And we do a lot of detailed math there, in addition to calculating what impact we think it will have in the market in terms of helping us add gross adds. And so we do that detailed math before any major price change. We certainly did it before we went to unlimited. So what you saw was, as soon as we launched unlimited, a lot of the migrators were the people who were paying a high price for a large data bucket and they could step down to unlimited. And so those people moved really quickly. A large number of those in the last 6, 7 weeks of the first quarter and even into the start of the second quarter. The people who are going to step up to unlimited, they may not want to pay $20 a month more for an extra 4 gigs, but they'll pay $20 a month more to move from whatever bucket they're on to unlimited. That happens a lot more easily. And so what we saw is, by the end of the second quarter, we had reached that inflection point, where the people who were stepping up were more than offsetting the people that were are stepping down. And so for the third quarter, we saw migrators were a positive contributor to the ARPA story, and that should continue here as we go forward because -- so the people who are motivated to step down pretty much did that almost immediately.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

Does it accelerate? I mean, I would imagine the people stepping down would be slowing and the ones stepping up...

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

Yes, it does. To the extent that you've worked through the step downs, there's not as many of left -- of those left to go. There's still some out there, so we still got some of that, but I do think it continues to be now a tailwind for the ARPA story rather than the headwind it was initially. But that was all part of the consideration when we launched that. It was not a surprise at all. We see that with -- every time we do a major price plan launch, if you give somebody the chance to save money and get something more, a lot of them are pretty quick to do that.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

Got you. And then just finishing up with the unlimited. You have 2 unlimited plans out there. Can you talk about which one is seeing sort of greater adoption and the change in usage you've seen on the back of the move to unlimited for a user that previously had a bucket plan and now has an unlimited plan?

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

Yes. So the reason we went to the 2 different plans on unlimited is we've said, ever since we've been in the business, that we don't think there's a one-size-fits-all plan out there. Different users have different needs. And so for those customers who like the idea of being on unlimited, they didn't have to worry about the risk of overages or whatever but aren't massive video users, whatever, we created the Go Unlimited plan. And that had -- that has one level of network service. And then for those customers who want to be unlimited and are heavier video users, wanted a different level of service, we created the Beyond Unlimited plan. And we've seen good adoption of both plans since we launched them. So that's been pretty much as we expected kind of the -- because we know the base pretty well. We see the different usage patterns out there. In terms of the overall usage, certainly, once we've moved to unlimited, we have seen increased usage on the network as expected, but really, it's not at the peak times of the day. What we've seen is now that people no longer have a bucket of data they're worried about, you see usage spread more throughout the day. And so you're using the network more at times when you're provisioning that network but it wasn't getting used as much. So we're happy with the results we've seen so far. The network performance since we've launched unlimited has been fantastic, and I think we've seen that in some of the third-party results, most recently with RootMetrics yet again.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

Since you brought up the network and the network performance, maybe we can talk about sort of the densification efforts and your spectrum position, whether you need more spectrum. You obviously just are in the process of closing the deal for more millimeter wave spectrum, but I get asked a lot of questions about sort of more mid-band and low-band spectrum. So if you could address those 2 issues, please.

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

Yes. We've had that question for a while. So look, as you think about spectrum, really the question should be around capacity because what we're doing is we're building capacity in the network. So think about the LTE network. Initially, it was a case of building a coverage layer, and we completed that in 2013, 2014. And ever since then, it's been around added capacity. And so there's different ways that you get to add capacity. Spectrum is one of those. And look, we're very happy with the spectrum position we have. Still only a little over 50% of our spectrum portfolio is supporting the LTE network, so there's significant capacity there, whether that's the AWS-3 spectrum that we bought 2, 3 years ago, but only this year, we started to see devices come to market that have that band in it. So as we start to get enough of handsets in the base with that band, we'll start to see the benefit of owning that spectrum, but we don't have that yet. That benefit will kick in next year. We're refarming PCS spectrum. As usage goes down on 3G, we get to move more of that spectrum across. And then, of course, as we get into next year, we'll get into unlicensed spectrum, too. So, look, there's lots of spectrum out there to support LTE, but spectrum's not the only way to add capacity. There's also technology and architecture. On the technology side, you've got all the advances on the LTE network that we've seen over the past couple of years, whether that be carrier aggregation, 4x4 MIMO and some of the other technologies there that are improving the throughput, improving the speeds and also improving the cost efficiencies to operate that network. So the technology piece is there. It's not the same LTE network it was when we launched it a few years ago. And then from the architecture standpoint, this is where you get the densification, and we continue to densify. One of the ways we like to talk about adding capacity through densification rather than spectrum is -- look, you take right here in New York City as an example. If I'm going to add capacity with spectrum, that spectrum I buy covers a large geographic area. If I want to add capacity in Times Square through spectrum, yes, I'm getting spectrum that covers Times Square, but it's covering a lot of other places that may not need it. Whereas, if I go and use densification and small cells, I can put them where the usage is, but also, the areas where I don't need additional usage, I'm not creating capacity that ultimately is going to go wasted. So we think that's a more efficient build. And as we mentioned on the slide we released last week, when you take the combination of the technology changes and benefits that we're seeing and the architecture with the densification, that's been like an 80% to 100% increase in capacity. So as I say, when -- you're really asking about how you increase capacity, and spectrum is just 1 of the 3 major levers we have.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

