REFINITIV STREETEVENTS

EDITED TRANSCRIPT

VZ.N - Q3 2024 Verizon Communications Inc Earnings Call- Sell Side Analyst

EVENT DATE/TIME: OCTOBER 22, 2024 / 1:00PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

Brady Connor *Verizon Communications Inc - Senior Vice President*

Hans Vestberg *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

Joseph Russo *Verizon Communications Inc - Executive Vice President and President - Global Networks and Technology*

Sowmyanarayan Sampath *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Anthony Skiadas *Verizon Communications Inc - Chief Financial Officer*

Kyle Malady *Verizon Communications Inc - Executive Vice President and Group CEO - Verizon Business*

CONFERENCE CALL PARTICIPANTS

Simon Flannery *Morgan Stanley - Analyst*

John Hodulik *UBS Equities - Analyst*

Dave Barden *BofA Global Research - Analyst*

Peter Supino *Wolfe Research - Analyst*

Jim Schneider *Goldman Sachs - Analyst*

Sebastiano Petti *JPMorgan - Analyst*

Gregory Williams *TD Cowen - Analyst*

Brandon Nispel *KeyBanc Capital Markets Inc. - Analyst*

Mike Rollins *Citi - Analyst*

Frank Louthan *Raymond James - Analyst*

Tim Horan *Oppenheimer & Co., Inc. - Analyst*

Walt Piecyk *Lightshed Ventures - Analyst*

Kannan Venkateshwar *Barclays - Analyst*

Kutgun Maral *Evercore ISI - Analyst*

Laurent Yoon *Bernstein - Analyst*

PRESENTATION

Brady Connor - *Verizon Communications Inc - Senior Vice President*

Good morning. Hello, everybody. Welcome to the Essex House, and welcome to our event this morning. And for everybody on the webcast, thank you for listening in. Got a couple of items that I need to cover up front first. And I'm missing the clicker, is there a clicker? Okay, there we go.

Safe Harbor statement -- so our presentation today contains things about statements that are forward looking and contain risk and uncertainties. Those are covered on our website with the Safe Harbor Statement. A couple of items -- also, we have some non-GAAP disclosures or non-GAAP items in the presentation. The reconciliations of those are provided on the website. Next slide, please.

And one administrative item for today, the camera's going to be focused on the stage during live Q&A. For the folks in the audience, we ask that you announce your name and your firm when called on for Q&A.

With that, we're really excited for the content today, so let me hand it over to Hans and we'll get going. Hans?

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

Good morning, and welcome to Verizon third-quarter earnings call, as well as a broadband update. Very happy to see so many in the room, but of course, also happy for everyone joining on the webcast.

Let me kick this off. We have an agenda that is pretty simple. Going to talk about the highlights of the third quarter, then we're going to do some -- a little bit of strategic updates. And we're going to end up with Tony talking about the results and capital allocation.

So let me start by talking about the third quarter. And maybe before I start with the third quarter, just mentioning the hurricanes that has been going through our southern part of our country and had devastating impacts. Verizon, of course, has worked tirelessly to see that our communications up is so essential that communication is working for public safety, but also for the communities that are affected.

Initially in some of the states, we had challenges, especially with power, but I think that our team did a fantastic job to get our networks up pretty quickly. So again, these are things that are happening constantly around the world right now with hurricanes and natural disasters. For us, building the networks, as you're always doing, is extremely important to see the resilience on the network during this time.

So starting with that, talking a little bit about the results. I have a tie today. That means it's a good result. It is a good result. I'm really pleased what I've seen. I've talked to you so many times that there are years when you are a CEO where you're performing better than others. And I know that '22 wasn't the highlight on my career at Verizon, but what we have done, great job since then. Started in '23 in the mid-year of starting changing the products and all of that, and then coming around where we are right now.

Looking at the financials, growing 2.7% in the wireless service revenue is great. I'm also proud to report the biggest profit EBITDA [reported] (added by company after the call) in the history of Verizon, $12.5 billion in the quarter, which is really good and it's multifactors. And of course, the team sitting over there done a great job, proud of that. We continue to create good cash flow, $6 billion in the quarter, continue with a really strong cash flow generation, as that is part of our measurement and how we measure ourselves.

On the operational side, we started getting an even better balance on the postpaid side. We were 239,000 net adds, positive. Sampath will talk about what happened in the consumer, but I already now going to tell him he did a great job in the postpaid, but also in the prepaid. We are turning around prepaid. I got a lot of questions over the years. Now, we're around positive 80,000 ex-SafeLink.

And of course, the business side did a great job on wireless again. Kyle and his team is consistently between 125,000 to 150,000 net adds every quarter. And I'm really pleased with that.

The broadband side, I promised you now for quite a long time, as soon as I get into 4 million to 5 million fixed wireless access subscribers, I'm going to come back to what we're going to do after that. Four slides down, I will talk about that. But first of all, I'm going to take a victory lap that we're 15 months ahead on the target we outlined when we bought the C-Band with our fixed wireless access. Again, a great product, great work.

The same time, for the ones that remember, we were a little bit weaker on Fios in the second quarter because there was a little bit of movement in the market with ACP and all of that. Now, we're back to normal again. The team is doing great work with Fios. All in all, a great quarter for broadband.

And we continue with the private networks and the Mobile Edge Compute. We announced two deals this quarter, but we had way more. FIFA and MSG, Madison Square Garden Group, all are buying private networks, using our capabilities in dense areas to see that they can fulfill their fans or the customers' experiences.

All in all, we feel good about the full-year financial guidance that we gave earlier in the year. We even said, if you have read the press release, which I hope that all of you have done, that when it comes to the wireless service revenue and EBITDA, we are at midpoint or above on both of them for the full year. That's how good we feel about the performance so far in the year.

That's what I have to say about the third quarter. Tony will come back and go a little bit deeper. If I then come in to talk a little bit about the strategy, some of this is given for you, but for me, it's a journey where we are today. It's a long journey with a lot of things. And we are a very organized, structured company in what we're doing.

The first phase, I call it sort of building the foundation. Some of you remember the heavy investment in fiber, the Verizon Intelligent Edge Network. All of that was enormously important for today's work. I mean, on the table in front of you, you have your consumer connection report. That's what we give out twice a year with all the stats what's happening in the network.

Last time we told you that our network, the last five years, grew 129%. If you haven't built it with our own fiber, with the transport networks we have done and all these fundamentals that Kyle and Joe has built, we couldn't handle all this data and have the best network in the nation when it comes to wireless and broadband.

So the fundamentals we did with go-to-market, with consumer and business, is really paying off today. And you see it when our product has started resonating with the market is because we have Kyle and we have Sampath, both of them thinking about how to meet the customer demands and what the customer needs to have. So all in all, that was important.

In the second phase, all of you remember, we sold, we bought a lot of assets. We sold everything in Verizon Media Group. We bought the TracFone that is paying off right now. We also bought the C-Band, enormously important. You're going to hear Joe talking about the C-Band, but we all know where we deployed the C-Band, we have a great financial success and customer impact. So very important movements we did in that.

But we also launched a lot of new products -- Fixed Wireless Access, myPlan, myHome, and a lot of other things -- that we now have as the base going into '25. And now, we're also extending our TAM with a couple of larger investments we're doing, all the way from Frontier, but also what we're going to talk to in a second. So for me, this journey is now in a moment where we have the right assets, we have the right team, and we have great products for our customers.

Only the last, I would say six months, we have done all of these strategic movements in order to strengthen ourselves to continue to be clearly the number one in the market and extending that. You have seen them all, the customer-first offerings we have done, resonating with our customer. We're going to hear Sampath talk about them.

The refreshed brand we did in June, that takes time to get the impact, but we see the positive movement with a refreshed brand that is supporting our new products. Really happy with that. And hopefully, some of you are looking at commercials, either digitally or on TV, and see how we're trying to recapture and rethinking the way we're showing up for our customers.

We have the planned Frontier acquisition. We talked about that in a separate session. We're excited about that and adding to our expanded TAM. We did a tower transaction. And just two seconds on that, of course, it was cash in, but more importantly, we only do the deal when we can see a deal that actually creating more opportunity for us, both by having a cost level that is predictable for us, very important.

I like owner's economics in the network, and second, also creating more competition in the market. We're suddenly creating with this strategic partner in Vertical Bridge, another strong partner in the market, giving more optionality and seeing that we can have a predictable cost for our tower leases, which is one of the few things we don't have 100% ownership on.

We also, just yesterday, I think, announced that we're buying some spectrum UScellular. It's going to take time until that's come into fruition because it's hanging on another acquisition. So I don't think it's going to be cashed out until '26. It's just adding capacity. It's a buy versus build in that region, so we're adding capacity there.

And then we will not speak so much about AI today, but I hope you're going to ask some questions to Kyle because not only see the efficiencies that Sampath is talking about in the customer care and personalization, we see with our compute storage, with our power and the Mobile Edge Compute, we see great opportunities when it comes to AI and revenues for us. And we will talk a little bit about here, but we also do it in the future, coming back a little bit more structure and talk about what we're doing. But we're already right now see a good tractions on what we're doing on the front end of it.

