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EDITED TRANSCRIPT

VZ.N - Verizon Communications Inc at New Street Research BCG Connectivity Conference

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OVERVIEW:

Company Summary

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Jonathan Chaplin *New Street Research - Analyst*

PRESENTATION

Jonathan Chaplin - *New Street Research - Analyst*

Great. So let's get started guys. I'm delighted to introduce our first speaker of the day, Frank Boulben. Frank's no stranger to the New Street, BCG events. We love having him here. We're very lucky to have him here today because he's sitting sort of right at the center of the biggest controversy impacting the mobile sector in the US, which is what's going on with mobile growth in the first quarter.

So we're going to delve into that. But we love having Frank at these events because he's the Chief Revenue Officer for the consumer business at Verizon now, but he's been the Chief Strategy Officer. He's been a CTO. He's held roles at Verizon for a number of years, but also in Europe at operators and equipment manufacturers, and so he has really unparalleled insights into the sector and he can speak about those insights in an unusually eloquent way for a telecom executive. Frank, thanks for thanks for being here.

QUESTIONS AND ANSWERS

Jonathan Chaplin - *New Street Research - Analyst*

So to kick things off, I'd love to get your perspectives on what's going on with mobile growth in the first quarter. It looks like all three of the big carriers have had a difficult January, which suggests to us that the that the market overall might be growing at a slower rate than expected.

I think you've characterized the weaker than expected trends and rise in the first quarter is more of a competition than a market issue. I'd love to sort of kick off there.

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

First of all, good morning, Jonathan. Good to be back here. Before we get started, I'll ask you in the room and on the webcast to refer to our investor website for our Safe Harbor. So having said that, first, let's put the growth of the consumer postpaid market in perspective.

Over the last four years, the industry, consumer and B2B has added about 9 million net adds per year, 80% consumer, 20% B2B. For 2025 we expect that number to go slightly down to the tune of 5% or 10%, so 8 million to 8.5 million net adds. That still makes for a very healthy industry growth.

So now if I zoom on Q1, which is your question, what's unusual in Q1, I think there are two factors, one external for us, and one Verizon specific. The external factor is it has been an unusual quarter from a competitive intensity standpoint.

And I don't think it started at the end of January or because of a weak January. What we observed is at the very beginning of January when we dropped out of our holiday promotions like we do every year, for the first time certainly since I've been with Verizon, our competitors didn't follow.

So they've been more aggressive since the very beginning of the quarter, and we've seen that throughout the quarter with the buyout promotions that have been particularly aggressive. So that's the external factor. And so we've seen a lot of switching activity as a result. The internal factor is we've done our price ups in January.

Our price ups, combined with those we did in the latter half of 2024, this year are going to generate net of any churn, an incremental revenue of more than $1 billion. So I'll do that trade-off any day, but it created elevated churn for us in Q1. So that's how we'd characterize the Q1.

Jonathan Chaplin - *New Street Research - Analyst*

But Frank, don't you think the unusually tough promotions from T-Mobile and AT&T are response to a tough market environment, that they're riding harder to get their -- what they're looking to get out of a shrinking pool?

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

I cannot speak on their behalf. As far as we are concerned, Q1 is always a slower market seasonally for us, and we adjust our promotions to the demand. So typically January, February, less demand; March more demand. So you see us changing our promotional portfolio. We haven't seen a significant change year-on-year from a Verizon standpoint, I cannot speak from them.

Jonathan Chaplin - *New Street Research - Analyst*

Got it. I'm sort of wondering whether that's the driver just because I felt like in 2024, we had a fairly rational competitive environment. This market is always competitive, but it seemed like the three national carriers were behaving in a sort of a competitive fashion that would lead to good returns for the industry. ARPU is growing, margin is expanding. And it seems like there's been a bit of a shift in competitive intensity at the beginning of the year.

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

Look, last year, we returned to phone net add positive. We grew [consumer] (added by company after the call) wireless service revenue at 3.2%. This year, our goal is a repeat. So we want full net adds to be better year-on-year, and we've guided for wireless service revenue growth, 2% to 2.8%. So we're going to continue with the same formula for this year.

Jonathan Chaplin - *New Street Research - Analyst*

Yeah. And the wireless revenue growth is very much in your control because you're -- you've got a lot of influence through what you do with pricing and ARPU. On the subscriber front, though, given that we're starting off with net adds for the first quarter, the likely worse than last year, what gives you confidence that net adds for the full year are going to be better? What's going to change in the -- over the course of the next three quarters?