So maybe on the densification, how far are you -- what inning are we in, in terms of the densification? It's a strategy we've been hearing from Verizon for a little bit. Maybe if you want to use New York as an example or sort of more broadly. And how long will it take to play out? And does it affect the overall cost structure of the wireless business from a sort of OpEx standpoint or CapEx standpoint?

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

Yes. So I think the densification will continue to be an ongoing exercise. We've certainly done a good amount of it already. The important thing about densification is it's built off of the fiber network that we're building out, and that's a multiuse fiber network. So we are densifying the 4G network. It's well under way in a number of cities across the country, including here in New York. I think it's had a very positive effect on the network. There will continue to be opportunities to densify the network further if usage increases. But the great thing is, as we do that, we get to use those same assets that supports other parts of our business. So as we showed last week, a lot of the sites that we've densified for 4G will be the same locations that we put 5G in. And so when you put that 5G radio in, it's going to be using an existing infrastructure. And then even if you think about other parts of our business, whether it be as we build out smart city applications, enterprises and business customers, so today, I may be going by -- I may be in a building for an enterprise customer, I'm paying third-party access, if I put fiber down the street to put in small cells, I can also go into that building, use that same fiber network and reduce the cost there. So it's a change in our network architecture, but it's a case of building out a multiuse fiber network with then being out to sweat that in many different ways. And so the cost structure will evolve a little bit, but we think we can continue to produce very strong returns on that.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

And your appetite for additional spectrum, you set up the 600 megahertz auction. It looks like there's a 3.5 gigahertz auction coming, maybe 500 that are -- actually we see you're working on 5 gigahertz. How do you expect your sort of needs to evolve over time?

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

Yes. Well, we like spectrum, but what I think you're seeing is a case of -- it's economics. Is it -- what's the right way to be able to add capacity? And we went through this in the AWS-3 auction. In a number of places around the country, it was economic to add capacity buying that spectrum. But there was a few locations where the prices went beyond that point, and we said, okay, we can densify better. But look, we are -- we've bought spectrum every year in the secondary markets. We continue to do so where it makes economic sense to add capacity the right way. So looking -- we'll look at future auctions. We're certainly excited about additional spectrum coming to market, but it has to meet the needs of the network. Obviously, the millimeter wave is something we've been very interested in lately as we think about developing 5G, and it has, to us, superior economic value. If it's spectrum that meets the needs of building out our network and we can acquire it at a reasonable price, we'll certainly participate.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

And you would think that the higher spectrum, say 3.5 or 5, would particularly suit this sort of small cell or sort of denser network fabrics that you guys are talking about?

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

Yes, absolutely.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

Maybe just a quick chat about the competition in sort of traditional wireless. What are you seeing in the market today? And maybe how does it look like -- sort of the holiday selling season shaping up?

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

Yes. I think it's certainly a very competitive marketplace. But what we've seen since mid-February when we launched unlimited was once we have a comparable offer in the marketplace, and you didn't have customers having to try to figure out, "Okay, Verizon's got these buckets, and some of the other guys are on unlimited. How do I compare the prices of the 2?" Once we took that noise out of the system for customers, we've competed very well, and that's with the premium and the pricing that reflects the quality of the network and the overall service. And in addition to competing well in terms of gross adds, I think what's been the most rewarding has been what we've seen from our base of customers, and the phone churn we've seen over the past couple of quarters has been very strong. We have what we consider, by far, the best base of customers in the industry, and we're incredibly focused on keeping them. And I think we've done an excellent job of that this year. So as you look at the holiday season, there's different offers out there in the marketplace. I will tell you we're competing effectively. But, look, we've got 4 weeks left. They're kind of important