All in all, that sums it up where we are today. I think we have an unmatched value proposition all the way from our best mobility -- America's best mobile networks. We created a satellite partnership recently. We have myPlan, plus all the business-to-business offerings, strong offering. And then on the broadband side, all the way from Fios to Fixed Wireless Access, we're now almost 12 million broadband customers, 11.9 million.

The fixed wireless access is generating more than $550 million per quarter in revenue, started three years ago. So we can see that we can build on this network, where we build the network once and we want as many profitable connections on top of it. It started paying off with that. So we're uniquely positioned in the market with owner's economics.

So all that said, where are we in the quarter? Where are we going as a company? We know also that we've hit sort of our targets on broadband. So we're going to talk today about what we're doing next.

So our broadband targets going forward is basically going to say that we're going to double the fixed wireless access targets by 2028 to 8 million to 9 million fixed wireless access subscribers. Joe will talk a little bit what we're doing and how we continue. And I expect that Joe, our Head of Network, will continue to have capacity way beyond and continue to build for us so we are ready to capture this opportunity that we're creating.

We're also going to talk about our acceleration on Fios. We think that's a great opportunity for us to do that in this moment. We will, as we have closed the Frontier acquisition, have more than 30 million fiber passings [by 2028] (added the company after the call). And we also see a clear path of somewhat of 35 million to 40 million passings off the Frontier and what we're doing ourselves. And if you combine that with our fixed wireless access, I think in the future, we're going to cover more than 100 million households.

So clearly, the broadband, together with the mobility, together with our offerings, we are putting ourself up to a possibility to continue to have a sustainable growth on our service revenue, but also continue to expand our EBITDA and cash flow. And the ones that have been following us for a time, you know that those three are the things we're measured on. Those are the three things that management are measured on. The Board has decided those are the three things that is actually driving the most shareholder value, and that's what we're focused on here right now.

So I will let my team now explain a little bit about where we are and how we're going to execute on these targets. And then, we're going to hear Sampath and Tony talk about the financials and the situation.

So by that, I'm going to hand over to Joe Russo.

Joseph Russo - *Verizon Communications Inc - Executive Vice President and President - Global Networks and Technology*

Thank you, Hans. Appreciate it very much. Good morning, everybody. The one thing I want to first say upfront is the network and technology team is super confident that the investments I'm going to talk about over the next few slides, coupled with the best engineers in the industry, is going to continue to deliver on the best, most reliable, highest-performing networks for our customers and give that experience to more and more Americans across the country.

It's easy to make claims about being the largest this or the fastest that, but that's not what my team and I are about. We're about building the best, most reliable networks. And that takes hard work and a lot of strategic investments that I'll talk a little bit about today.

But that's hard work around testing and optimizing the network each and every day. It's strategic investments in things like generators and mobile assets for when there's emergencies. And this is why, as Hans said, following -- the Verizon network outperformed the rest of the industry. And I'm super proud that we were there when our customers and first responders and businesses needed us the most.

So before I dive into the broadband plans, I first want to congratulate Kyle and Sampath for hitting our 4 million to 5 million fixed wireless access target 15 months ahead of schedule. And that took a ton of work from a lot of people within the organization. But one of the things I'm very proud of from the network and technology team is that we built the coverage and capacity well ahead of schedule for them to deliver on that target.

And as we look forward to the -- there we go, as we look forward to this new doubling of our fixed wireless access subscribers, my team's objective isn't changed. It's to build the coverage and capacity well ahead of schedule, and we're already doing that. We expect that to cover another 30 million homes over the next four years on our award-winning multipurpose network, we have to do a few things.

The first is we will take a mobility-first approach, and I'll talk more about that in a minute. But getting to 90 million homes and businesses covered with fixed wireless access will be accomplished with three key things we're doing today. The first is our aggressive deployment of C-Band and millimeter wave we call Ultra Wideband. The second is a new MDU solution that's been in trial and we'll be rolling out in 2025 to serve MDUs with up to 1 gig internet service with our millimeter wave technology. And the third is technology advancements and the use of our vast small cell network in order to add even more Ultra Wideband coverage and capacity between now and 2028.

So I'm going to shift gears a little bit to fiber. So I'm looking forward to the pending acquisition of Frontier and bringing these two great fiber assets together. The combined wireline footprint has approximately 48 million homes and businesses, of which 25 million of those are already served with fiber. And I know one thing, with our 20-year experience in building fiber across this country that we will continue to deploy Fios in the new footprint after closing.

Post close, we will take the appropriate pace to build based on the following criteria. The first is the profitability of the build. The second is the competitive environment that we see that we're operating in. And the third is our capital allocation priorities. But over time, I want to be clear, my objective is to bring Fios to 35 million to 40 million homes across the country.

So I want to bring the whole network strategy together for you. The first is we build a shared multipurpose network with owner's economics to serve as many profitable connections as possible. That strategy is built on the foundation we call the Intelligent Edge Network, which is rooted in our rich fiber assets both in the ultra long haul network and in the metro networks across the country. It also encompasses our converged IP core and our own and operated Verizon cloud platform and our mobile edge computing platform that serves both today's and tomorrow's technologies.

This foundation gives my team and I the capability to provide that best, most reliable, highest-performing network to two access technologies. The first is the radio access network. And again, as I mentioned, we take a mobility-first approach. What that means is I deploy coverage and capacity to enhance the mobile experience for our customers and to find new revenue streams.

The good news is we pull through fixed wireless access when we do that, and as we've said, we've been awfully successful in that space. Customers just love that product. So we will be accelerating our Ultra Wideband deployment. I expect that by the end of this year, we'll have covered 70% of our planned footprint, and by the end of next year, through acceleration, we'll get to 80% to 90% of that planned footprint covered.

We also have just recently launched our 100% virtualized 5G core network with standalone and slicing capabilities, and we'll talk a little bit more towards the end of this year how we're going to put those to use in the market. And then finally, we are the only company in this country that's actually running virtualized RAN at scale. 40% of my C-Band sites are now virtualized in the network.

Shifting over to the fiber access network. So I've been building Fios for 20 years or so now, and we're on track this year to pass approximately 500,000 prems. Frontier, as you know, is on their way to pass 10 million prems by the end of 2026, and we are, in 2025, targeting an expansion of our Fios build up to 650,000 prems. Post close, I see that pace growing to up to 1 million plus prems per year.

But what excites me more than anything after 20 years of doing this is our business case on Fios is getting better and better. And that starts with the fact that customers demand high-quality broadband services more now than ever. So what we see is when I do a build today, we see higher and faster penetration rates than we have with prior builds. And we pull through mobility benefits on both churn and ARPU.

But I'm also finding new and creative ways to bring down the cost of deploying fiber. And that comes in three big chunks. The first is partnerships with companies like Corning and CommScope, where they're delivering technology to do both reduction in the amount of fiber I have to deploy to serve homes and the techniques and technologies that make it easier for my team to deploy.

The second is we've made, with Shankar's help, 20 years of systems and tools improvements through the whole process of building, designing, operating the network. And we're seeing great benefits from those systems and tools enhancements in the reduction of rework and efficiency of our build and operating of the network.

And then the third is we've made some strategic decisions of how to get legacy costs out of our network without having to deploy fiber to the entire wire center. So I can use other techniques to move customers to new technologies and remove legacy equipment without having to deploy fiber across an entire footprint. But our network strategy is clear: to build and operate the best, most reliable, highest performing network to power and empower how our customers live, work, and play.

Let me leave you with this. My goal is to ensure more and more Americans have access to that best, most reliable network experience by expanding the best mobile and broadband networks through a disciplined capital approach. We do that by building the best networks. And over time, that includes a 5G Ultra Wideband network that will serve 300 million-plus Americans with 5G advanced features for today's and tomorrow's technology and a fixed wireless access and Fios network that will serve over 100 million homes and businesses.

So I'm going to turn it over now to Sampath, who will talk through how he'll ensure more customers get access to those great network experiences. Thanks, Sampath.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Joe, thank you. Very good morning to all of you.

There are two things that Joe spoke about that really excites me. The first one is America's best wireless network continues to get bigger and even better. And the second one is our ability to offer broadband to 100 million homes and businesses over a period of time. So with that, let me get into how we go about this.

Verizon's in a very unique position right now because we have two engines of growth: mobility and broadband. Both these segments, both these businesses have secular tailwinds. There's huge demand for both of the products. And more importantly, Verizon has a good position and a lot of opportunity to grow in front of it.

Let's start with mobility. In mobility, we are number one if you look at our share position, our total revenue. And it starts with our postpaid business. We are seeing continued momentum in our postpaid business. With this quarter, we would have had seven quarters of consecutive year-on-year postpaid phone gross add momentum that we have in the business.

