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VZ - Q4 2018 Verizon Communications Inc Earnings Call

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OVERVIEW:

Co. reported 4Q18 total operating revenues of $34.3b and GAAP EPS of $0.47.

CORPORATE PARTICIPANTS

Brady Connor

Hans Vestberg *Verizon Communications Inc. - CEO*

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

CONFERENCE CALL PARTICIPANTS

Brett Feldman *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Craig Moffett *MoffettNathanson LLC - Founding Partner*

David Barden *BofA Merrill Lynch, Research Division - MD*

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

Matthew Niknam *Deutsche Bank AG, Research Division - Director*

Michael Rollins *Citigroup Inc, Research Division - MD and U.S. Telecoms Analyst*

Michael McCormack *Guggenheim Securities, LLC, Research Division - MD & Telecommunications Senior Analyst*

Philip Cusick *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

Simon Flannery *Morgan Stanley, Research Division - MD*

PRESENTATION

Operator

Good morning, and welcome to the Verizon Fourth Quarter 2018 Earnings Conference Call. (Operator Instructions)

Today's conference is being recorded. If you have any objections, you may disconnect at this time. It is now my pleasure to turn the call over to your host, Mr. Brady Connor, Senior Vice President, Investor Relations.

Brady Connor

Thanks, Brad. Good morning, and welcome to our fourth quarter earnings conference call. This is Brady Connor, and I'm here with our Chief Executive Officer, Hans Vestberg; and our Chief Financial Officer, Matt Ellis. As a reminder, our earnings release, financial and operating information and the presentation slides are available on our Investor Relations website. A replay and a transcript of this call will also be made available on our website.

Before we get started, I'd like to draw your attention to our safe harbor statement on Slide 2. Information in this presentation contains statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties. Discussion of factors that may affect future results is contained in Verizon's filings with the SEC, which are available on our website.

This presentation contains certain non-GAAP financial measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are included in the financial materials we have posted on our website.

The quarterly growth rates disclosed in our presentation slides and during our formal remarks are on a year-over-year basis, unless otherwise noted as sequential. In addition to our comments today, on February 21, Verizon will be hosting an Investor Day event in New York City, and we will be webcasting presentations by Hans and the leadership team. More information about this event will be posted on our IR website.

Now let's take a look at consolidated earnings for the fourth quarter and full year. In the fourth quarter of 2018, we reported earnings of $0.47 per share and full year earnings of $3.76 per share on a GAAP basis. These reported results include several special items that I would like to highlight.

Our reported earnings for the fourth quarter included net pretax loss from special items of about $4.9 billion. This net loss consists of a previously announced goodwill impairment for Oath of $4.6 billion, acquisition and integration charges of $189 million and severance and annual mark-to-market for our pension and OPEB liabilities of $165 million.

In addition, we recognized a deferred tax benefit of $2.1 billion related to an internal reorganization of wireless legal entities. Excluding the effect of these items, adjusted earnings per share was $1.12 in the fourth quarter. Excluding the effect of these special items and the net effects of tax reform and the adoption of the revenue recognition standard, adjusted earnings per share was $0.90 in the fourth quarter, up 4.7% compared to $0.86 a year ago.

On the same basis, for the full year, adjusted earnings per share, excluding tax reform and the adoption of the revenue recognition standard, was $3.87, up 3.5% compared to $3.74 a year ago.

It has now been a full year since the adoption of the new accounting standard for revenue recognition. The effect of this change is illustrated in the table on Slide 4. As a reminder, it results in a reduction of wireless service revenue, offset by an increase in wireless equipment revenue and the deferral of commission expense in both our wireless and wireline segments. The impact from this change was $0.09 per share in the fourth quarter and $0.28 per share for the full year. The effect has been fairly consistent throughout 2018, with the fourth quarter slightly higher due to seasonality in wireless volumes.

In 2019, we expect a smaller benefit from the adoption of the standard due to the deferral of commission costs. The reduction in benefit creates a year-over-year EPS headwind, which is expected to be about half of the 2018 impact in each of 2019 and 2020.

For the remainder of this call, unless otherwise noted, financial results will exclude the impact of the revenue recognition accounting change to provide clear comparability with prior periods.