4 weeks of the quarter, so we'll see how they play out. But so far this year, it's been -- I think the team has shown, once we put a comparable offer in the marketplace, we'll be in good position. And then when you think about fourth quarter from a year-over-year standpoint and kind of the overall results, obviously, as we've moved to unsubsidized pricing, the impact of the fourth quarter compared to other quarters of the year isn't as great because you don't have that massive subsidy cost on those holiday volumes. But when you do get those high volumes, you do still have some additional costs around commissions and whatnot. So you do -- you still see a bit of a step down in the margins in fourth quarter versus the rest of the year but nowhere near as significant as it was in previous years. And then last year, we had a lot of handset promotions out there. We were still on metered plans. The competition had moved to unlimited. And we used handsets to have a competitive offering in the marketplace, and that certainly had an impact on financials last year. The promos' this year have been -- have not been as focused that way. So we'll see how the quarter plays out, but I look forward to reporting on it when we get into January.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

Right. Now as you think -- I mean a lot of those variables that you're discussing are sort of intertwined. You're seeing record-low churn, processing much lower upgrades than we had seen in previous fourth quarters. And maybe that has to do with the timing of maybe as it moves -- the move to unsubsidized pricing. But also, does the availability of the iPhone X or the upgrade cycle have anything to do with it as well? I'm basically trying to get to a point where -- what's driving that low churn? And can churn stay this low as the iPhone availability increase?

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

Yes. Look, I would say there's 2 separate things in there, right? There's churn, and then there's upgrade. So as I look at the upgrade, right, certainly, as the difference from one device to the next isn't as significant as it was 5, 6 years ago, and then the move to device payment, I think, has altered the upgrade rate. But we'll see where fourth quarter comes out. I'm not going to comment on it compared to the prior year or whatever at this point. It's too early in the holiday season. But I think churn is as much a factor of the quality of the service we continue to provide as it is a lower upgrade rate. I think when you looked at customers who are on our network, understand the quality of the service that comes from that network. And so I think we have continued to do excellently there, and we continue to have the right offers for those customers. When we have the right offer in the marketplace, as we've had since mid-February this year, and you have the network performing as it does, I think the churn number is -- continues to be very sustainable.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

Great. And what about -- lastly, sort of on the wireless fundamentals. What about margins? Obviously, you've seen a dramatic increase in wireless margins over the last 5 years despite the fact that it -- that competitive intensity has increased. Just for fourth quarter guidance and as you look out over the next couple of years, do you expect to see that trend continue?

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

Yes, absolutely. I mean, we're obviously seeing -- we're not going to get into forecasting exactly what the margins are going to be, but there's no reason to believe that, that's not the case. Look, you have to continue to have solid margins in this industry because when you have the needs on the network increasing year-over-year as they do, you have to generate solid cash flows to reinvest in the network, to add capacity so you can continue to meet customers' needs. It's not a case of you build the network and then you can leave it alone. So those margins are incredibly important to the long-term sustainability of the business, and we're here for the long haul. So I absolutely think there's -- we'll continue to have a strong margin profile, which will lead to a strong cash flow profile, which will allow us to reinvest in the business while producing returns for everyone. And then that's really why we're doing the cost program that Lowell announced a couple of months ago, is to make sure that we don't have any inefficiencies in the business that we need to take out and to push, make sure we have the maximum returns we can so we can continue to reinvest in the business in the way we have.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

Lastly on the competitive intensity. Comcast launched their MVNO last year. Charter launched sort of midyear this year. Could you talk about how that's impacting the competitive landscape? And then do you still feel that, that's a contract that if you can do it all over again, you would and you're happy with the returns that you're getting from that from the wholesale standpoint?

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

Yes. Look, that contract -- Lowell and others have said and I'll say exactly the same thing, when you look at that contract in its entirety, absolutely, you go ahead and do that again. We think it's a great contract. We've been in the wholesale business for over 20 years now, and we think the returns, from our standpoint on that, have been pretty good. It allows us to use the network more than we otherwise would if we just operate with our own customer base. It produces -- increases the return on that investment. Look, they're going to come in. They're going to do some things differently, some other wholesalers. We look forward to seeing what they do, but I think we've competed very effectively against all the various wholesale partners that we've seen over the past couple of decades and see no reason why we won't continue to do so.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

Got you. I would say one of the bigger initiatives at Verizon these days is the 5G plans. You guys had some announcements last week on the back of the 11 test markets that you've had up and running for some time now. Can you just walk us through what you would say are the sort of biggest learnings from the test markets that you've had up and running?