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

So the number one driver is going to be churn reduction for us. We've been investing in improving our customer experience. We've been investing in our capability to drive mass personalization in the treatment of our base, with next best offer, next best service to improve retention. We've got also an increase in our joint customer base. Maybe we'll come back to that.

Customers who have mobile and broadband with us are churning less. And we see also customers taking more services from us churning less. And lastly, as we continue to expand our C-band coverage, we see less churn where we offer a C-band experience. So that's the churn reduction driver. The other driver is continuing our gross add momentum.

So we've had two consecutive years of gross add growth year-on-year, '23 and '24. We intend to continue this year, and that's on the back of a successful value proposition, myPlan that is resonating with customers. With myPlan, we've reduced the price premium versus our two main competitors, and we offer something that is really unique with the perks that they cannot get anywhere else, and we offer those perks at the entry level as well.

So if you are a customer seeking an entry price plan in postpaid wireless, at Verizon you can still get significant savings on streaming offers. So for instance, if you take the top five most popular streaming services, you're going to save $20 per month. So if you look at it from a household spend standpoint, it makes our entry price point very competitive.

Jonathan Chaplin - *New Street Research - Analyst*

By the way, you should know that myPlan has been pretty transformative to Verizon's operating trends in 2024, and it was Frank's invention. He's behind the myPlan initiative as well as all of the partnerships that Verizon signed up over the course of the last four or five years that feed into myPlan.

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

Thank you for that, Jonathan. But it takes a village. We have a large team at Verizon. But you're right, it has been the most successful price plan we've launched in a number of years. I give you a couple of proof points.

We have already more than half of our customer base is on myPlan. That's the fastest migration I've ever seen. And we sold last year, we said by October, we had already sold 7 million perks at $10 on average per perk. By the end of this year, we are confident we'll exceed 14 million. So it's becoming a business in itself, and it generates good margins as well.

Jonathan Chaplin - *New Street Research - Analyst*

So Frank, going back to the two drivers of improving subscriber trends over the course of the next three quarters, the churn reduction you've spoken to on gross adds improving year-over-year, will they improve in the first quarter?

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

No, we said first quarter was soft for us on gross adds.

Jonathan Chaplin - *New Street Research - Analyst*

Yeah. And so what drives the acceleration in gross adds for the rest of the year?

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

So it's not unusual for us to start with a slow Q1 on gross adds. As I said, myPlan is resonating. And myPlan is a platform, and it allows us, unlike our competitors every quarter to innovate with the perks we offer. We just recently, we introduced YouTube Premium as a perk.

We just introduced Google One as a perk as well, first service with a subscription for Gemini, for AI that is resonating well. So stay tuned, you're going to see in the coming months, more innovation, more innovation coming on myPlan.

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Jonathan Chaplin - *New Street Research - Analyst*

Touch on the trade-offs between driving that recovery in growth in subscriber trends and EBITDA. You've guided to I think 3% EBITDA growth for the year as well. Is that at risk as you sort of reinvest in lower churn and higher gross adds?

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

So we've guided 2% to 3.5%. So 3% is slightly above the midpoint. But yes, so we want to have first balanced revenue growth between the P and the Q. So it's important for us to return to phone net (corrected by company after the call) add positive year-on-year. And that will be on the back of the churn reduction and continuing momentum with myPlan on gross adds.

And then there is the P. So on the P, you have several components. We have the price ups we did at the beginning of the year. We have the premium mix in our base, 45% of the base is on a premium plan, but we have a super premium plan, which is ultimate, our best offer, and we see migration from premium to super premium as well. So we have still a lot of runway on stepping up the base from entry to premium, from premium to super premium. So that's one lever.

Second lever, it's the perks as we've just discussed, and other adjacencies. One best kept secret is if you look at our wireless service revenue, [about] (added by company after the call) 15% is coming from non-connectivity services, and that's growing double digit. So that's the perks and other adjacencies we offer to our customers.

Third, we continue and sell other connected devices to our customers, watches, tablets, and lastly, a cross-selling broadband. So all of those things are going to contribute to the top line growth. And the prepaid business in the second half of the year will return revenue accretion as well. Last year, it was a drag of 80 basis points. So that's on the top line.

On the bottom line, we continue and have a disciplined approach to promotion and optimizing the yield on acquisition and retention, even if it's a more competitive environment. And we are continuously focused on taking cost out of the business from network to G&A.