With that, I'll now turn the call over to Hans to take you through a recap of 2018.

Hans Vestberg - *Verizon Communications Inc. - CEO*

Thank you, Brady, and good morning to everyone. This was truly a great year for Verizon. I'm so proud of our team and what they've accomplished in 2018. As I've traveled around and met with our employees and loyal customers, I've seen first-hand the great work that they are doing in pioneering solutions, focused on creating value and meeting customer needs.

We're on the forefront of technology and innovation as we provide our customers with fantastic experience on our networks. 2018 was a remarkable year. We delivered solid financials, returned value to our shareholders and strengthened our balance sheet as we continue on our trajectory to achieve a pre-Vodafone credit rating profile.

Our capital allocation remains disciplined and focused as we invest in our networks and put our board in a position to maintain our consistent approach to the dividend.

Financially, on a like-for-like basis, 2018 was highlighted by strong wireless service revenue and earnings growth. This is a testament that Verizon provided the best wireless experience on the nation's best network. Our bottom line performance was delivered through a combination of this revenue growth and our business excellence initiatives, which drove cash savings across the company.

We widened our network leadership position in 2018 and continued our momentum in delivering solid financial and operational performance. Our networks remain best-in-class and our performance is best than ever as evidenced by our recent wins from J.D. Power and RootMetrics.

We extended our lead in wireless performance as we enhanced our network and delivered a personalized experience for all our customers. 2018 was a year of 5G firsts. We were first to complete an over the air data transmission on the 5G global standards. We were first to complete the 5G data session on a smartphone. And in October, we proudly were the first in the world to commercially deploy 5G with our 5G Home product. As we finish the year, our confidence is high as we are heading to the 5G era and the beginning of what many sees as the fourth industrial revolution.

Operationally, we announced the vision for Verizon 2.0, which is the realignment of our operations to better focus on our customers. This new operating model realigns our customer-facing units into consumer, business and Verizon Media Group. This will enable us to leverage our scale and infrastructure to create better solutions for our customers.

We expect Verizon 2.0 will go live in the second quarter of 2019, and our results for the second quarter will be presented under the new structure. This transformation in how we face our customers is matched with the transformation under our business excellence initiatives where we recently announced our Voluntary Separation Program and plans for our IT outsourcing. Together, these initiatives, along with our Verizon 2.0 operating model, position us to be even more competitive in a rapidly changing environment.

Now I will hand over to Matt to talk about the financial and operating results of the businesses starting with Slide 6. Matt?

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

Thanks, Hans. In the fourth quarter, total operating revenue as reported was $34.3 billion, an improvement of 1%. And for the full year, 2018 revenue was $130.9 billion. Excluding the impact of the new revenue recognition standard, total revenue was $34.1 billion in 4Q, up 0.5%.

The 2018, on a comparable basis, excluding impacts from revenue recognition, divestitures and partial-year impacts from acquisitions in the media group, adjusted operating revenues grew approximately 2.2%. The primary driver of the increase was continued wireless service revenue growth, driven by step-ups in access and net account growth.

In the fourth quarter, consolidated adjusted EBITDA, excluding special items, totaled approximately $11.0 billion compared to $10.7 billion last year.

For the full year, consolidated adjusted EBITDA, excluding special items, totaled approximately $45.6 billion, an increase of 3.1%. And consolidated adjusted EBITDA margin was 34.9%, slightly lower than last year's margin of 35.0%.

Our business excellence initiatives produced cumulative cash savings of $2.3 billion in 2018.

For the full year, the mix of activities skewed more towards capital reductions than OpEx savings. The Voluntary Separation Program gives us a good starting point for further benefits in 2019, and the program remains on track to achieve our goal of $10 billion of cumulative savings for the four year period.

Let's now turn to our cash flow results on Slide 7. In 2018, Verizon significantly strengthened the balance sheet with strong cash flow, while continuing to efficiently invest for sustained network leadership. Full year cash flow from operations totaled $34.3 billion, up $10 billion year-over-year.

Year-over-year improvements in cash flow from operations was driven by strong operating results, recurring and nonrecurring tax reform benefits, reduced headwinds from the wireless device payment model as well as lower discretionary pension and benefit contributions.