And why did that happen? Some of it has to do with our sales engine that we've gone and re-engineered, get back to the local market structure, local sales incentives, local marketing. And then second is myPlan. myPlan, as I say, is on plan. Customers love it. They like the structure of it. They like the ability to get access to unique offerings, and it's truly differentiated in the market. And you saw us, we had a strong quarter, 81,000 phone net adds in the space. We will be postpaid phone net add positive with second number -- without second number this year as well as promised in our plan to do that.

Next, we turn our attention to our value business or prepaid. And we bought TracFone, we've integrated TracFone, and we had really strong momentum in our business. We had 80,000 net add positive in our business, the best in many quarters.

And a lot of that comes down to a co-performance of our brands. We saw almost all our brands have very strong performance and momentum in the space. Two, our exclusive distribution with Total Wireless has scaled up really well. And you can see those stores everywhere. And third is our unique distribution position that we have within Walmart. And you're going to see continued progress and continued momentum in our value business going forward.

That brings me to our third topic, which is churn. Now that we have our postpaid engine working well, our value turnaround in progress, I can turn my attention to the churn. There is nothing structurally that prevents Verizon from being an industry leader in retention and lower churn. We've been in that position before. We know how it feels. And more importantly, we know how we get there.

In the short term, we made some trade-offs, some strategic trade-offs that Hans and I feel very good about, to drive shareholder value. We had some pricing actions that do drive some churn in the space. But on balance, we feel very good about how we executed those. And often, churn is way less than some of our business cases that had come in.

The second is we are very disciplined about our retention spend. You see that in our upgrade numbers. It has to be demand-led. Customers have to want it. And we link our retention promotions to the plans and the price plans that they have there.

But over a period of time, you should expect lower churn from us from a couple of things. The first one is better experience. We are using AI significantly, both at stores, at our call centers. Second is myPlan and perks. As more and more of our base gets into the myPlan construct and takes more perks, that helps with churn.

Third is myAccess or Verizon Access, our loyalty program, which I'll cover in a bit. That's going to give us traction in that. And then the last one, which is probably the biggest lever, is going to be more Mobile + Home customers. When those two customers come together, we see huge reduction in churn, and that's going to apply to a larger base as we expand our broadband offering more piece.

The fourth is margin-accretive add-on services. In form of perks, in form of adjacent services, it's a continuous growth and it's being very innovative every time we do that.

We are taking the same approach we have to mobility to our broadband space. It first starts with momentum in sales. You saw that this quarter, strong momentum in sales on Fios and FWA. Similar tactics, similar promotions, but the construct is that same momentum we have and the same energy we bring to our broadband business as well.

myHome has been a very successful launch. A lot of our base tends to like the perks. They are taking on -- our new customers, when they come on board, they take on perks and they like the ability to share their perks between mobile and home. And also, sustained growth in ARPU -- when you build a long-term, sustainable subscription business like we've done, you have to balance P&Q.

Over a period of time, I've spoken about this 80-20 contribution to service revenue because that's the big measure we measure ourselves on is service revenue. I think with a positive four net add trajectory, strong FWA and Fios performance, we are on track to get to that 80-20 mix over a period of time.

Now, we are in a very unique position. I think the only company, the only carrier who has a scaled position in both FWA and in the fiber business. And both these are top products. And when you combine them together, you get access to 100 million homes and businesses in the country. No other carrier offers that amount of coverage and depth that we offer in terms of serving our customers.

Let's dig into each of these one by one. The first is FWA. Joe just spoke about moving from 60 million to 90 million homes and businesses covered. But what's interesting about the FWA base is it's a quality prime customer base. Our FICO score on FWA is north of 700, so it's a really strong customer base.

And the reason is it's a high-price value equation. There's a huge segment of the market who love that. And because of that, you see very high NPS scores. I mean, think about it. You could finish this, you could go to a store in five minutes, buy it. And in 10 minutes after that, you could be in your apartment connected with the 5G Verizon FWA product.

It's a huge competitive advantage. High NPS is a competitive advantage. Our pricing construct is a competitive advantage. We do not like promotions that roll off. You get a customer on one price point, and in two years, the price changes. It annoys customer. And that's one of the reasons why it's a huge comparative advantage for us because we continue to lead with that.

And then, you have fiber. Joe spoke about 20 years. He's been working a little longer than 20 years in the fiber business. We are the OG fiber players. Some people think it's a new thing. We've been in this thing for 20-plus years. And every year, we find that the new cohorts that we bring on have better penetration than some of our older cohorts even because we get better. Joe gets better with the build. We get better with selling it, with targeting it, using digital to bear in those pieces to do that.

But what's interesting is it's a white glove experience. Very, very high NPS scores that we have. Very low churn. And a majority of our customers who come in take our gig plus plan. Again, that's a competitive advantage around high NPS, high customer satisfaction.

So over a period of time, with 100 million premises covered, we have a differentiated offering. We have an offering that is tiered. We have an offer that is segmented, FWA and fiber, and customers will choose. At the end of the day, we want customers to choose what's right for them. And we're going to be very transparent on what the pricing is and what our value prop is to grow that.

And talking of value prop, I want to spend some time talking about the Verizon model of convergence. The Verizon model of convergence is margin-accretive. It is revenue-accretive and has very attractive ROIC. And at the end of the day, it is demand-led.

I do not believe in giving away one product to sell the other or giving away one product to hold on to the other. We think we have the best wireless network. We have the best broadband offering. Customers want it. And they're willing to pay a very fair price for it. We do have some advantages for customer when they take both of those products together. But at the end of the day, it is demand-led because customer want to buy the best from both of us to do that.

Now, let me talk a little bit about how this convergence comes to life -- how convergence comes to life. The first one, as you see on the page, is myHome and myPlan. We launched both, and it's not a coincidence that both the offerings look very similar. You buy a base connectivity, then you have access to these really unique perks. I mean, it's becoming a pretty big business for us, and customers can share perks across both those plans.

The second is our app, My Verizon app. We have a single app now for both mobility and home. So once you get a mobility customer, they see a home piece, and they can try out the home, and they can buy the home, and then vice versa to do that. And also Home Wi-Fi can control everything in a single app, and it does very well.

The third thing is transparent pricing. It is very clear to customers what their savings are. And we're going to keep innovating in this space, because at the end of the day, customers want the best product, but they also want clear pricing upfront. And we do that every single time with our constructs that we have there.

Fourth is distribution. We have a large distribution of stores and a digital footprint. And you can see over a period of time, we are able to distribute our Fios offering through our store network as well. And that's a huge upside to the business case.

So you see that we are building the Verizon model of convergence, which is demand-led and is accretive to us. But where does the value come for Verizon and its shareholders? Two big buckets, revenue.

The first one is we will see penetration well north of 40% in our business. And as I said, every new cohort that we bring in actually gets to that a little faster than the previous cohort we do that space. And once we do that, once we acquire Frontier, and when we close on Frontier, we will have that as well. And then as Joe builds out new networks, we will see similar penetration levels as we do that.

The second is, in some of our big markets where we have fiber, our wireless market share is 500 basis points or 5% better than if we don't have fiber. So we can cross-sell mobility to our Frontier base when we close it to our new cohorts of fiber that are coming in, but also customers who have access to fiber but don't have fiber today, we'll be able to cross-sell them. So two revenue upsides opportunity for us as we build out our converged offering.

The second is churn. A couple of data points -- we see a 50% reduction in mobility churn when we bundle with fiber. And that's a huge lever for us, even broader, longer term on how we take churn down in space. The second is our fiber churn, which is already world-class, one of the best in the world, will go down another 40% when we bundle mobility and fiber. That's a very unique position for us, and we see churn benefits on FWA as well.

So what we are essentially building here is one of the world's best franchises for broadband with FWA, as well as with fiber, with best-in-class metrics. But more importantly, it's demand-led. And that's the Verizon model of convergence.

Talking about demand-led, lot of the reason it's demand-led actually comes from our unique value prop. Let me start with this. The bottom of layer is a connectivity layer. Best network, Joe always says, we will be the most reliable network. That's where our value comes from. It's the same network we have for broadband, for postpaid through myPlan, and our prepaid value brands as well. And we keep tiering these, we have segments that go after it, and over a period of time, we'll have new sources of revenue. Let me touch on two of these.

The first is network slicing. It's a new currency. It's something that we should talk a little more about soon, and that'll have upside opportunity for us. Second is satellite connectivity. That's another new form of connectivity, and then new ways to monetize our overall connectivity network.

Then, on top of that, you get to our entertainment and adjacent services. We call them perks because you have to be a Verizon customer to get them. That's the perk you get for being a Verizon customer. And we, right now, have 7 million perk subscriptions on our network. And then guess what? They're going to double by 2025. So we have a large revenue stream that customers find very compelling. It reduces churn for us and is very margin rich for us. So it covers a lot of pieces for us.

And we're not stopping still. We're going to keep innovating. But to be on our network, to be part of our perks, it's going to have to be compelling. It's going to have to be exclusive to Verizon, and something our customers want, and they can save money with it.