Jonathan Chaplin - *New Street Research - Analyst*

So I want to come back to ARPA growth in a second. But before I do, just going back to the 8 million to 8.5 million subscriber adds that you expect for the industry this year. We learned at the end of last year that immigration was driving almost all of the population growth in the US, and that immigration has been running at like 3 times the normal rate.

And it seems clear that it's going to come down starting this year over the course of the next four years. How does that impact mobile subscriber growth for the industry? And given that sort of backdrop, give us some more insights into your confidence in 8 million to 8.5 million.

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

We see very limited impact from any change in immigration on the postpaid side. Yeah, there is a little bit of immigration influx on the postpaid side, your H1B visa holder, et cetera. We don't see that changing meaningfully. On the prepaid side, there might be some impact at the low end of prepaid.

Having said that, we saw immigration decelerating in the second half of last year, and we still had a very strong Q4 in our prepaid business. And we don't see that happening in Q1 on prepaid from a Verizon standpoint.

Jonathan Chaplin - *New Street Research - Analyst*

And on prepaid, you're going back to growth this year, does that mean subscriber growth specifically?

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

Subscriber growth for the year and revenue growth for the second half of the year.

Jonathan Chaplin - *New Street Research - Analyst*

Got it. And subscriber growth with or without SafeLink?

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

Without SafeLink. SafeLink continues to be focused on low-income families that can qualify for the Lifeline program.

Jonathan Chaplin - *New Street Research - Analyst*

And SafeLink, does it start to stabilize this year now that ACP is behind us?

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

Yes. So most of the losses on the SafeLink last year were ACP driven. So this year, SafeLink is primarily focused on the Lifeline program. And so much smaller volumes than in the previous years.

Jonathan Chaplin - *New Street Research - Analyst*

Got it. And so moving to ARPU or ARPA, it's clearly a critical driver of revenue and EBITDA growth for Verizon. Is there -- it's been growing at what I think it was sort of an above-inflation rate. Is there a limit to where ARPA can or ARPU can go in the context of sort of household spending or some other metric?

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

So first, what we see is an inverse correlation between ARPA and share. So the more customers are spending with us, the more loyal they are and the less they churn, which is maybe counterintuitive. But if you have multiple phone lines with us, tablets, watches, broadband, other services, you tend to churn less or our credit card or soon our high-yield savings account.

We see the customers churning less if they have more products with us. The second point, which indicate that there is a ceiling as one might think, is we sell adjacencies that customers are paying for to third parties in other sectors, and we offer a saving to customers.

Streaming services is a very good example. Customers, on average, in the US have five streaming services. If they buy them from Verizon, they're going to save on the expenditure of the household. So I see a lot of potential in those adjacent services.

They are growing at a double-digit rate. It's already 15% of the mix. So that will continue. And obviously, the broadband penetration in our mobile base is going to continue as well. Today, we have only 16% of our mobile accounts that have broadband with us. That number will grow significantly in the coming years.

Jonathan Chaplin - *New Street Research - Analyst*

Got it. So the growth that comes from adding additional services to existing accounts. I totally get it. I guess it would be a mistake to look at sort of telecom revenues as a percentage of household disposable income. We've got to look at the full bundle of what household spend in content and broadband because you're providing savings there.

But what about the sort of the relationship between wireless pricing and churn. I think the sort of key source of differentiation for Verizon has been network reliability. Your pricing is above where T-Mobile is just on the sort of the mobile piece of the product. Is your network better enough to support that pricing gap? And can the gap continue to expand? Do you need them to grow pricing in order for you to grow pricing?

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

So first, the network is better. We cover 0.5 million more square miles in the US. We have not completed the deployment of our C-band spectrum. So yes, we'll continue and have that network advantage. But as I said earlier, we've reduced the price premium with the introduction of myPlan.

That got unnoticed. But what we did with myPlan, we got rid of inclusions. Customers do not want to pay for things they don't need. And so what we did, we separated connectivity from any other inclusions. So now with myPlan, you have a simple choice for your connectivity, good, better, best from a pure network experience standpoint.

And then whatever is the option you choose, you have perks on which you can save. So that new structure, it's accretive from an ARPA standpoint as we discussed, but it also reduced the price premium, which is now below 10%. So I think it's absolutely sustainable.

Jonathan Chaplin - *New Street Research - Analyst*

Got it. Frank, I think you've lost earpiece, we should put it on for the guys that are on the webcast. So shifting gears a little bit to the C-band and what that enables in terms of fixed wireless access, which is an important revenue driver for you as well. Can you give us a sense of how many households can get fixed wireless access over C-band today and how quickly that's changing?