Full year capital expenditures was $16.7 billion, in line with our revised guided range of $16.6 billion to $17.0 billion. Free cash flow for the year totaled $17.7 billion, up $10.6 billion year-over-year.

We ended the quarter with $113.1 billion of total debt, comprised of $103.0 billion of unsecured debt and $10.1 billion of device payment securitizations. Our near-term unsecured bond maturities are modest at $2.6 billion for year-end 2020.

Total net debt was down $4.7 billion in 2018, and unsecured debt is lower by $5.2 billion. The reduction in unsecured debt and higher EBITDA were the primary drivers in improving our net-debt-to-adjusted-EBITDA-ratio from 2.6x at the end of 2017 to 2.3x at the end of 2018.

In addition, the balance sheet is stronger as a result of about $5.1 billion of discretionary employee benefit funding during the last 2 years. This was primarily related our pension plans, raising the funded status from approximately 70% at year-end 2016 to about 91% at year-end 2018 on a GAAP basis.

The strength in balance sheet provides us with the financial flexibility to grow the business. We expect excess cash flow remaining after investing in the business, and paying our dividend will be deployed in 2019 towards our balance sheet goals.

Now let's focus on the operating segments, starting with wireless on Slide 8. Our customized experiences within our Unlimited plans on the best wireless network have created a strong value proposition, and this is resonating with consumers. New customers are coming to Verizon at higher access points, and existing customers are stepping up in their plans. Additionally, we have seen our customers expand their accounts with more lines throughout the year.

In the fourth quarter, total postpaid net adds were 1.2 million, up 3.9%, including phone net adds of 653,000, which were up 51.5% over last year's strong results. In addition, we added 11,000 tablets and 556,000 other connected devices, predominantly wearables.

Smartphone net adds were 873,000, up 34.9% compared to 647,000 last year. For the quarter, we increased customer account, adding 118,000 to our base. For the full year, postpaid net additions of 2.5 million included 1.1 million phones, 1.6 million other connected devices and 181,000 tablet losses. Our competitiveness in 2018 was highlighted by smartphone net adds of 2 million, up 13% versus the prior year.

The overall experience of pairing our Unlimited plans with the Best Network continues to resonate with our customer base, resulting in outstanding retail postpaid churn of 1.08% and phone churn of 0.82% in the fourth quarter. In the quarter, postpaid device activations totaled 11.9 million, down from 12.4 million last year. About 81% of these activations were phones, with wearables accounting for the majority of the other device activations. The reduction in activations with the net result of higher gross additions being more than offset by lower upgrades.

Our retail postpaid upgrade rate was 6.3%, up sequentially as expected, but was lower compared to 7.2% for the same quarter last year. The elongation of the upgrade cycle continues as more customers hold onto their devices for a longer period.

In the quarter, prepaid net losses were 90,000 compared to a net loss of 184,000 in the prior year. Our 4G smartphone prepaid base increased during the quarter, and all of the decline in prepaid net additions was due to 3G and basic prepaid phones. We ended 2018 with 118 million total retail connections, excluding wholesale and Internet of Things. Our industry-leading postpaid connections base grew 2.3% to 113.4 million, and our prepaid connections totaled 4.6 million at the end of the year.

Let's turn to Slide 9 and take a closer look at wireless profitability. Our wireless operating results provided the basis for growth and profitability in the fourth quarter. Total wireless operating revenue increased 2.1% to $24.3 billion in the fourth quarter. For the full year, operating revenue totaled $91.3 billion, an increase of 4.4%.

For the quarter, wireless service revenue increased by 1.9%. For the full year 2018, service revenue grew 1.7%, attributed to ongoing customer growth, step-ups to Unlimited and the benefits of subscribers customizing their experience through mix-and-match plans.

On a year-over-year basis, equipment revenue decreased 2.1% in the fourth quarter due to lower upgrade volumes. For the full year, equipment revenue increased 8.4%, driven by higher price handsets and increased sales of wearables.

At the end of the quarter, approximately 48% of our postpaid phone customers had an outstanding device payment plan balance. Our postpaid phone base on unsubsidized service pricing increased to about 84% at year-end versus 80% at the end of last year. The fourth quarter trends in service revenue, business efficiencies and upgrade volumes provided the basis to EBITDA margin to increase year-over-year to 40.5% compared to approximately 39.8% in the same period last year.