On top, we have our loyalty program, Verizon Access, or if you're a customer, it's just myAccess because it's your access because it gives you access to two things. One is always on deal to some of the best premium brands out there. But second is once in a lifetime, my kids call it bucket list type opportunities they have. For example, you can skydive with the Broncos, or you can go to London to watch the Jacksonville Jaguars, or you can actually toss a coin for the opening game. These are once in a lifetime events for NFL, NHL, NBA, and some of the best musical acts out there. I don't know if you get score tickets for Taylor Swift, but definitely check in on the Verizon myAccess plan to do that.

As I wrap up, I want to leave you with two thoughts. The first is we, at Verizon right now, have two engines for growth -- two engines that have secular growth in front of them, two engines that have tailwinds, and where we have unique market position, but huge opportunity as well.

You're going to see us do the Verizon model of convergence, which is demand-led, which is give customers -- and offer them a huge set of services on top of that. We're going to deepen our relationship with our customers and extract value for them and for ourselves in the process.

The second is, over the last seven quarters, you've seen our vision and execution on the business. You're going to give a lot of confidence you're going to get from that that we will execute on that for our mobility business, our broadband business, and the Verizon converge business.

With that, I'm going to pass it over to Tony to talk about two things: a 3Q update and, more importantly, capital allocation. Tony, take it away.

Anthony Skiadas - *Verizon Communications Inc - Chief Financial Officer*

Thanks, Sampath, and good morning.

So our execution, as Sampath said, is really strong and it's fueling the momentum in our business. Our third-quarter results, before we get into it, I do want to talk about the third quarter. Our ability to demonstrate customer growth and financial growth once again is a hallmark to our testament of execution day in and day out. And we delivered the highest-ever reported adjusted EBITDA in our quarter. We're on track, as Hans mentioned, with our 2024 guidance and at or above the midpoint of our guided range for both wireless service revenue and adjusted EBITDA.

If I go to the operational metrics for mobility, if you think about business and consumer, gross add and churn both improved year over year, and that drove phone net adds of 239,000 in the third quarter. That's a significant improvement year over year. And as Sampath mentioned, we expect the consumer business to have positive postpaid phone net adds for the full year, and that's with and without the second number offering. And that's in addition to the continued strength in phone net adds from our business segment, and that's quarter after quarter of strong growth.

If you think about broadband, we have almost 12 million subscribers in our base, and Fios and FWA are both growing. On broadband, we have 389,000 net adds in the quarter. That's another strong quarter for us. And inside of that, if you think about FWA, we've grown our FWA subscriber base over 1.5 million in that time period. And as you heard from the team today, there's much more opportunity for us to expand further.

If we move to the financials, if I start with service revenue, our service revenue is very healthy. Our wireless service revenue is up 3.1% year to date, or $1.8 billion.

Our EBITDA continues to be strong, and even in a quarter where we delivered a very strong $12.5 billion of adjusted EBITDA, we took actions around revenue and cost efficiencies to set us up for 2025. That strong EBITDA led to free cash flow of $14.5 billion year to date. And that's consistent with the prior year, and that includes an increase of $2.5 billion in cash taxes.

The cash generation of the business continues to be very strong, and we have ample flexibility and funding to execute on our capital allocation priorities. The business is performing well, and we have good momentum as we close 2024 and head into 2025.

And if I shift over to capital allocation, as many of you know, we have four capital allocation priorities and they remain unchanged. Our first capital allocation priority is to invest in the business, and that includes investments in our network infrastructure if you think about C-Band, if you think about Fios. It includes M&A to accelerate a strategy if you think about the pending acquisition of Frontier. And it also includes being opportunistic with wireless spectrum, as evidenced by the deal we signed last week with UScellular.

As we said before, we're back to BAU levels of capital spend, and we're on track with our 2024 capital program.

If we look ahead to 2025 in terms of guidance for 2025, we expect 2025 capital expenditures to be in a range of $17.5 billion to $18.5 billion for the next year. And that's an all-in number that includes all of our growth initiatives. So that includes C-Band and the continuation of rolling out C-Band. Joe talked about having 80% to 90% of our sites on C-Band by the end of 2025. It includes our Fios continued open for sale expansion up to 650,000 new open for sale on Fios. And it includes the broadband MDU solution, the multi-dwelling solution that Joe mentioned.

All of these things are included in that $17.5 billion to $18.5 billion number. And that range gives us the flexibility to both invest for growth and be disciplined and efficient with our capital spend.

Our second priority is our commitment to the dividend. And as you've seen recently, we've raised the dividend for the 18th consecutive year. That's an accomplishment we're extremely proud of. And as we said many times, our goal is to put the Board in a position for further dividend increases.

Our third capital allocation priority is having a strong balance sheet. We made significant progress de-levering the balance sheet since the acquisition of C-Band. As of the end of the third quarter, our unsecured leverage stands at 2.50 times. That's the ratio of net unsecured debt to adjusted EBITDA.

Our focus is to continue to pay down debt between now and the closing of the Frontier deal. And today, we're announcing an update to our long-term leverage target of 2.0 to 2.25 times. Given our cash flows and overall financial strength, this is the appropriate range for a business to provide flexibility to invest for growth and return capital to shareholders.

Our fourth capital allocation priority is share buybacks. And as we've said many times, we would consider share buybacks when our unsecured leverage metric reaches 2.25 times, and that target is unchanged. As we work towards that target, we continue to focus on generating strong cash flows and paying down debt.

Our capital allocation strategy is disciplined and deliberate. And as you've seen from our track record, we'll continue to focus on operational execution and performance and deliver on our commitments. We're excited about the opportunities we have ahead.

And with that, I'll turn it back to Hans.

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

Thank you, Tony. Let me just summarize updates before we come to Q&A.

I think you hopefully got the feeling that we are setting us up well for '25 and beyond to continue the leadership in this market and extend it. So we talk about the networks that we're building. It should be the best and the best performing. I think that's been the focus. And really now, with the C-Band coming quickly and our Fios buildout, we feel really good about it.

It's been important for us to focus the last couple of years on the differentiated value proposition for our customers. We know that they're more important services than ever. To have mobility and broadband is a necessity for every organization, every person on this planet, and in the United States. The differentiated offerings that we're doing are enormously important, and they come from deep research, what our customer really wants, and of course, together with a refreshed brand should support us for the continuation.

Tony talked about capital allocation, and you're seeing us being very prudent with the capital allocation. We promised to come down to BAU levels. We are on BAU levels. We had the hike after the C-Band because we saw a great opportunity to quickly come out with that and that we're coming down.

We're now doing investment to expand our total addressable market with the same offering, the same network. That's the strategy that we have. We stay there and we see that we can continue to grow well and continue to create profitability and cashflow. So that's the overall strategy.

And we are measured on three things -- the wireless service revenue, the adjusted EBITDA, and the cash flow. And we are very committed, the whole team here, to continue to grow the service revenue and expand the EBITDA and cash flow going into '25 and onwards with the investments we're doing right now and where we stand with our strategy, where we stand with our assets and where we stand with our offerings. So all in all, we feel very positive where we are right now. We feel positive where our market is and our products.

By that, I'm going to close, and we're going to have -- open Q&A. Brady will help us to manage that. I have my whole management team here, and we even have pictures of them if you don't know who they are. They are sitting to the left here for the ones on the webcast. You can see them here. So they're all here.

So I'm going to diligently distribute the answers to them. Probably, I'm going to take some myself. Any questions you might have for us? Brady is going to do it. And remember, present yourself when you're going to answer so that webcast audience knows who's asking any question.

QUESTIONS AND ANSWERS

Brady Connor - *Verizon Communications Inc - Senior Vice President*

Okay. Can you hear me? Okay. So I love the folks in the front row, but we're going to go back right to start with Simon. And again, just please announce your name and firm since you're not on the camera.

Simon Flannery - *Morgan Stanley - Analyst*

Great. Thanks very much. Simon Flannery, Morgan Stanley. Hans, I was interested in your latest thoughts on the BEAD program. You're clearly leaning into broadband. We're starting to see some of the states open up their processes. So how do you think about that as an opportunity beyond this?

And then the other question would be around these markets like the Northeast where you have fixed wireless and fiber. How do you start to bifurcate that opportunity? Because I think in the past, if you had fiber, you hadn't really done fixed wireless. But does that start to blend?

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

I'm going to take some help from Joe later on, but I'm going to start myself first. The BEAD program is, of course, contemplated in everything we have here.

In the Fios footprint, it's obvious we will go for it when it makes sense for us, both from a return on investment. And so we -- in our Fios footprint, there's going to be great opportunities for us, for sure, and we will be active on it.

On the second one, when it comes to fiber or Fios versus fixed wireless access, I think -- I hope that you heard from Joe. Our strategy on fixed wireless access is a secondary business case on mobility.