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

Yes. So last week, we announced that we would be doing an initial commercial launch of 5G residential broadband in 3 to 5 cities around the country in the second half of next year, with Sacramento being the first of those, with the others to be named as we go forward. And as you said, it's really built off of having seen the results of these 11 test markets we've been in since the spring. And so as we think about 5G residential broadband product, it's using millimeter wave spectrum. And that's a spectrum that we haven't used significantly in the past, and its operating characteristics are very different. And so we spent a lot of time in 2015 in the lab environment. Last year, we took it outside in limited-use cases in real-world environments, and initially, we did kind of larger commercial-type tests. And those have exceeded our expectations in a number of key areas, the primary of those being the propagation of the spectrum. And the distance that we see that you can get over gigabit speeds, north of 2,000 feet, is part of the economics of the business case. And there was a lot of questions going into it, and I think there's still different people with different views in the larger ecosystem around the overall propagation. But we've run this in the real-world environment, in different topographies, and we proved that you don't need direct line of sight. We've proved that you can get to at least 20 floors on MDUs, not just 5 or 6 floors. And so the addressable market here is a pretty good size. Outside of our Fios-served markets, we see approximately 30 million homes that, based off the results of this test, are addressable by this residential broadband product. So we'll start on that next year in those 3 to 5 cities, and then we'll continue to roll from there.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

And that 30 million number, I mean, one, I guess, how soon do you contemplate getting to those or reaching those from a home passed standpoint, the 30 million? Then how do you get to that number? And could it -- as the business model sort of proves itself out, could that go up or go down? Or is that a number that's in flux? Or how strongly do you feel about that 30 million?

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

Yes. So that 30 million is based off the results we've seen so far. So you look at it based off of, okay -- based off how far it propagates in the topography in different areas and the mix of MDUs and SFUs in each area, okay, how many places have the type of population density profile that's going to provide a return? You can get whatever number of homes you need per node based off of the test results, and that's really behind the math. So it will be over the course of the next short number of years that we build out all those different locations. And then, as we've seen with other products, you build up to your penetration levels over some period of time, but certainly think it just starts to be significant to our financials in the next 2 to 3 years. Beyond that, in terms of can that 30 million grow or whatever, what we have typically seen as we've deployed technologies over time is that we find benefits versus our original use case and the performance continues to ratchet up rather than the other way around. So we'll see how it plays in 5G here, but I wouldn't be surprised if we see that same thing over time.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

Got you. And the services that you'll be selling, I remember, from the event last week, you talked about sort of the triple play, where we had assumed it would be more of sort of just a broadband-only service. So maybe talk about your thoughts on providing a video service and what kind of form that could -- what that could look like.

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

Yes. So our thinking on that, as you said, we're going to offer broadband only. But if customers want video as well, certainly, and there'll be a voice component, too. Look, if you're going to go into somebody's home, and let's say you have a triple play today, and we come by and say, "John, we've got a new service. It's got better broadband than your current provider, but we don't have the video offering," that's probably not as -- you'd say, "Okay, well, I'm going to keep the video with my current guy, but I'm going to move the broadband across." And is that going to be an attractive proposition? So for those people who have -- the cord-cutters who have moved off of getting linear TV, then we'll do broadband only. But for those people who continue to want to bundle their video with their broadband, we'll have that. Now how we deliver it, it won't be your traditional linear TV product. It'll be a more over-the-top product, and the exact nature of that OTT product is -- more details to come there.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

Got you. And then maybe from a go-to-market standpoint, do you anticipate -- can you talk a little bit about being an insurgent? Does that imply that your pricing will be more aggressive than what you're seeing in the sort of traditional broadband market? And do you expect to target existing wireless customers that are comfortable with the Verizon product and services?

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

Yes. No, that's a good point. Look, we're not going to announce our price plans at this point, but certainly, when you don't have an existing base yet, that's one thing. But remember, when you go into these markets -- as we go into these markets, we're not going in without knowing the customers in those markets. We have a lot of customer relationships, over 100 million connections in our wireless network, so we know a number of those people already. A number of those people we'll be targeting are already Verizon customers, and so we will look to add a 5G product to our relationship with them. And the other important thing about the 5G development is this is the first use case for the 5G network, but it's not a single use case network where it's just about doing residential broadband. This is the top of the first inning on 5G. And as we move from there and you get into mobility use cases that will follow soon after and whether those be mobility use cases for consumers or an area that's really exciting, it's actually more as you think about IoT and all the different things with the lower latencies, with the higher throughputs and so on, there will be many more applications for 5G, things that you can't do in 4G. So we're very excited to get to those mobility use cases as well.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

Great. Maybe shifting gears over to the wireline space. Maybe, first of all, let's talk about the business market. How attractive is the enterprise market, would you say, to Verizon? And does the CenturyLink-Level 3 deal help rationalize things at all in that segment?

