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VZ - Verizon Communications Inc at Wells Fargo Media & Telecom Conference

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Jennifer Fritzsche *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

PRESENTATION

Jennifer Fritzsche - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

All right. Welcome, everyone. We're really excited to open up our, I don't know how many annual, media and telecom analyst -- or conference. What a way to start. But thank you so much, where we're really welcoming -- happy to welcome, John Stratton, Executive Vice President and President of Global Operations for Verizon.

John, we were joking last night that last year at this time, we were sitting with a new President, you came the day of the election. And this year, we're sitting at what might be the eye of the media and telecom storm. So next year, I'm not sure what that will bring.

John Stratton - *Verizon Communications Inc. - EVP and President of Global Operations*

I'm afraid to ask.

Jennifer Fritzsche - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

Well, yes, exactly. So I know I have to defer to a safe harbor statement, and then we'll jump into questions.

John Stratton - *Verizon Communications Inc. - EVP and President of Global Operations*

Yes, great. Well, thanks, Jennifer. It's a pleasure to be here. And thank you all for attending as well. Yes, we should draw your attention to the safe harbor statement that's on the screen. I promise not to read it. But of course, as we move forward in the conversation, we'll be guided by the precepts here.

QUESTIONS AND ANSWERS

Jennifer Fritzsche - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

Great. Where to begin? I mean, there's so much going on, I'm going to center around the wireless side. I had questions planned for Friday, and then they changed dramatically Saturday around noon with the breakup or the ending of talks between Sprint and T-Mobile. But maybe if I just start as an open question, what is your view on the current wireless competitive environment today?

John Stratton - *Verizon Communications Inc. - EVP and President of Global Operations*

Yes, it's funny. When we think about a conference like this and in other forums, where that question might be asked over the many, many years for me personally and as our industry has evolved, one of the things that we've consistently said is that we seek to build the business with an intense focus on the customer and how we can better serve the marketplace. And our view is that we understand the reality of operating in a competitive environment, but we also don't get -- we try not to get distracted by externalities. And so those things that are in our immediate control are the



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value that we create for customers, is it a compelling set of propositions. The nature of competition is such that if you look back, whether it's at -- all of the things that have happened from the carrier community here in the U.S. and worldwide, the handset makers, the app ecosystem, open free market, competitive environment generates so much innovation and so much interest in our category that for us, that's a very positive start of atmosphere in which we do business.

Jennifer Fritzsche - Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst

And when you look at where we sit now, I mean, we have the what might be deemed the next iconic device with the iPhone X. We have AT&T saying, "We're going to be competitive," and they might have a lot of content soon, to boot. How do you look at Verizon's role in that? I mean, it seems you're always network-focused, which has served you well. You look at the third quarter results, you, by far, had the largest gross adds -- share of gross adds. Is that just going to continue to be sticking to your network knitting per se?

John Stratton - Verizon Communications Inc. - EVP and President of Global Operations

Yes. The foundation of our whole brand is built on the quality and the reliability of our network. And I have to say that over the last 15, 16 years, as we've been really driving those investments in the network and articulating that value to the marketplace, I can't count how many times we've been asked, "Okay, but now it's got to be over?" And it almost seems that with each passing generation, second generation, 3G, fourth-generation LTE, that, "Okay, well, now the networks are about the same." But the fact is from a practical experience perspective, customers day-to-day, the incredible array of things that they choose to do with their devices, the burden, if you will, and the requirements are actually rising. The importance of the network in our minds and in the minds of our customers is rising. So you get to an outcome where it is the principal driver of decision-making at a point of consideration. Someone is thinking about making a switch to another network, we do very, very well there. And just if you look back at our churn rate, we talk about shares of gross adds in Q3, as you mentioned, was very strong, but also we've had near-historic reduction in our churn rate. The retention of the base continues to be really strong. So look, I think we'll see what the next 6 or 7 weeks, how that unfolds. Apple certainly has changed the rhythm a little bit with the sort of two-stage release of their product. And that's very, very interesting. Where it goes, we'll have to see. But as I said before, our plan will be to compete. The proposition that we have in the market today on unlimited allows consumers to do less math when they're comparing A to B to C. And so as such, it served us very well as far as our competitive position is concerned.

Jennifer Fritzsche - Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst

And that's the perfect lead-in to my next question about unlimited. Can you talk about how they're doing both tiers, so far? And how much has that acceptance of the unlimited has been, like me, within your own base?