So we -- first of all, we deploy our C-Band for mobility. And the agreement that Joe and I have in the whole team is that we build mobility for two reasons, revenue generation as well as customer satisfaction. And then we get a secondary fixed wireless access opportunity.

So it's not really thinking about where we do Fios or we do fixed wireless access. We do Fios, and we do mobility. Then we create opportunities.

And I always love what we are doing because we give optionality for our customers. There are customers that just kills to get Fios, but there's others that really feel that fixed wireless access is a solution they want to have because of simplicity. So we're going to create optionality.

And you saw the consumer slide that Sampath showed with the customer offering framework, I think it's called, where actually everything is in the same model regardless of what it takes. So that's how we think about it.

Do you want to add something? Yes, you want to add something. Please come up here.

Joseph Russo - *Verizon Communications Inc - Executive Vice President and President - Global Networks and Technology*

Okay. Yeah, just on BEAD. So we've built a very good process for managing subsidies. And we've been already receiving and winning subsidies in our Fios footprint. So as BEAD starts to get deployed, we'll deploy those same kind of standards and processes to participate.

When I think about the 35 million to 40 million, it's -- it'll be a very, very small percent that we think is BEAD. And we foresee that getting 35 million to 40 million will be with or without BEAD funding.

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

Thank you. Next.

Brady Connor - *Verizon Communications Inc - Senior Vice President*

Okay, we're going to work our way up. I'm going to go second row. We'll go to Hodulik on the end over here.

John Hodulik - *UBS Equities - Analyst*

Thank you. I didn't think you'd see me behind these tall guys. First, starting with fixed wireless. Thank you guys for the new targets. Just on the quick math, it seems like the cadence is slowing a bit.

You guys are doing like 360 -- 360,000 a quarter. It looks like that slows to just sort of doing it ratably to under 300,000. I just want to make sure if that's what we should expect to see or if there's something different in the numbers.

And then these new initiatives are great. You guys did 1.7% service revenue growth this quarter. Obviously, you don't want to give '25 guidance -- full guidance here, but should we expect an acceleration in service revenue growth from these levels?

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

On the future guidance, I'm going to leave that to Tony. On the first question, I'm going to start. I think, to some extent, you're right.

So think about this. We have had a target to create -- get between 350,000 to 400,000 new broadband subscribers every quarter. And I think we've had that, but I'm not sure how many quarters. Sometimes up to 400,000; some time, a little bit north of 350,000.

What is happening right now is two things. First of all, the fixed wireless access is going into a -- in a second transformation because the C-Band is now going to suburban and rural. And of course, the opportunity is equally big, but the density is way less. So we're going to see for a while that OFS is going to be a little bit less.

And the second one is as we're ramping up the Fios, you saw that we're doing some 450 to 500 up to 650. It's a ramp up. So in the short term, I think you're going to be in the lower end of the 350,000. And then I think when you see the ramping up of both of them, you're going to see a little bit different.

So I wouldn't say that we have changed anything on the pace. It's just the technicality of how we build right now and how we're ramping up Fios and actually going suburban to rural with our C-Band. So those are the things. Tony, do you want to talk about guidance, '25, now?

Anthony Skiadas - *Verizon Communications Inc - Chief Financial Officer*

Sure.

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

Great. I'm eager to hear.

Anthony Skiadas - *Verizon Communications Inc - Chief Financial Officer*

Hey, John. Thanks for the question. So look, as we said this morning, we're on track with our service revenue. We said we'd be at or above the midpoint on service revenue. If we think about next year, I'm not going to guide on '25 right now.

But in terms of puts and takes, we've taken a lot of actions to position ourselves for sustained growth. So that includes the P&Q that you heard from Sampath, so volume improvements and pricing; and it also includes fixed wireless access. And you see the great growth that we've seen on fixed wireless access.

Prepaid has now, Sampath mentioned, turned positive. So that's been a headwind this year. We would expect that to start to turn next year. We're still facing headwinds with promo amortization. So those are the puts and takes as we head into next year, and we'll bring it back to you in January.

John Hodulik - *UBS Equities - Analyst*

Sweet. Thanks, guys.

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

Next.

Brady Connor - *Verizon Communications Inc - Senior Vice President*

We're working our way up to the front row. We're going to go -- we'll go Barden here on the end, the first tall person.

Dave Barden - *BofA Global Research - Analyst*

You don't have to sound so excited about that, Brady. Dave Barden from Bank of America. Thanks, Hans.

So if my base case is that the tax regime remains the same -- cash taxes are going up. CapEx is going up. Working capital, if the iPhone becomes a bigger thing, it's not going down. It might go up.

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

A lot of assumptions here. Continue.

Dave Barden - *BofA Global Research - Analyst*

Those are -- they're not so much assumptions. And then you're going to do the Frontier deal, and they're not free cash flow positive. So is the message, financially, to you and Tony that 2024 is the high water mark for free cash flow at Verizon? Because it doesn't seem like there's a lot of dials to turn to make it get a lot better.

And the second question, if I could, would be there's some agitators at Frontier that want you guys to pay a higher price, bid against yourselves, in that process. And you spoke a lot about how important it is to have this 100 million homes passed and the Verizon version of convergence. What are you willing to do to get that deal done?

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

Okay. I'll leave the capital allocation for you, but I think that, of course, you can always find headwinds. We have a lot of -- of tailwinds as well in cash flow, and we will be very focused on that. So I will let Tony go through the puts and takes on that.

On the Frontier deal, I mean, first of all, if you have read the proxy, which you probably have done, it was a competitive process. We were asked for a best and final. We gave the best and final. We have a signed agreement and a contract for a merger. Now it's up to the Frontier shareholders to make the vote.

We always have different type of strategies. We will continue to have that. This fitting in well right now. We're going to see what's going to happen, but we feel really confident that this is fair and good for all stakeholders. Tony?

Anthony Skiadas - *Verizon Communications Inc - Chief Financial Officer*

Hey, Dave. So we're not going to guide on free cash flow, but a few things. I mean, the same puts and takes that we shared at the beginning of the year still remain intact. So see the EBITDA growth, and that's the focus for next year.

Interest, in terms of deleveraging, we'll have to see where rates go. That will have an impact. And then cash taxes, as you mentioned, they're up this year. We'll have to see what happens on the legislative front. They're going to be up -- we said $2.5 billion so far this year. We'll see where that goes.

And working capital, we're not seeing a big upgrade cycle right now. The upgrades were down 10%. Right now, customers are choosing to hang on to their phones a lot longer, and that's by choice. The average upgrade rate -- and Sampath can correct me, but it's probably 40 months or so.

So that hasn't changed. So we're going to continue to stay disciplined and segmented in our approach, and then we'll come back on our thoughts on cash flow back in January. Thanks.

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

Thank you. Next.

Brady Connor - *Verizon Communications Inc - Senior Vice President*

I'm going front row over here to Peter. Next.

Peter Supino - *Wolfe Research - Analyst*

Hi. Thanks, Brady. Thanks, Hans. Peter Supino with Wolfe Research. A question on fiber and really about the rate of expansion. Your target plus a lot of other publicly available targets and the guesstimate about how many private fiber passings there are in the country, summed over 100 million homes.

Population density observations -- nobody has perfect information -- lead us to think that maybe you should be in a hurry to build as many homes as you can. And yet, your current velocity of expansion is still much slower than other -- a couple of other companies. Wondering how you think about the speed at which you want to pursue the targets that you laid out here today? Thanks.

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

Thank you. I think about broadband. That's the thinking I have, and the team has that as well. That means that we include both our Fios as well as the fixed wireless access as broadband solutions. And as you have seen lately, there doing well, both of them.

And that's how we think about our customers, and we create optionality. So I think that nobody else is building on the pace that we are doing in the combination of it. That's how are we thinking.

And remember, we build the network once. And then at the edge of the network, we decide what type of connections we have. Sometimes it's Fios, sometimes it's 4G, sometimes 5G, sometimes it's fixed wireless access. And then we get the best return on investment on the invested capital because we do it once.

So that's the thinking we have, and that's how we serve our customers. So I feel good about the pace we have and how we're deploying this, again, with the financial mind in behind it to see that we get the best return on investment for our shareholders.

Anybody want to add something to that? Okay, then you don't need to. Next.

Brady Connor - *Verizon Communications Inc - Senior Vice President*

Come back in the middle of the room here. We'll do Jim and then Sebastiano.

Jim Schneider - *Goldman Sachs - Analyst*

Thanks. Jim Schneider from Goldman Sachs. Just a couple of quick questions on the network side, if I could. First is on -- just in terms of the longer term, the fixed wireless targets, do those include or not include any dedicated spending purely for fixed wireless? I know you said it's mobility-led, but does it include any of that? And talk about the part of that which is small sales, if any?

And then maybe tactically for 2025, can you maybe talk about the drivers of the CapEx increase? How much of that increase is coming on the wireless side on macro cells? How much of that is coming from fiber, et cetera?

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

On the first question, it's no. There's no success-based fixed wireless access in the plan that we're presenting today. That's an optionality we have for the future.