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

Yes. So the wireline enterprise business continues to be very competitive. I think when you look at our wireline businesses in general, whether it be enterprise or small business or consumer, you really have to break it between the copper businesses and the fiber businesses. And certainly, the copper-based businesses are going to continue to see a level of secular decline. I mean, there's just functionality that you can't deliver over the old copper network. The costs on that network are different, and so that decline will continue. Where we're optimistic is the things we're doing on the fiber networks. And especially as you think about managed services, the large enterprises and the things we're doing in SDN and security and some other things, I think we're -- we see opportunities in enterprise to be -- for that to continue to be significant to us.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

Got you. And you mentioned the SMB market. I mean, it seems like the trends there continue to worsen. I mean, is that a function of competition from cable or the lack of fiber penetration in that base? Or how do you see that trending?

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

Yes. So, again, it comes back to the difference in the networks. Look, when you're competing with a co-ax product -- a 2017 co-ax product with copper only, you're not well positioned for that -- to compete in that marketplace. Where we have Fios, we compete very effectively in that marketplace. And so as you think about densifying the wireless network, and you have fiber going out in all these places and you're going past a lot of these SMB businesses, there's opportunities there for us to be effective in that marketplace. So again, it's really a case of break that wireline business between copper and fiber. And the fiber side of it, we continue to compete very effectively.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

You mentioned Fios. I think at this point, after the sale, you have about 14 million Fios homes passed. A new competitor in a portion of that market with Altice. How do the trends look? Has Altice proven to be a more aggressive competitor than, say, Cablevision was? And does their plans to upgrade to fiber-to-the-home sort of change the outlook for you over the next few years? Would that...

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

No, not all. I think, look, first of all, their plans to do the fiber-to-the-home, I think, validates what we've been doing for over 10 years now with Fios and the value that brings and the things you can do with fiber-to-the-home that other technologies can't match. So we look at that. You said a new competitor to the market. It's really a change in competitor in that market, right? And, look, we've seen change in ownership in multiple markets over the past few years that we have Fios, and we see a change in how the new owner wants to approach that market. But I think we continue to operate successfully across the full footprint, whether that's here in the greater New York City area or up and down the coast from Boston to D.C. So, Fios continues to be a very good product, continues to resonate very strongly in the marketplace, especially on the broadband side. I mean, just think about if you're moving -- if you're cutting the cable -- cutting the cord on your TV subscription and you're going to rely on your video entertainment through over-the-top, you want the best broadband experience you can get, and Fios is the best broadband experience in the marketplace.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

Maybe talk about some of the new initiatives. Obviously, you've completed the Yahoo! transaction, and you're now in the -- maybe update us on the process of consolidating those 2 entities under Oath. And maybe talk about how those assets are performing and where that fits into the Verizon asset base.

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

Yes. So that integration is going well. I think we're -- this is week 25. So a large part of the integration is really taking those platforms and consolidating them together. So a lot of good work has gone on so far around the cost side of the business and getting the cost efficiencies that were obviously there when you take those 2 businesses and put them together. The team's on track with those things. And then when we get the platforms integrated together and really going forward with 1 set of products rather than continue to offer the 2 sets that we still have today, that's the point at which we'll have the opportunity to see not just a cost benefit but the top line benefit, too, which is important to get to the overall goals that you've heard Tim and others talk about by 2020. So that integration is going well. Continuing to see some strong usage on those platforms. Having over 1 billion monthly active users gives us opportunities to compete in that space and be very relevant when you think about bringing more digital video across as well. So happy with what we've seen so far. The team's still got a bunch of work to do, but they're on track.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

Do you feel that with Yahoo! you have all the piece parts you need or the assets you need to accomplish your goals in that segment?

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

Yes. So what time frame are you saying there?

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

36 months.