John Stratton - Verizon Communications Inc. - EVP and President of Global Operations

Yes. We don't describe in exquisite detail sort of publicly all of the different ins and outs in terms of plans. But maybe if I take your question, Jennifer, and step back a little bit and talk a little bit about the why. So we launched in February of this year, we launched our unlimited plan and obviously saw a very strong surge of demand. And that demand was both in terms of new customers coming to the business. You mentioned share of gross adds. If we look at new account capture, really nice growth in that area, so really terrific in terms of attracting new customers to the brand but also very, very important for our existing users. One of the things that we focused on when we were conceiving the broadening of the portfolio, that is the stuff we did in Q3, was that there was a wider range of opportunity to reach customers' unmet needs than what the singular plan had provided. So the first plan that we delivered to the marketplace was really sort of a really best-in-class plan, well-suited to do any number of things but with a focus on streaming media and the like. We recognized and our customers told us that there was a demand for a more basic unlimited plan, where the key driver wasn't necessarily consumption of mass media and those kinds of experiences but was more around the idea of peace of mind and the ability for someone who had maybe some light multimedia requirements but was significantly consuming applications, doing a variety of things, consuming web content and the like. That their principal driver was about eliminating uncertainty and bill predictability, eliminating any kind of concern or thought about overage for them was a real driver. So that's been a really well accepted plan as well. And that for us has been a nice adder to the portfolio.



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Jennifer Fritzsche - Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst

Your churn -- you noted that phone churn was so good in the third quarter. Do you think some of what you just described as part of that reason, you were answering other's needs?

John Stratton - Verizon Communications Inc. - EVP and President of Global Operations

I'm sure. What we know about the business is, among other things, the churn measure. And we look at phone churn with particular sort of intensity as you might imagine. But when we look at the phone churn particularly, it describes to us how are we doing in terms of meeting our customers' expectations. And so that is a great way to kind of keep everybody honest around the business. If we see it's going off in a different direction, of course, we need to address it very immediately, and you get those benefits. You build a plan with the idea of saying, "I want to expand my share and my capture of new adds in the marketplace, I want to see conversions from competitive carriers." But first and foremost, we want to make sure we're serving our existing base of customers.

Jennifer Fritzsche - Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst

Great. I know Matt is not here on the hot seat right now. But can you talk a little bit about your outlook for wireless margins? With Q3, I think wireless service margins were about 53% and overall margins were 46% and change. Where do you see that going?

John Stratton - Verizon Communications Inc. - EVP and President of Global Operations

Yes. He's not in the room, but I feel his burning stare as I contemplate how to not answer that question.

Jennifer Fritzsche - Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst

And maybe the drivers, too. Maybe the drivers if we can -- okay, how about cost-cutting of your plan there?

John Stratton - Verizon Communications Inc. - EVP and President of Global Operations

Yes. Again, kind of along the same lines as the question about competition, the question about network superiority and the value of that being the centerpiece of your brand. Another very common question is, look, if you look, Jennifer, you know that if you look at our SG&A trends, for example, and you look at some of the work that we've done maybe 5 years ago, I want to say 4, 5 years ago, as Lowell was ascending to the role of Chairman, he made a very, very strong effort to enable the company to think differently about how we improve our operating excellence. Now we've always sort of prided ourselves as being tactically focused. We pride ourselves on our operating execution. But Lowell believed and was proven true that there was a higher gear that we could find. And a number of things that we engaged, but one of them being a focus around enabling a Lean Six Sigma practice really, really deeply into the business, where we got to a place where we had understood the value of reengineering process in such a way as to unlock value but also to sustain the value of the gains that were made in a very, very disciplined way. So we've been at that now very, very actively for about 4 years. And this is something that we're super serious about. And as a consequence of that, we've taken a lot of cost out of the business but at the same time improved the quality of the service that we've delivered to customers, whether it be literally customer service in the call centers and online, our distribution efficiency, the efficiency with which we deliver our network services, so really across the board, very, very aggressive set of actions over the last bunch of years to do it. We still believe that there is another level of value that we can pull from the wireless business. We're very bullish about this. And most recently, a few months ago, Lowell made a comment that we were going to look to take \$10 billion of cost out of the business over the next 4 years. Exactly, and this is in that same line. And that is going to be sort of the next order up in terms of the methods and the pools of value that we'll tap. But we're quite confident that, that indeed will be realized and we'll be able to then plow that back into the business.