Right now, again, we believe in our design principles because that makes the operation easier. It makes it easier for our customer. It makes it better for capital. That doesn't exclude, in the future, that we will have success-based fixed wireless access.

And then of course, I'm sure that Joe is building more capacity. So Kyle and Sampath has an opportunity to leverage on that. But in this plan, it's mobility first in all our C-Band.

The second question is about the increase or the BAU level you have right now, how much is macro? You heard about what we said. We were trying to go to 80%,90% of our planned radios having C-Band. And then you see the Fios, up to 650.

I think those are two important ones. There are other things coming down to some extent in our normal build because we have come pretty far on the 4G, and we see much more traffic on the 5G.

We have gone very far on our small cell with millimeter wave that is capturing a lot of our traffic in dense areas. That's a little bit smaller today. That doesn't mean we don't believe in it. We think it's super important. So I think those are the puts and takes in the CapEx. Joe?

Joseph Russo - *Verizon Communications Inc - Executive Vice President and President - Global Networks and Technology*

I'll just add on small cells. And I mentioned it during, but we started probably about six months ago now deploying C-Band on small cells and have seen really good success with putting that technology on our vast small cell network, giving us more coverage and certainly more capacity for both mobile and fixed wireless access.

So my view is that will continue in this four-year build program, as we'll leverage what we've done both with our millimeter wave small cells. And we had a pretty significant small cell network even for the 4G network. Leveraging now C-Band on those has really proven to be a great tool to add coverage and capacity.

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

And one other thing that is increasing, which you mentioned was, of course, the MDU solution we have now for fixed wireless access using millimeter wave. We have talked about it. We're going to put that in commercial use in next year. So that's, of course, also an opportunity, but of course, with a great return on investment.

Brady Connor - *Verizon Communications Inc - Senior Vice President*

Okay, Sebastiano, and then we'll go up here front row to Greg.

Sebastiano Petti - *JPMorgan - Analyst*

Hi. Sebastiano Petti, JPMorgan. I guess just following up on Jim and Dave's question as well, but help us think about the shape of CapEx over the next several years. Because the 17.5 -- on a stand-alone basis, I guess, $17.5 billion to $18.5 billion includes the MDUs, the Ultra Wideband build, as well as the 650 --

---

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

It's a range between $17.5 billion and $18.5 billion.

Sebastiano Petti - *JPMorgan - Analyst*

Yeah. So within that range, is there any maybe, perhaps, milestones or things like that that are more elevated next year that they begin to peel off like the MDU or the Ultra Wideband build? Should we think about it as being more steady state over the next several years?

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

As I said, I think that this is a BAU level that we have in a steady state. I'm not going to guide for future years. I always said that if we see an opportunity where we can grow faster and we can invest more in CapEx, we will explain that if we go outside the normal BAU levels. Right now, we don't see that.

Remember, we have talked about there's no auctions for spectrum coming out at the moment. Usually, that is triggering or [new]. We don't even think 6G is in any of the plan of records we have right now. So it's a lot of things that usually catapult the higher investment level. We don't see them right now.

So BAUs this level we are right now $17 billion, $17.5 billion up to $18.5 billion. That's where we're going to spend it. But ultimately, if we see opportunities, remember the capital allocation priorities, we spend it in business. But we also want to explain that is something additionally we can get and that we can share with our shareholders.

But right now, the BAU levels are what you see from us right now. The big triggering events that you sometimes have, it's going to come 5G. It's going to go spectrum auction. I don't have visibility of anything on that at the moment.

Sebastiano Petti - *JPMorgan - Analyst*

Thank you. And then maybe one for Sampath. I mean, what underlies the confidence as we think about the 80-20 service revenue growth and the sustainability of, I guess, the volume side of the equation as you think about maybe tougher comps on the gross add side, the EIP dynamics? And help us maybe think about the levers of sustained consumer volumes.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Yeah. Look, I think it comes back -- we've had seven quarters of strong gross add year-on-year growth coming into this. And all the efforts that we've put in, whether it's local marketing, going back to market structure, sales incentive, myPlan, and just better execution on the ground, we continue to see gross add improvement in our business going forward. So I think that's a machine that we've gotten back to the right phase, and you're going to see continued growth in that.

The second comes down to churn. As I mentioned, there's nothing structurally that prevents us from getting back to leadership position on customer retention and churn. We made some short-term strategic trade-offs, which are the right things to do. But over a period of time, churn will start coming down.

Mobile plus home offerings, converged offerings is probably the biggest lever that we have there. But then myPlan, some of our loyalty programs, and then just better execution on the churn piece as well. So you're going to see both things coming in, continued progression on gross add momentum and then better churn. When you put both of them together, that's how we're going to sustain a net add growth over a period of time to do that.

The second is on the price side. Look, we've had four or five price increases, depending on how you count it, over the last years. And in every case, the churn has been less than what we thought coming in. So customers like a product, they like our offering, and you're going to see continued ways in which we can earn the trust of the customer.

The last one is there is another type of price increase, which is earned price increase. If you look at the chart where I had the customer offering framework, we are able to upsell our customers, upsell them on the type of plans, but also upsell them on perks and other things. We have 7 million perks in our business right now. That's going to double this time next year.

So you're going to see a lot of momentum on the price side just by our ability to earn those price-ups that we have. So a combination of gross adds, better churn, and also ability to upsell our customer both on connectivity and some of the other offerings that we have, when you put all of that in, I get really comfortable about the 80-20 framework that we laid out, that we are going on the right path to get there.

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

Great. Thank you. Next.

Brady Connor - *Verizon Communications Inc - Senior Vice President*

We're going to go Greg in the front row over here, and then we'll start mixing around.

Gregory Williams - *TD Cowen - Analyst*

Sure. Thanks. Another CapEx question, but more situated on the B2B opportunity. One of your peers has been putting out a few press releases on GenAI fiber. And you have a lot of fiber, both in footprint and from the One Fiber build and your XO acquisition. So I'm just curious on your latest thinking on the economics and the opportunities there.

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

Thank you. I think I'm going to ask Kyle to comment on that. If we talk about the GenAI opportunities, I talked about a three-pronged Gen AI strategy we have. We have employee experience improvements right now already in the market when it comes to call agents, et cetera.

We have our personalization for customers, and then we have our revenue opportunity. And as I alluded to, given the assets we have in our network, we see great opportunities for having a chance to earn business there, which we've already done. But maybe, Kyle, you can talk a little bit more about it.

Kyle Malady - *Verizon Communications Inc - Executive Vice President and Group CEO - Verizon Business*

As you rightly bring up, the investments we've made before in say One Fiber and all the other fiber and all the COs and everything we've done, we're reimagining those assets right now is how do we -- and how we can sell into this. And actually, right now, we're already selling into it.

We're getting a lot of good orders from hyperscalers either on dark fiber or lit, and we're going to see that growing. But we have more than that, not just the fiber. It's the power space and cooling, which you know is in really high demand. And we have a lot of latent assets in that area.

So at the moment, we're putting it together. We're kind of -- I talked to somebody before, we're going to measure twice and cut once. We're not -- we're figuring out exactly how we're going to go into this market.

It's a huge market. We can't cover it all, but there are certain segments we might be better off in than others. And that's -- we'll be back to you pretty soon talking to you about it. It's a great opportunity for us.

Gregory Williams - *TD Cowen - Analyst*

Thanks.

Brady Connor - *Verizon Communications Inc - Senior Vice President*

Okay, we're going to go over here. We're going to go Brandon and then Mike Rollins.

Brandon Nispel - *KeyBanc Capital Markets Inc. - Analyst*

Thanks. Brandon Nispel with KeyBanc. I was hoping you could maybe unpack the fixed wireless targets in the homes passed from the perspective of maybe a proportion of MDUs versus single-family, Tier 1, Tier 2, Tier 3 markets, and percentage of millimeter wave versus C-Band?

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

That's a lot of unpacking in that one. I'm not sure, Joe, if you want to do it or something. But of course, we -- as I said before, the C-Band deployment goes to suburban and rural because we started in the urban areas because that's where we got the spectrum first. That's another opportunity. It's a great opportunity, but less density.

So I think that's one thing that's happening. The MDU is just adding to -- coming back some of the places with dense areas where we can do the MDU solution. So I think it's a combination of them all.

I'm not sure it's a special distribution or something if somebody wants to -- we just deploy our technology from a mobility point of view, and then we get all the opportunities around it. Again, there's no success based CapEx here for fixed wireless access, which comes along with everything else we're doing.

But again, it's a great investment. Mobility is performing better when we have C-Band, both from churn and from step-ups. And then we will fixed wireless access. So it makes all the sense for us to deploy it in the right way where we find the revenue, and that's what Joe is doing.

Anything else you want to add? Okay. I understand the question, but this is -- we have the framework and our plan of record, how we're deploying this; and it comes along with that. And then both Kyle and Sampath are selling into those open for sale that is coming out from either MDUs or from the C-Band deployment.