In the fourth quarter, we generated $9.8 billion of EBITDA, an increase of 3.9%. For the full year, we generated $40.9 billion of EBITDA, up by approximately $2.3 billion year-over-year.

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Let's move next to our wireline segment on Slide 10. Total operating revenue for the wireline segment decreased 3.5% in the quarter and 3.1% for the full year. Growth from our high-quality, fiber-based products continues to be offset by secular pressures from legacy technologies and competition.

For the full year, consumer revenue decreased by 1.5%. Consumer Markets revenue decreased 1.0% in the quarter as Fios Internet growth was overshadowed by declines in video and legacy products. Fios revenue grew by 2.5% in the quarter. This growth was primarily driven by an increase in the total customer base and strong demand for higher Internet speeds.

In the quarter, we added 54,000 Fios Internet customers. We now have a total of about 6.1 million Fios Internet subscribers. In Fios Video, the business faced ongoing headwinds, as observed throughout the linear TV market. The Fios Video business ended with 46,000 subscriber losses in the quarter and 168,000 for the year. For the quarter, enterprise solutions revenue decreased 3.0%, partner solutions revenue decreased 9.2% and business markets revenue is down 5.6%. Overall, secular and pricing pressures continue to be significant headwinds for these businesses. We expect legacy product revenues to continue to decline in 2019 at rates consistent with last year. In order to counter this decline, we continue to invest in fiber-based products and new applications that will open new opportunities for customers across our business lines. Through our One Fiber initiative, we are building a single highly resilient and scalable fiber network that will allow us to efficiently provide advanced data services to customers across our consumer, business and enterprise customer groups. As a result, we remain confident that we can continue to generate growth and momentum in fiber-based products and new applications. Segment EBITDA margin was 16.9% for the quarter and 19.2% for the year, as our focus and operational efficiencies was more than offset by revenue declines and content cost escalations. Let's move on to Slide 11 to discuss our media and IoT businesses.

For the quarter, Verizon Media Group revenue was $2.1 billion, a decrease of approximately 5.8% year-over-year. As expected, revenue trends were up sequentially from 3Q due to seasonal advertising spending. Year-over-year, we continue to see traction in growth in mobile usage. However, this is overshadowed by the macro pressures from declines in desktop volumes. From a technology standpoint, we have now completed our supply and demand side platform integrations. We are focused on technologies and resources in the business that will yield forward momentum. In our telematics business, total Verizon Connect revenue was $242 million. IoT revenues, including Verizon Connect, increased approximately 9.5% in the quarter. Our value proposition is evolving as our engagement with municipalities gains more momentum with the upcoming commercial rollout of 5G services.

Let's move next to discuss 2019. Our focus on executing on the fundamentals of the business positions us with strong performance in the upcoming year. On a GAAP reported basis, we expect low single-digit percentage growth in full year 2019 consolidated revenue compared to the prior year, driven by the continuation of wireless service revenue growth. We expect to see organic earnings growth in 2019. However, our EPS will be impacted by the revenue recognition headwind we discussed earlier as well as a few nonoperational items, primarily a higher effective tax rate and increased interest expense due to placing additional spectrum into service. After the effects of these items, which we expect to be approximately $0.24 to $0.28 of pressure on EPS growth, we expect our adjusted EPS in 2019 to be approximately the same as our adjusted 2018 EPS, excluding the impact of the new lease accounting standard.

At this point, we expect the adoption of the new lease accounting standard to have about a $0.01 to $0.02 per quarter headwind impact on EPS in 2019.

The 2019 effective tax rate is projected to be in the range of 24% to 26%. We expect cash income taxes to be $2 billion to $3 billion higher due to tax benefits that were realized in 2018 that we do not expect to repeat this year.

Our internal capital and decision process and return objectives have not changed. We are consistent and methodical in our allocation. We expect consolidated capital spending to be between $17 billion and $18 billion, including the expanded commercial launch of 5G. This capital intensity is consistent with historic levels.

Let me now turn it back to Hans to walk through our strategic priorities for 2019.