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Jennifer Fritzsche - Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst

And do you think you've done like the heavy lifting? I know your number of calls into the companies for customer care have dramatically decreased. But do you look at like what's the next on the worry list for you? Is that the network's costs? I mean, backhaul is a big one, I assume.

John Stratton - Verizon Communications Inc. - EVP and President of Global Operations

Yes. Well, it's all of it. We look at the -- you mentioned the calls into our call center and that was very interesting. That's not a data point you see out there very often. And I was curious, once in a while, somebody will reveal something. You say, okay that's a good yardstick to see how we're doing. One of our competitors recently was espousing their progress that they've made in that area. It's not an easy thing to do because the calls into a call center is not, for someone, it's not like a dating line. It's not like a 900 number where you're generating revenue. This is, you broke something and you now need to go and fix it. You've created confusion, you need to solve it for a customer. And this competitor of ours had described how they have taken their calls per customer per year from 6 down to 4. We're less than 1, and so...

Jennifer Fritzsche - Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst

Per year?

John Stratton - Verizon Communications Inc. - EVP and President of Global Operations

Per year, yes. So orders of magnitude, sort of better than at least that one competitor in this regard. This is something we focus on with exquisite level of attention. That said, there's still more room to improve. Our customers still would like to have a very intuitive, simple, easy experience online. We've done a ton of work with our mobile app, for example, that has really caused it to leap in terms of its primacy as a channel for service delivery for our customers. That's very, very important. But our distribution can be more efficient as well. And you mentioned the networks, we have a really, really strong technology team. And they are and have been engaged in finding ways to leverage the investments we make there, most recently in the last year or so, maybe 2 with orientation towards virtualization of the network. And so you think about software-defined network, network function virtualization, pushing cloud to the edge of our networks, there is a tremendous amount of work that Hans Vestberg, who's joined the business about 7 months ago, is leading that and he's just getting started. The opportunity to unlock value there remains, I think, very robust.

Jennifer Fritzsche - Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst

Great. And shifting to the network, these questions are leading perfectly, so thank you. You've been spending a lot of wireless CapEx aggressively on network densification and including small cells and DAS. Boston is probably the petri dish of good things that are happening. How have these upgrades been progressing? And there's more to come, I assume, on that front, too, as well?

John Stratton - Verizon Communications Inc. - EVP and President of Global Operations

Yes, this actually for us started several years ago, I want to say maybe 4 years ago. You may remember in the AWS spectrum auction when Verizon participated to a point, and then we sort of pulled out a little bit. I mean, we acquired some spectrum, but it wasn't quite at the level that people had forecasted we might. And the reason for that was very simple and it was based on the economics of it, which was what is the cost per megahertz POP of the spectrum that's being auctioned? And at what point does it break in the wrong direction? We had a belief at that time, and not just a belief, we had direct sort of field-based knowledge that there were multiple ways that we could extend the capacity of the network. Of course, loading up a deep portfolio of spectrum is one, but another way is through densification. And at the time, that wasn't necessarily something that people would readily say, "Yes, of course, that's going to work fine." We needed to prove it sort of at scale. And for us, one of the first cities where we did that was in Chicago. And at the time, that was a city with a more narrow depth of spectrum than some of our other big cities around the



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country, but we went out and massively densified the network in that city. And the performance of that network has been stunning to the point where consistently is the best sort of in terms of all the drive tests and all the other sort of competitive benchmarking we do there with a fairly narrow bit of spectrum that we're able to pull that through. So densification has been something we've been on for some time. And if we look at the tradeoffs between again, spectrum depth and sort of the physical build of those small cells, it's also a very logical precursor to 5G. And if you think about it, because of the nature of 5G, the difference in propagation of those -- of the networks that will be built on that 5G standard, having what we call low and tight design for our array of cell sites, small cells, DAS and the like, is such that moving to a densification regime to increase capacity under LTE is a very natural sequential step towards supporting the architecture of the next-generation networks.

Jennifer Fritzsche - Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst

Got it. And I'll call this "Let's get it out of the way" question, spectrum. There always seems to be this perception that you don't have enough spectrum. And can you address that? How do you sit -- right now, how do you feel about your spectrum position? I think there's more than meets the eye on what maybe is, my words, not yours, on 3.5. But I'd love your view there.