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

Yes. Look, I think we're very happy with the combination of those assets. We've got some good technology in place there, some good platforms there. Now you also -- with the closing of the Yahoo! deal, you bring the eyeballs to that as well, so there's a lot there. But I think when you say, "Do you have the right set of assets?" that's a question that -- look, over years, any business continues to evolve and, I think ours has as well. I think we have a great track record not just of looking to acquire businesses to help us move forward, but also to divest the businesses that no longer are core and using that as we continue to update the portfolio.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

Got you. Earlier in our talk here, you talked about the $10 billion cost-savings initiative over the next 4 years. Can give us a little bit more color on that? I mean, can you separate it? I believe it's a mix of CapEx and OpEx. And then maybe within the OpEx piece, if there's any specific buckets you guys hope to tackle.

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

Yes. So what we're saying is we will take out cash outflows that are in the business today, whether they be CapEx or OpEx, in the cumulative $10 billion over the next 4 years. So as you just think of the balance of those cash outflows in CapEx and OpEx, obviously, the majority is OpEx. So that will be where the biggest piece is, and every area is in focus. Obviously, network costs is likely to be a large part of that, and a number of things that Hans Vestberg has started working on is going to help contribute to that. I mean, it's really continue to evolve how we build the network for the future versus how we build networks in the past and making sure that we're able to run those more efficiently than our competition. So network could be a huge part of it. Distribution and care, obviously, are areas we're always focused on, and we'll take a fresh look at those and we'll find opportunities there. And that will contribute. And then even -- all the way down to all the different G&A functions, we'll take a close look at and make sure that we are running the business as efficiently as we can be so that what -- we take as much of the revenue to the bottom line, to the cash flow line and be able to reinvest it in the business, strengthen the balance sheet and continue to increase the dividend. We did that for the 11th straight year a couple of months ago, and we look forward to putting the board in a position where they can continue to do that.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

So when we look at those $10 billion cost savings over the next 4 years, should we expect them to sort of come at a sort of linear rate? Or is it -- are they more back-end loaded?

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

I think we'll step into them in '18, we'll get the initial round. And then by the end of '18, we'll be, I would say, fully up to speed. And so we'll generate more in '19 than we do in '18, and then we'll see how the last couple of years play out there. But in general, I think you should not expect, obviously, the biggest parts to be in '18, but as we get into next year, we'll update everyone on the progress.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

Got you. And is the plan designed to sort of offset the spending on both OpEx and CapEx you expect on -- with the 5G initiative? Or how are those relative to each other in size?

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

No, I actually see them in isolation. We just have the obligation to periodically look at the cost base of the business and make sure that we're being as efficient as we can. So that's one piece. As I think about 5G, that's a different activity. But as you think about the cost to build that out, there are 2 things I would say. One is we -- I think we have a pretty good track record of changing the focus of our CapEx while keeping the overall level very -- the level of capital intensity very consistent year-over-year. But what that's on may change. So we've moved from 3G, then we moved the focus on Fios and then we moved the focus on LTE and then we moved to 5G. So those 2 things really, really aren't linked significantly there. The other thing I would say about 5G is, unlike when we built 4G, which was building out a new network, 5G is a complementary network to 4G. It's not replacing 4G. So from a total network standpoint, it's complementary, and then the underlying assets, this gets back to the building out a multiuse fiber platform, you're going to use a lot of that same fiber infrastructure to deploy 5G, so it will be a very different deployment from a cost standpoint.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

Got you. And maybe just to finish up, you mentioned earlier, as we look at some of your uses of cash, it looks like we're going to get some form of tax reform over -- relatively soon. I guess it depends on when it actually kicks in, but sort of what's your outlook? What does it mean for the company? And what would you do with potential excess cash coming out of tax reform?

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

Yes. Look, we've been -- we've stated our support for tax reform and the need for it over the past few years and certainly believe the U.S. economy needs it for the corporations to be competitive when you look at alternative tax rates across the world. Glad that both chambers have passed versions of the bill, but they haven't obviously got those reconciled into one bill yet. So in terms of what that benefit may or may not be, we'll wait to see what they do. But certainly, we look forward to them doing that. Look, overall, I would say, as you think about the cash flow of the business, it's driven by the execution on the fundamentals, and that's something we've done well in 2017. We'll continue in 2018. That allows us to invest in continuing to build out the network capabilities that we have that lead the industry. That allows us to have a great base of customers that I think we've done a great job working with and we'll continue to do so, to build out new ecosystems and then, ultimately, produce returns to shareholders. So I think we've done a good job on that this year, and we look forward to doing more of the same next year.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group, and Telco and Pay TV Analyst*

Great. Matt, that's all we have time for. Thanks for joining us.

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

Thank you. Thank you, John.