Hans Vestberg - *Verizon Communications Inc. - CEO*

Thanks, Matt. Verizon's strategic priorities for 2019 are clear. I have outlined 5 priorities with my team that focus on our customers, financial performance, 5G leadership our valued employees and Verizon's role in creating benefits for our society.

First, we will redouble our long-standing excellence in customer satisfaction. This customer-centric mentality has always been one of our core assets and will become even more essential as innovation continues to accelerate. Second, we will build on the momentum of our strong 2018 financial and operating results. Today, we're growing the business, strengthening the balance sheet and improving the cost structure to compete in any environment. In the future, we will enable and monetize new use cases on our advanced networks. Our third priority is to extend our leadership in 5G. The cornerstone of our strategy continues to be our best-in-class network. We have demonstrated our network leadership through every cycle from analog to 4G. We run to and embrace the challenge of deploying the best technology for our customers. Whatever the technology is, such as small cells, dense fiber or LTE Advanced features, Verizon has the proven track record of setting the gold standard for others to follow. In return, our consistent investment in our networks, particularly in 5G, will pay dividends as we advance and lead the industry into the fourth Industrial revolution.

Not too long ago, the mere thought of having a 5G network before the beginning of the next decade would have seemed implausible, but we pushed the industry to get there faster. As a leader and catalyst of change, we advanced 5G development and delivered to the world the first true 5G deployment in 2018 with our initial 4 commercial markets, and this is real 5G. This is a completely transformative experience that gives customers speeds measuring hundreds of megabits to gigabits, reduced latency, allows for connection per square kilometers by millions and energy efficiency at a fraction of today's consumption.

Our 5G network is predicated on delivering a game-changing wireless experience. The assets we have compiled and put into place in 2018 have enabled this vision. We have the spectrum to provide rich ultra-wide band 5G services. Our deep fiber backbone connects our assets, enabling a high capacity and efficient architecture. Our investment in the intelligent Edge network creates new capabilities and gives us flexibility to serve our customers, and it is our engineers and the know-how they have accumulated through this development process that binds our 5G solution together.

No other wireless operator has this unique combination of assets. We are the leader in 5G, as we have said before, and proven once again. We don't wait for the future, we build it.

Our fourth priority is our employees. Our winning team with the new Verizon 2.0 will be the key to creating new solutions in today's world. We want to continue to foster an organization environment that embraces change, sparks curiosity and encourages strategic risk-taking while inspiring all of us.

Internally, our shared purpose is to deliver the promise of a digital world by enabling people, businesses and society to innovate and drive positive change. Our fifth priority is carrying forward Verizon's commitment to responsible business practices and making the world a better place. At Verizon, we've coined a word, "humanability" which means the power of technology to create new abilities for humans to innovate and drive positive change in the world.

I'm confident that Verizon's 5G network will be a universal enabler of advanced use cases and technologies that brings humanability forward. I'm super excited to host our upcoming investor day on February 21. We will bring the Verizon executive team and go deeper into our strategy, our vision of Verizon 2.0 and our enhanced customer focus. With that, I will turn back to Brady for the Q&A session.

Brady Connor

Thanks, Hans. Brad, we're now ready to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question will come from Simon Flannery of Morgan Stanley.

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

Hans, I wonder if you could give us an update on 5G Home. When do you expect the standards-based gear to be available? And what does the CapEx guidance really imply in terms of homes passed this year and the progress towards the 30 million? And then any commentary on the handset outlook for mobile 5G and what we should expect on that side this year?

Hans Vestberg - *Verizon Communications Inc. - CEO*

Thank you, Simon. When it comes to the 5G Home, we are so far, fully deployed in the 4 cities that we decided for. So what we're waiting for right now is the CP equipment for 5G Home. And as the industry is evolving, the first focus for the industry is actually to do chipset for smartphones. And then secondary, the next generation of chipsets comes on the CP side. We definitely believe that this year, we will get CPs on the NR standard in the second half of 2019. So that's where we are, and we are building the network as we're speaking. And as soon as we see the availability of this CPs, we will, of course, start getting that out in the marketplace. And that, of course, subsequently answers the question on handset as well. We're going to see handsets coming out in the first half of 2019. We have -- as you know, we have announced 2 phones, 1 from Motorola and 1 from Samsung. The one from Samsung has not been seen yet, but hopefully, it will be seen soon and as soon as those are ready. And we have been together to build interoperability, testing that to where we're going to launch that. And remember now that the network is a multiuse network. So the home and the mobility is the same network we're building. We're not building 2 different networks. So it's more multiple devices you're connecting to the network. So -- and then, ultimately, on the question on CapEx, I think Matt guided our CapEx, which has been consistent over the years. We are doing everything. I remember the majority of investments in the 5G network is coming with the fiber that we have been doing, the passive asset we are doing, the Intelligent Edge Network design that we've been working on for years. And then, of course, you have the equipment coming at the total end of it. So we are actually -- been for several years investing and to be prepared for the 5G, and this is including in the CapEx guidance for this year for obvious reasons.