John Stratton - Verizon Communications Inc. - EVP and President of Global Operations

Yes, listen, we feel very good -- we have felt really good about this for quite some time. But we needed to prove it to the marketplace. I think my sense is that the sentiment in the market more broadly now is beginning to turn in a direction that sort of understands what it is that we're doing here. Whereas if you asked the question a few years ago, what we used to get was sort of the inevitability of our hitting the brick wall, right? We were going to run out of spectrum. There was no way we could keep up with demand. And as a result, we might have to do some kind of sort of inorganic approach to address it. But as we -- I think as we've displayed, as you look at the growth in network traffic, and it's very, very substantial year-on-year, the performance of the network is still best-in-class, among the best, if not the best, in the world. And yet with that, we are using just over 50% of our available spectrum right now to serve LTE. And LTE, of course, is where all of the consumption of the network goes. And to your point about 3.5, we haven't even begun to leverage the unlicensed spectrum that will come available at that band. And we see that as an opportunity to augment capacity as we go. And then you begin to make the pivot with next-generation wireless with millimeter wave spectrum. And as we think about where that will be deployed, and I'm talking now a couple of years out, the first and most significant concentrations will be in cities where, of course, the highest concentration of users are and where if there's any place in the country you might say, "Okay, where do you want to make sure you have sufficient capacity to fulfill expanding demand," of course, it would be in those urban markets, so very complementary in terms of our portfolio. So we feel very, very good about this. We've been pretty confident about this. But I think sometimes the market needs to see it unfold. And I believe we're kind of at a point that question is becoming sort of less intense around the business.

Jennifer Fritzsche - Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst

And before we shift to wireline, I do want to also ask about the cable MVNO because cable obviously has been in the news quite a bit lately. And I remember, I think, one meeting where Lowell said that Verizon went into this agreement with your eyes wide open. And it's been, I don't know, 4 or 5 years since that agreement was made?

John Stratton - Verizon Communications Inc. - EVP and President of Global Operations

Yes, it's more than I could say. I think it's probably 6 or 7 years at this point. It's a pretty long time ago.

Jennifer Fritzsche - Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst

So longer term, I guess, how do you see cable's role in wireless evolving?



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John Stratton - Verizon Communications Inc. - EVP and President of Global Operations

Yes. We really do like this deal. And listen, if you go back to the deal, we liked it for a couple reasons. There's some good spectrum that was associated with the deal in the beginning.

Jennifer Fritzsche - Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst

At a great value.

John Stratton - Verizon Communications Inc. - EVP and President of Global Operations

At a really, really good value. We're very happy with that. But also we like the deal broadly. We build the network. And the opportunity for us to monetize that network is something that we take pretty seriously. And one of the things that I've asked my team to be really focused on is make sure you're a great partner to the MSOs, to the cable firms that we're doing business with under the MVNO, make sure you make this frictionless, make sure that you're reaching out and meeting their requirements as they go. Of course, it's up to each of those companies to determine how far they want to go with wireless and in what form and with what means of carriage. That is -- decisions that we've made by those companies independently. But we want to make it easy for them to do business with us. We see value creation is an opportunity there. We have a pretty healthy wholesale business already. And it's mainly been expressed through retail brands. We talk about TracFone from time to time and other companies who will buy wholesale access to our networks, and then take their own brands to market. So we have pretty good experience there in terms of the operating model beneath it. And like obviously with cable, it's a little bit more high profile. They have bigger brands, but I think the same general principles apply.

Jennifer Fritzsche - Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst

I'm going to shift to what I have it listed as wireline. But it's funny because thinking of wireline and wireless, it seems like those lines are being very morphed, which leads into my next question. To me, it seems like there's a lot more going on than meets the eye with your fiber build. You have XO, and then you even look into old MCI metro markets. And can you talk a little bit about what you're doing there, just offer more maybe behind the black curtain color? Someone said you're becoming a national fiber provider. Is that too crazy to say?