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

Yes. So today, we cover 60 million households and business locations with fixed wireless access. We've indicated at our Broadband Investor Day that, that will get to 90 million in the coming years. And we have very strong momentum on broadband. We offer as both fiber in the Fios footprint and FWA elsewhere.

Last year, on the consumer side, we added more than 1 million households in terms of subscriber numbers. So we've got very strong momentum there. It's continuing in Q1 on the consumer side.

Jonathan Chaplin - *New Street Research - Analyst*

So that's really interesting. I thought that Hans said he expected fixed wireless access adds to slow a little bit in the first half of the year until your MDU product came in into effect later in the year. You basically haven't seen that slowdown in 1Q.

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

What we've said -- so I was commenting on consumer alone. And what we've guided is that consumer plus business, all technologies every quarter will be between [350,000] and [400,000]. You might see variability. Q1 is always softer as well. But we expect on average for the year to stay in that range.

REFINITIV

Jonathan Chaplin - *New Street Research - Analyst*

Got it. And give us a little bit more context on the MDU product. What's the addressable market for that ultimately? And how quickly can you open up that addressable market?

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

So we haven't communicated an explicit addressable market, but think in millions of units that will come later in the year. We are testing. We want to launch it when it's absolutely right in terms of customer experience. And it's another use case for millimeter wave spectrum because the technology leverages the millimeter wave spectrum from the rooftop of the donor site to the MDUs we want to serve.

Jonathan Chaplin - *New Street Research - Analyst*

So one of the most fascinating things that came out of the broadband update that you guys gave last year for me was that you're starting to sell fixed wireless access markets where you also have fiber. Does that suggest that there's market segmentation. There's a portion of the market that is interested in the fixed wireless product and a separate portion of the market that's interested in fiber?

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

No. I think that's very much how as industry insiders, we look at it, but it's not the way we market, and it's not the way consumers understand it. We made the change three or four years ago to market all of our broadband services under the Verizon brand, and with the name, which is Verizon Home Internet.

So if you look at our advertising, it's about Verizon Home Internet. Then you go to our website, you qualify your address, and depending on your address, you will have a fiber offering or FWA offering. And the offer we've constructed is also similar to myPlan. It's called myHome.

And same thing, good, better, best in terms of the network experience and then you pick your perks with a complete price transparency. And we see that resonating very well. And customers tend to choose the premium plans, whether it's on the fiber side or on the FWA side.

And in both cases, we win against the cable company. And I expect for the foreseeable future, fiber and FWA to continue and take more than 100% of the net adds of the broadband industry. We've been taking share from the cable companies in the Fios footprint with fiber for the last number of years. And with FWA, more than half of our gross adds are coming from cable companies. So it's a two pronged approach that we're going to continue, and it's working well.

Jonathan Chaplin - *New Street Research - Analyst*

And where the other half of the fixed wireless access net adds coming from? Is that market expansion?

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

You have a fraction coming from fiber, a fraction coming from DSL as well.

Jonathan Chaplin - *New Street Research - Analyst*

Yeah. Got it. And so that is a really important insight, although technically fixed wireless access is offered in markets where you've got fiber based on how you manage the sales channel. If fiber is available in that market. That's what the customers going to see.

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

Yes.

Jonathan Chaplin - *New Street Research - Analyst*

Got it. Okay. So give us some more insights into the strategic imperative behind the Frontier acquisition. Was this driven by the fact that fiber is just a good asset that generates good returns? Is it that you get the bundling and market share benefits? Or is there a network-driven imperative behind it?

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

So first, strategic objective is to grow our market share in the broadband market. We see an opportunity there. We already have two technologies, FWA and fiber, and we saw with Frontier the opportunity to accelerate our growth in terms of market share with fiber. So that's the number one reason.

It also allows us to do cross-marketing between mobile and fiber in that footprint. And it allows us to generate significant cost synergies. We've indicated the run rate of [$500 million] per year after three years. And we've acquired the asset at a fair price that is accretive for our shareholders, if I believe your analysis.

Jonathan Chaplin - *New Street Research - Analyst*

Nominal price. Got it. The bit of sort of drilling in a little bit deeper, the strategic imperative behind the benefits that you just listed. Is it the case that you're going to need a fiber broadband asset to compete effectively in mobile in the future?