Operator

The next question will come from John Hodulik of UBS.

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

Maybe a couple quick questions for Matt. On the wireless side, you saw ARPA decline a little bit in the fourth quarter versus the growth in the third quarter, and you saw a decel in the service revenue growth. What's driving that decline that we saw this quarter? And are the sort of benefits of moving to the Unlimited sort of fully reflected in the decline we're seeing? And how do you expect that to trend going forward? And then on the free cash flow, thanks for the CapEx and the taxes guidance, any other sort of things we should be thinking about as we look to free cash flow in '19 from a pension contribution or working capital standpoint?

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

Thanks, John. So on the wireless service revenue, I think as you look at the fourth quarter number, what we have is we continue to have good underlying momentum in the wireless service revenue, whether you're talking about the total service revenue line or whether you're looking at the ARPU line. But there is a little bit of noise in the fourth quarter number that masked that growth. So let me just give you a little more detail. In 4Q, both in '17 and '18, we had some nonrecurring items that gives us that 1.9% year-over-year increase, which, as you say, is slightly lower than the past 2 quarters but still certainly a good positive number. 4Q in '17, we had a positive adjustment related to our wholesale revenue, and that adjustment didn't repeat this year. So we're lacking that adjustment. Additionally, this year, we had a couple of items go the other direction, including some service credits related to that we granted customers impacted by natural disasters. So when you compare those, you remove those, the underlying core retail postpaid service revenue increased sequentially, had good momentum year-over-year, in line with what we saw in 2Q and 3Q. And importantly, we start 2019 billing more accounts at a higher ARPA than we've started last year. So it's a good place to be. I think we continue to see opportunity to increase service revenue in 2019 by adding accounts as we did last year, but also increasing ARPA. There's still significant headroom for us to move customers to Unlimited and step them up when they're in Unlimited, adding more devices to accounts. So I think the momentum we saw in '18 will certainly continue into '19 in a good way. On the free cash flow, so we don't actually provide, as you know, a free cash flow guide for the year. We did talk about the fact cash taxes will be higher. As I think about cash flow for 2019, there's 5 major items I would think about, a couple of them in the positive direction. We certainly expect the core EBITDA of the business to increase year-over-year. Additionally, last year, we have $1.7 billion of pension and benefits contributions that we would not expect to be at the same level in 2019. In the other work direction, I mentioned in the prepared comments the higher cash taxes. We'll also have the payments related to the voluntary severance program. All of that cash outflow will be in 2019, and we do expect CapEx to be higher slightly year-over-year, too. So when you net those items together, you can kind of get to a view for 2019 cash flow. But certainly, cash flow in 2018, very strong, $34 billion, up $10 billion year-over-year. We're proud of the progress we made there, and we'll certainly look to build on that in 2019.

Operator

The next question will come from Philip Cusick of JPMorgan.

Philip Cusick - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

Two, if I can. How should we think about wireless EBITDA in 2019, given your continued cost focus, and a comment that 2018 cost savings were more focused on CapEx than OpEx? And second on the balance sheet, I wouldn't let you get away without talking about leverage, 2.3x today and headed lower. Can you think a little bit for us about priorities for cash flow from here? Do you see buying assets like spectrum or fiber that could lever you back up? Or should we start thinking about capital return in the next couple of years?