John Stratton - Verizon Communications Inc. - EVP and President of Global Operations

Yes. I think this is an area where we've kind of, actually we've hidden in plain sight on this one. If you look back to Verizon's acquisition of the remaining share of the Verizon Wireless venture, so this was the deal with Vodafone back in 2013. The question is, "Okay, so what was the point of that?" And obviously, having control of your largest assets, important access to the earnings and cash flow and all that, very, very important. Vodafone was a good partner for us. And we, together, built a really, really strong business that's probably among the most successful joint ventures that you can think of in the annals of corporate history. But with that said, there were limits to what our partner would have been comfortable with us doing across our business. That is to say across the Verizon business. And certainly, when we think about the networks and the opportunity for us to leverage our network investments, this is a place where there was a reasonably bright line that separated wireless and wireline. One of the principal incentives for us to bring the business in, that is to say the wireless business to a complete 100% ownership stake was the opportunity for us to leverage at very substantial scale the significant investments we make in networks. And this is certainly a perfect example. So we've been at this for quite some time. As you think about all the different data points that we've been talking about, densification to serve the capacity demanded of LTE, the forward sort of symmetry of that philosophy as it relates to 5G, which will be sort of exponential densification versus what we have today, every one of those sites will require connectivity, will require backhaul. And because of the demand that will be generated on them will require significant substantial fiber. What we know is, and we've looked at this very, very closely, is that the fiber network that will be required to support the next-generation wireless networks in the U.S., probably worldwide, maybe we don't care about the rest, in this context, doesn't exist. And so for us, it's a question of determining how do we make it available. And what we've said publicly is we have kind of 3 choices: build, buy or lease. We do really, really significant evaluation of every single market to understand what is the best way to play a particular market in terms of how we go about this. And the focus was on return on investment. And if we think about the sources of those returns, the most important



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thing is to remember that this now becomes a shared resource, that these network investments for the first time in our company's history become lateral. And we can now tap into those networks to access market opportunities that are more efficiently gained if you follow my meaning. So we leverage the capital investment in such a way with the base layer being around backhaul, cost avoidance. We have access costs in my enterprise business that are -- it's a very, very significant line on George Fischer's enterprise P&L, his access to, in connection to buildings across the U.S. And then there is the opportunity for us to enter new markets and for us to participate in markets that previously we have not been able to reach. So there's much more to sort of see as we roll this forward. A lot of the work that we're doing in this area is also running in parallel with the testing and the trialing that we're doing on 5G that's happening this year.

Jennifer Fritzsche - Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst

Leads to my next question. Perfect.

John Stratton - Verizon Communications Inc. - EVP and President of Global Operations

Yes, I keep doing it. Yes, go ahead.

Jennifer Fritzsche - Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst

But I think the 5G trials, can you comment on how they're going? And then there seems to be this view, it's just fixed wireless. If I'm listening to you right, there's multiple business cases, maybe some of which you shared with us publicly, some are still in your back pocket. But am I thinking about it right?

John Stratton - Verizon Communications Inc. - EVP and President of Global Operations

Yes. So just for a moment, just for background to the 5G trials, so we've been talking about this quite a bit publicly in terms of what our intention is. And what we have been working on is we've set up a number of cities around the country where we have installed these pre-commercial trials. And for us, it was really about 3 things, what did we want to accomplish? One is we just we needed to understand the science and the technology. This is very, very different. And when we think about the progression, first generation, second, third, fourth, that was pretty straightforward. They were great gains, each of those generations. But the fundamentals were essentially aligned. This is a very different animal. And our technology people, Hans will describe the changes in terms of how you do design and architecture, sort of geospatial versus the way it's been done historically. That matters because the value of our teams gaining practical working knowledge on the ground, in the field, in different atmospheric and environmental conditions, dense buildings, foliage, elevations, all of the different weather, they all have an effect. And the question is how much of an effect? And when we understand that, then we can understand the operational and financial implications of those boundaries. And that then defines for us the size of the potential market. And so we've been pretty pleased with what we've seen so far. But we still need to do the work in order to really sort of define the box that we'll then look to enter.

Jennifer Fritzsche - Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst

So kind of more to come on that?

John Stratton - Verizon Communications Inc. - EVP and President of Global Operations

I think so, yes.



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Jennifer Fritzsche - Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst

Okay. I just want to -- I have to ask you about streaming video. AT&T and you have always been aligned, in the 1.5 years, I'd say, more divergence than we've ever seen. How do you think of content? I'm going to wrap in, what are your thoughts on content cost right now because I'm saving for college and it feels like that's a bargain compared to content cost? And how do you think of just where Verizon's role is in the content space?