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

So with the acquisition of Frontier, we will be by the end of 2026, close to 30 million. We said that post closing, we will invest in at least 1 million, so 1 million plus new open-for-sale fiber households every year. And we've indicated our goal to be at 35 million to 40 million within a few years.

If you combine that with the 90 million footprint on FWA, we'll be able to serve the vast majority of US households with Verizon Home Internet product. So we are in a very good position. If there are additional opportunities, we'll screen them and assess them.

Jonathan Chaplin - *New Street Research - Analyst*

Yes. But what I'm wondering is, so you'll be able to offer a broadband product to most -- the vast majority of households in the US with one of these products or the other. But I'm wondering if fiber, in particular, gives you an advantage that fixed wireless doesn't on the network side.

I'm sort of thinking forward to a future where we've burned through all of the spectrum below 6 gigahertz and we need to densify networks significantly, like by orders of magnitude in order to meet demand. And that fiber at that point becomes a really critical strategic asset, the more you have, the sort of the better your margins are?

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

That's a very long term issue you're referring to. We've just indicated that we can double the capacity on the FWA side. So for 4 million to 5 million subscribers to 8 million, 9 million subscribers, we've got the MDU solution that is coming soon as well.

So I think for the foreseeable future, foreseeable meaning until the end of the decade, at least, we're going to continue with that two-pronged approach between fiber and FWA. Obviously, where we have fiber, we don't need to use any mobile capacity for FWA. So it will, over time drive where we invest in the mobile network.

Jonathan Chaplin - *New Street Research - Analyst*

And in terms of that 1 million a year that you mentioned that you're going to deploy at after the close of the deal, why isn't that faster? When I look at your peers, they're sort of deploying it 2 to 3 times that pace.

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

So we've said 1 million plus. I will stick to that for that.

Jonathan Chaplin - *New Street Research - Analyst*

Got it. Would it make -- so the -- what the advantage is that AT&T and T-Mobile have sort of structured for themselves as they're doing a lot of the investment off balance sheet through JVs, which allows them to continue buying back shares and accelerating dividends. Does that sort of a structure makes sense for you, Frank?

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

It really depends on the specifics. So we assess all opportunities and all the structures that are presented to us. The guiding principle is does it make sense in terms of acceleration of our broadband penetration? Does it make sense operationally? And is there a path to long term owner economics, whatever the structure. So if we fit -- if we find an opportunity that fits those criteria, we might pursue it.

Jonathan Chaplin - *New Street Research - Analyst*

We saw a story on Bloomberg yesterday on AT&T potentially buying Lumen's fiber assets. I presume if there's a transaction that you guys would have looked at those assets. Can you comment at all on why those were or weren't attractive to you?

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

Thanks for asking, but I cannot comment on any speculation.

Jonathan Chaplin - *New Street Research - Analyst*

Fair enough. We had to try. So can you give us a perspective on what you think the sort of the end state for the market looks like in terms of the three national carriers? And how much fiber will be sitting underneath those three mobile assets in sort of five years-plus from now?

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

It's difficult to speculate on that. What I think we can say with a degree of certainty is that fiber penetration will continue to grow substantially in the coming years, probably not as high as the cable penetration is today, but substantially higher.

The bulk of it will be the top two players of today. So us and AT&T. What will happen beyond that is speculation. What also is important to note is that the cable companies play also in that convergence game, but it benefits us as the wholesale provider

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Jonathan Chaplin - *New Street Research - Analyst*

Yeah, Frank, we're out of time, but I do want to pick your brain very quickly on direct to device. Why is AST the right partner for you? How big is this sort of opportunity for Verizon? How do you think about the offers that T-Mobile has put on the table for your customers in terms of like a $20 price point?

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

Maybe they have a stronger need for coverage. As I said, there is 0.5 million of square miles they do not cover today. We believe that it's important for customers to have absolute peace of mind in case they need emergency service. So emergency SMS everywhere in the country from a land mass standpoint. That's critical.

And we are offering it today with a Globalstar on Apple and with Skylo on Android. We're going to have a richer solution, thanks to our partnership with AST, leveraging our unused 850 megahertz spectrum coming towards the end of the year, beginning of next year with voice and some data services. We think that there is a niche of a customer that is ready to pay for that service. The pricing I've seen in market seems a bit too rich to me.

Jonathan Chaplin - *New Street Research - Analyst*

Great. Frank, we really appreciate you being here today and sharing your insights with us. Thank you very much.

Frank Boulben - *Verizon Communications Inc - Chief Revenue Officer, Verizon Consumer Group*

Thank you.