Mike Rollins - *Citi - Analyst*

Thanks. Mike Rollins from Citi. I wanted to follow up on this question, but maybe in a different way. So the mobility first is going to take ultra-wideband to 80% to 90% of population and presumably households by end of next year and maybe 90%-plus over time, but the FWA target is roughly like 60% of homes.

What holds that percentage back relative to the 90%-plus? And what would be the catalyst to try to unlock that additional 30 points of penetration?

And then just a second question, if I could. When you look at building fiber -- and the team mentioned some of the progress in building and dynamics -- what's the base case for penetration and ARPUs from the fiber builds, let's say, over a five-year period?

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

On the first one, I assume my team always want to beat the targets. We give you one target, team is working to really be and do it better and faster. You saw what we did last time. We said 4 million to 5 million. We beat that target with 15 months.

So I think the team and (inaudible) are building ahead. So -- but right now, that's a target. It's always a time lag from when you deploy the technology and when you get the revenue and the subscribers. So I guess those are two questions.

On the second question, Sampath, I think you can answer on that. You can answer on the first one, if you want to correct me.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

No, I will not do that today. Look, on the second, the way you think about -- first is penetration. Just have been in this business for 20 years. We'll see penetration well north of 40% in our space as we do that space. I think now, we get more comfort because we'll have more mobility to bear into that space as well. So well north of 40% penetration, we do that.

But the second thing we are seeing is every new cohort that we bring into the market tends to have better one-year penetration than the previous cohort. So it gives us more confidence that -- and you would think when we get to the end of our build, we're getting to the less attractive, but that's not the case.

Our first year penetration is actually better this year than it was last year and other. Some has to do with the way we market and the way Joe and my team work together to presell some of that capacity to do that.

In terms of ARPU, I know we don't report a specific broadband ARPU number. But look, we tend to do very well. We are industry-leading if you look at Frontier's ARPU numbers.

We'll have continuous growth on top of that because we will -- our customers on broadband sit in the MyHome framework where they come, they buy the connectivity piece. And look, majority of our customers take the 1-plus gig plan coming in, so that gives us a boost in ARPU.

And then we start selling perks and other adjacent services on top of that. So we'll see good, comfortable ARPU growth with 1-plus gig plan, ARPU growth on that, and the north of 40% penetration pretty much across our fiber footprint as well.

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

Thank you. Next.

Brady Connor - *Verizon Communications Inc - Senior Vice President*

Okay, let's go. We're going to go Frank back here in the back row and then we'll come back up to Tim in the front row over here.

Frank Louthan - *Raymond James - Analyst*

All right, great. Frank Louthan with Raymond James. So on the fixed wireless, what is the outlook for that on the business side? Is -- are those 8,9 -- 8 million, 10 million subs include business, Type 2 replacement? Can you comment on that?

And then getting to 35 million or so homes passed with wireless is a pretty high percentage. Can you get there without additional M&A? Or does that include BEAD or other government subsidy?

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

The second one, it doesn't include any M&A besides the one we have planned that we have announced. And, as Joe said, there's no -- there's small pieces that we'll not talk about. We will make our numbers regardless of BEAD or not. We will, of course, participate in BEAD if we can do.

On the business side, those are -- in the number 8 million to 9 million, yes, businesses side is included. And I have to say one of the things that Kyle and I are more surprised than others is, of course, the success we have had on the business side. Maybe you should talk about it on fixed wireless access on the business side, Kyle.

Kyle Malady - *Verizon Communications Inc - Executive Vice President and Group CEO - Verizon Business*

Listen, Frank, thanks for the question. We continue to see this as a great opportunity, like I said before. We actually did a little bit better with this product than we thought we might. And what's interesting is enterprises, small businesses are figuring out different ways to use this connectivity.

It's just not for broadband like you would see in a consumer world. So we think people are going to continue to innovate with it. And so this new -- these new open for sales that Joe and his team are putting together for us, we feel we can accelerate and really sell into this thing.

I'm also excited about the -- what you hear about the using millimeter wave for MDU. A lot of these MDUs also have stores or businesses in them. And so we'll be able to leverage that investment as well to increase our market share in this area. So a lot of work to do, but we're really happy with the plans that Joe has put out for us to sell into.

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

And a good thing from a utility point of view, many of the customers that Kyle have, they are using the fixed wireless access on certain hours. The consumers are another hour. So this is just using the utility even better that we can sell it in and we can monetize all hours of the day with our network. Next.

Brady Connor - *Verizon Communications Inc - Senior Vice President*

From up here to Tim in the front row.

Tim Horan - *Oppenheimer & Co., Inc. - Analyst*

Thank you. Tim Horan, Oppenheimer. We're seeing pretty unprecedented improvements in technology across the board, satellite, AI -- what you're talking about, you would stand alone. Can these be material drivers to the business model?

Both maybe just talk a little bit about incremental revenue from all of these and maybe the ability to use AI to automate and digitize a lot more. And I guess -- and specifically, you satellite direct to phone, direct to mobile, can that be a real needle mover in terms of overall growth rates for the company?

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

I think AI is definitely over a time frame. So how Kyle and I think about AI, generative AI especially -- in the beginning, right now, we see large language modules going to the big data centers out to the market all the time.

As soon as they're going to be an application that you're going to use as an enterprise, you're going to put it much closer for the main reason of the transport cost for privacy, for security, and in some cases, also latency, maybe not equally much. But then you're going to see a big opportunity for us, given what Kyle talked about.

And we will come back a little bit more specific on it, but definitely. But it's going to take some time from all these large language models to be real products and sitting in the edge of the network. So that's clear.

Slicing is another area we talked about. We believe that we will probably start more in the business side and then we'll come to the consumer side. And that, we see as an opportunity as well.

On the satellite, a little bit too early to see how large opportunity can be, I have to say. Because, of course, we want to offer satellite to our customers in the white spaces where we are not allowed to build, for example, and see a direct device.

A little bit too early on the consumer side to see if that's a business case. On the business side, yes, we can see that already for remote enterprise or things like that. So those three are new revenue opportunities on top of everything we've talked about in.

Brady Connor - *Verizon Communications Inc - Senior Vice President*

Okay. We're doing fine on time, so we're going to get to everybody. So just be patient. So we're going to go front row with Walt right here.

Walt Piecyk - *Lightshed Ventures - Analyst*

Walt Piecyk from LightShed. So the 2% to 3.5% growth you had historically, there was a lot of doubts whether Sampath is going to deliver on the units. Obviously, it's going to come down in the fourth quarter, but it looks like the Q of the P&Q is happening.

Just had a price increase, which should accelerate the postpaid growth in the fourth quarter at a time when people are concerned about the economy, right? So you've got, it seems like, some decent strength there. Now you're investing in fiber. You're investing in fixed wireless.

Who knows where inflation is? But is the Board now expecting you to deliver higher than this 3% growth? Again, you've got postpaid working. Now you're talking about prepaid growing. You're making new investments.

Shouldn't the expectation be that total wireless number -- not 2025 guide, Tony. But like at some point, getting to a what is considered -- I mean, T-Mobile is considered a growth company, what are they doing? 4%, 5% growth. So delivering that type of growth, that's my first question.

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

It was a good question, Walter. There was a lot of things to unpack there. But ultimately, you're right on many things we're doing. You're right. We're trying to turn everything right, but we also had some headwinds, you know. With program amortization, for example, that is a headwind for us.

So but all in all, our focus is to really do right and do more value for our customers. And I think we are -- have proven now the last six, seven quarters that we talked about that we can do it. Not going to go into confirming any of your growth numbers or percentages, but we are incentivized to grow our wireless service revenue.

That's part of all the teams sitting there and all the V teamers. That's -- they are incentivized to do that. So of course, our focus is going to be that because we have a leverage model. If we grow, it basically falls down even more to the bottom line, and then we can both improve our cash flow and adjusted EBITDA.

So all the things you are saying is what we are doing on. I'm not going to commit to any numbers. But clearly, that is to grow faster over time or be sustainable. That's very important for us because that is how we return both cash flow to our shareholders and continue to be an attractive stock to invest in.

Walt Piecyk - *Lightshed Ventures - Analyst*

Okay. And then just one quick one because you know I care about the Apple stuff. I think Tony was very clear on where the current upgrade rates are. But the new narrative is, oh, even though AI sucks now, it's going to be better over the next couple of years.

Just kind of your viewpoint on -- because you have to manage cash, right, based on upgrades over the next two years. Do you think AI is something that is going to stimulate the upgrade rates within the wireless but for Verizon or just broadly in the industry? Thanks.

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

So a little bit too early to say. I mean, many of the AI application, of course, are very helpful. When it comes to consumer devices, we also need to think about the processing power for this application if you want to do something really innovative. So I think it's a bit too early to call that.

I usually say, historically, when we've seen of cycles in our industry that's been 4G to 5G, all hardware redesigned. Those are the things that have triggered it. Now we're talking about -- is a software cycle going to do it? It's too early for us to say at least.