John Stratton - Verizon Communications Inc. - EVP and President of Global Operations

Yes, it is interesting to see the divergence size effects of our industry and just how we and AT&T and other companies approach it at the same market with different ideas and philosophies. It kind of keeps things interesting. I'm sure it keeps you guys awake. But if I look at the content model, and without regard to ours or AT&T's approach to it, but speaking more generally about the content market, this is a market that absolutely, positively needs to be disrupted. It is just -- it's a bubble, in my mind. And what do I mean by that? People have a tendency to look at the top line, the headline data points that come out. So yes, there is a trend that's starting to really show itself. I think the cable companies have been put under a bit of pressure as cord-cutting becomes more clear and more obvious in the results of those businesses. So 2%, 3%, 4% declines in viewership year-on-year, I think dramatically understates what's really going on. And what I mean by that is for the last 30 years, the model in that industry has been determined by the contracts that bind the distributors or the content creator or the content provider. And these have certain conditions that are antithetical to the best interest of the consumer. And I'll give you an example. You buy content from a particular company, and it may have certain minimum penetration requirements. So regardless of who's actually watching the programming, you're going to be required to make sure that 80% of your subscribers are effectively paying for it, regardless of whether they watch it or not. You get to a place where you create these tag-alongs or pull-throughs, where instead of just buying the primary network, you buy all the secondary content that they may own. And that gets pulled through with the similar requirements. This has been going on for years and years and years. The content costs rise significantly year-after-year. And it puts incredible pressure on the consumer because it has to be passed through. And I would tell you that most distributors struggle, and you just look at their public disclosures, to keep up with the increased cost of the content at the top line. And this, of course, puts pressure on margins. So there's no winner here unless you go all the way upstream. Now why do I say this thing needs to be disrupted? Because if I actually look at the effective cost of content per active user, it is a dramatically different picture than what the published rates look like on the surface. And if we think about where value is created for the consumer is, what do they choose to consume? What is the content that is of interest to them? What would they be willing to pay for? And how much would they be willing to pay for it? Those fundamentals are what defines the market. And yet in this market, which is so distorted by what has been several decades of practices, it is dramatically out of line. And I think with the increasing impact of technology, IP delivery streams, direct-to-consumer OTT, this is a model that will tip over. And for Verizon, from our perspective, we're happy to see that happen and to aid its acceleration because we think that customers have for too long been paying too much for content they don't choose to watch. So I think this is an area that's going to be under a significant amount of tumult and disruption in the next couple of years. We'll see where it lands. But it's certainly not in a good place right now.

Jennifer Fritzsche - Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst

I want to also just focus on your cash because I feel this is one of the more underappreciated parts to the story. By my estimates, you're going to generate \$15 billion in free cash flow this year, that's before the dividends. How do you -- I assume the dividend is the first use of that cash. But of the extra, where does that go? Where do you see that being put to work? If you had your wish list, how would that look?

John Stratton - Verizon Communications Inc. - EVP and President of Global Operations

Yes, it's a long list. But I would say that for us, the principal points of focus have always been around, of course, returning value to our shareholders as reflected in our dividend policy and the continuous ability our board has for many years to increase the dividend each year. And it's important to our investors. Of equal importance is our investments in our networks. We've said for many years that the first and last dollar we spend as a company will be on our networks. That where our customers expect us to be. That's where value is created in the Verizon sort of brand promise. And so this is and will continue to be our principal area of focus. Now there's other things, of course, that we invest in, ensuring that our retail facilities are top of the line and making sure that we care for having the right inventory in our stores, et cetera, all of those sort of day-to-day requirements that put pressure on cash. But really if you think about it, it is about returning value to our shareholders and deeply investing in



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continuing to drive the superiority of our network, investing in current networks to serve the capacity requirements and the performance requirement but really with a keen eye towards the future. And in our minds, it's not to wait for it, it's to accelerate the realization of what's possible in technology. We did that with our third generation. We're the first national 3G data network. We're the first LTE network that scale in the world. We expect to see the same thing with fifth generation. And that requires investment. But for us, it's been prudent in terms of the returns it's generated.

Jennifer Fritzsche - Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst

Great. So we're going to end it there. Thank you so much.

John Stratton - Verizon Communications Inc. - EVP and President of Global Operations

Awesome. Thanks, Jennifer.

Jennifer Fritzsche - Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst

Thanks, everyone. And right across the hall, same floor, is the next session in the Empire Ballroom. Thanks again.

John Stratton - Verizon Communications Inc. - EVP and President of Global Operations

Very good. Thanks, Jennifer.

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