We're -- so far, and I'm looking at my colleagues, we haven't seen that. We haven't seen that is creating the cycle. But it's too early to say. We're going to be -- if it's going to happen, we're going to be continued very disciplined in how we do promotions.

We're going to have the right promotions for the right customers at the right moment in the right segment with the right type of value. So we will continue the work. We started somewhere in '23 with segmenting approach on everything we're doing.

Remember, I look at this as a customer investment that we have, all the way from promotions, retention, and media. For me, that's one bucket, how I drive the market. And that's a tight budget for us, but it's very flexible.

I see Leslie is here in marketing, Sampath is here, Kyle is here. We sit down all the time and see, should we put more retention? Should we do more on promotions? Should we do more on media. That is an ongoing work for us that is dynamic nowadays. Historically, it has been a little bit more static.

But where the market is right now, this is super important to be good at this. And then AI comes in, so you can be even better to see that -- our customer segment here needs more offerings here. We need to come from here, need more media. We need more retention.

All that is a new world where we are in a world where wireless and broadband is such a necessity. Everybody needs to have it if you're a business or if you're an individual consumer, and we have the best products in both of them.

We just need to see that we are creating the value for our customers, and we can go with them upwards. This is something we spent enormous lot of time on because we are getting into a new phase of our industry where I think that -- I don't think we have ever been as good position as well right now.

Brady Connor - *Verizon Communications Inc - Senior Vice President*

All right, we're going to go -- there's still hands up, okay. We're going to go over here, and then Kutgun. Then we're going to come back to Laurent. And we'll finish with Jonathan and John.

Kannan Venkateshwar - *Barclays - Analyst*

So maybe, I guess, to start with on fixed wireless. I mean, I don't know if this understanding is correct.

But it feels like the approach or the go-to-market strategy is mutually exclusive between fiber and fixed wireless in the sense that I don't think that's the approach some of your peers are taking where fixed wireless is top of the funnel, you upgrade people to fiber, and it becomes a different path.

For you it seems like a TAM opportunity where you expand the market. So first, I want to get an understanding of whether that's the go-to-market approach?

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

We can confirm that one. Yeah, that is it. I mean, we want to create optionality and that's how we build the networks. Different customers want fiber or Fios, and others want fixed wireless access. We want to create that opportunity.

And then if they don't want to miss out on any of the segments because they like one product and the other, we are trying to address both of them. That's what the plan you see here.

Kannan Venkateshwar - *Barclays - Analyst*

And then from a capital allocation perspective, I mean, when you think about your peers, they're obviously using a slightly different approach when it comes to investing in fiber, with JVs and maybe more localized approach in different parts of the country using these JVs. And you followed a more of an on-balance sheet approach. Is that an option you have in the future to look at some of these structures? Or is this something that you've made a deliberate choice on? That this is --

---

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

No, it's not a deliberate choice. It is -- we look into everything, and it's an option. But again, it has to be a good return on investment. So far, we haven't found any third-party models where we don't on the capital and somebody else own the capital.

That is really attractive with our return on capital because we have one of the best return on capital in the industry. And we want to see that that continues. So far, it has been organic. We're doing it.

But nothing is excluded here. I mean, I usually say that the CEO, you can never say that I'm never going to do it and then suddenly you do it. Then everybody say you told us not. But -- so I couldn't exclude it, but so far, we haven't found any of those models that we think is attractive in our capital allocation and our return to our shareholders.

Brady Connor - *Verizon Communications Inc - Senior Vice President*

Next, we'll go to Kutgun next.

Kutgun Maral - *Evercore ISI - Analyst*

Thanks, Kutgun Maral with Evercore ISI. Maybe for Sampath, I had a question about your perks portfolio. And the 7 million subscriptions you mentioned is pretty impressive, fairly ambitious targets to double that going forward. Are you happy with the portfolio now?

Do you see that changing? And as you expand that, does your relationship, wholesale partnerships, does that dynamic change and your economics evolve, especially with entertainment partners that you have?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

I think when we started launching myPlan, our sales teams were getting used to this. It was selling more, so our customers are also getting used to it. So if you look at our attach rate, it has grown significantly from when we launched at the beginning of the year. Again, beginning of the year to where we are now, teams are getting more comfortable than that.

So that's why we get to 7 million. We'll double that at $10 a pop, you can do the math on where it goes. What we tend to find is the perks that do well for us are ones that are exclusive to us, ones that have maximum savings, and then one just have a very strong value prop for the customer.

So you'll not see us have a very long tail on that. Because what it does is it doesn't focus the attention of the sales teams and our digital efforts to do that. So we'll continue with our approach of having fewer, deeper relationships. Like right now, we have deep relations with Apple, with Disney, with Netflix, with MAX, some of our own perks as well.

And also, it has to be margin accretive to us as well. We've been quite open about this. This is a margin play as much as it's a revenue play for us. So fewer, more concentrated perks makes a lot more sense. And that, if it kind of answers your second part of the question, we tend to have more leverage over our partners and that drives better economics for us in the process. But we're really excited about getting to double this perk portfolio with a pretty margin-rich pool that we have right now.

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

And then adding also, Sampath, some of the combinations, we are unique. We're the only one who can do those combinations that we have had. For example, MAX and Netflix in the market; nobody can combine that. That's how we have negotiated.

So we have this flexibility and exclusivity to do it, and that is what is driving quite a lot of things. And all in all, every perk we have is a saving for you, for our customer. And of course, it's also a saving for our partners. Because ultimately, they're wholesaling to us.

They don't have the cost of acquisition. But again, we only do it when we -- it's accretive for us as well. Has to be accretive for the customer, has to be accretive to us, and then we go forward and create a very unique model. And sometimes, you might think this is pretty simple. But I'm looking at Shankar, our head of IT.

Just imagine you can come into the store and actually be a Netflix customer and move over to be a Netflix customer to Verizon. We take care of all of that back end. The only thing you need to remember is your password. And sometimes, that might be a problem, I know.

But -- so just imagine how much work we have done to make this a unique offering that is hard to replicate. First of all, some of them are exclusive. And number two, you need to replicate a lot of things behind. Because if you're going to go home and then you log off and then you log on and cancel everything, I can tell you, the heat rate is low, extremely low.

And that's why we have worked so much with the customer experience here to do this in the right way. And I think that Sampath and Leslie and Shankar and the whole team have thought about how we make it simple for our customers.

So I think this is just the beginning of us using the distribution as a strategy. We have the network. We have the distribution. We're just going to continue to do the right thing for our customers here, and that's going to pay off long term for us.

Brady Connor - *Verizon Communications Inc - Senior Vice President*

All right, so the clock is ticking down. We have time for one more. We're going to go Laurent here in the back.

Laurent Yoon - *Bernstein - Analyst*

Sorry, Sampath. One more question for you. Laurent Yoon from Bernstein. You mentioned the 500-basis-point incremental penetration of wireless and where you have fiber. Can you give us some color on correlation versus causation for that number?

And secondly, how important is that observation? Or more explicitly is any of that, the expectation of incremental wireless, built into your fiber business case, going to 35 million to 40 million houses?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Yeah. Let me answer the second part first. Look, we feel comfortable, between Joe, Tony, and I, on this 35 million to 40 million. Fiber economics is getting better over time, two reasons.

The first one is cost. As Joe said, we're getting better on technology, better systems, able to take cost out of the process.

Second is penetration, north of 40% penetration, but also how quickly we get to that north of 40%. That's another important factor.

Another important factor, Laurent, is the first year of penetration, how quickly we get to first year penetration. And as I said, we keep getting better every year on how quickly we get to year one penetration in that.

So those are some of the factors that make fiber really attractive. On top of that, now you have the mobile plus home benefits that, historically, we've not had or not spent enough time on. So that's cherry on top of the whole Sunday in terms of why fiber economics looks really strong going forward to do that.

To answer your first part of the question, if we see 500 basis points or 5% better wireless market share in Tier 1, large Tier 1, markets where we have fiber, I think there is -- a lot of it is driven by causation. Because you have better brand, we're able to spend more money on marketing in those local markets.

Two is also distribution. Historically, we've not had our stores get involved in Fios sale. Now we have a sales motion where all our stores, especially in the Northeast, get more involved in the Fios sale. You saw that this quarter. We actually launched it. This quarter, we will do that.

So better marketing, we're able to double down efforts. But also, you tend to get the cross-sell opportunity in that. So I think a lot of it is causation going forward. So there will be upside in our mobility case as we continue to get to 35 million to 40 million homes of fiber, definitely.

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

Thank you. I guess we are wrapping up. First of all, thank you, everyone on the webcast, everyone coming here face-to-face in New York. Hopefully, you've got more insights, both to our third quarter, but also to our expanded broadband strategy.

And for sure, we will back with more information as we have more quarters to come and other activities. So once again, thank you so much, guys, for coming. Thank you.