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

Thanks, Phil. I'll start with the second one there on the balance sheet. So as you say, good progress on the leverage ratio and the net debt to EBITDA from 2.6x to 2.3x during the year. And as I think about heading into 2019, our capital allocation priorities haven't changed. We'll continue to be disciplined in how we deploy capital. Our #1 priority is investing in the business, whether that be CapEx or whether that be other ways we can invest in the business. After that, we certainly -- the dividend continues to be very important to our shareholders. And then as we've said, we continue to strengthen the balance sheet. In addition to the reduction in the leverage ratio, I'd also point out in the past couple of years, we've made approximately $5 billion in contributions to our pension and benefit plans. And so our funded status on our pension plans from the last couple of years has gone up from approximately 70% to 90%. So some really good progress there. We'll see how the year plays out. We certainly expect to continue to improve strength in the balance sheet, and we'll also look for opportunities to grow the business. And if there's still cash left over, we'll decide what to do at that point in time. In terms of the wireless EBITDA in 2019, look, I would start at the top of the income statement, and we expect service revenue to continue to grow. So that's the tailwind that we have coming out of 2018 that we'll build on as we get into next year. So we'll have some growth there. And then as we continue to focus on the cost side of the business, obviously, we've got 10,000 people leaving the business over the course of the next few months that will have a positive impact on the EBITDA. And we continue to look for other ways to continuously make our business more efficient and competitive. So I think you should see some good EBITDA trajectory as we go through 2019, and that will help contribute to the cash flow, as we've talked about.

Hans Vestberg - *Verizon Communications Inc. - CEO*

And I can only add that on the question about CapEx and OpEx in '18, we had more cash savings on the CapEx. We will continue with our disciplined way of the business excellence program, both on CapEx and OpEx. And I think that in '18, we showed that we did everything we wanted to do on

CapEx. At the same time, we actually became more efficient. And I think the program we have put in place is very eager and very good. And that brings us all our benefits that we need to get from the investments at the same time as we're getting efficiency. So that's very much part of it, but we'll also look very much with the top line, as Matt talked about. I think it's a combination and with the new leadership team that are coming into the second quarter. I think we're going to have a great focus on it.

Operator

The next question will come from Brett Feldman of Goldman Sachs.

Brett Feldman - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

If you don't mind, I was hoping maybe you can clarify some of the comments you made around the EPS guidance and some of the drivers. So you basically kept saying that you expect earnings, exclusive of the new lease accounting, to be similar or effectively flat this year. And I think you indicated that there's essentially about a $0.14 headwind from the ASC 606. You had a $0.28 benefit in '18. I think that goes to about $0.14 this year. And I just want to clarify, I think you also indicated there's another, say, $0.10 to $0.14 coming out of the higher tax rate and the increase in interest expense because of putting spectrum into the service. So all in, those items are $0.24 to $0.28. Is that the point you made?

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

Yes. Good morning, Brett. Exactly. So yes, you heard the guide right, on a GAAP basis, prior to the lease accounting, roughly similar. And you're right, the --- within there -- and we've talked about this, I think, on the third quarter call, you have this headwind from 606. And that's $0.28. So the benefit in 2018, we said roughly half going the other way in '19. So you're right, that's around $0.14, and then a couple of other items below the line that we've talked about in the prepared comments. So as we deploy the AWS-3, we're capitalizing less of our interest expense. So that creates a year-over-year headwind. It doesn't change the cash flows of the business one bit. And then the -- on the ETR, we have the same guided range this year as last year, 24% to 26%. Last year, we ended up at 24.2%. We had a number of nonrecurring items that had us at that lower end of the range. Going into the year, we don't necessarily have line of sight to the same amount of nonrecurring items this year. So at this point, we're planning on being closer to the middle point of that range, and we'll see how that plays out. But as you say, when you add those up, you've got about $0.24 to $0.28 of headwinds. And so that means you have operational year-over-year improvements of a similar amount that get you to that guide. So I think what you see over the past couple of years here, Brett, is certainly, in '16 and '17, we had a business that was pretty flat at the revenue and earnings line. And then in '18, when you adjust out for the impact of tax reform and 606, we had a 3.5% increase in EPS, and that was even with some headwinds in there from the checkout dilution from Straight Path and a couple of other items. So good EPS growth in the core business in '18 and then you see us building on that in '19. And we tried to provide a little more commentary in the prepared remarks, so you can get the flavor of it and get some of the puts and takes that get us to the overall guide. But certainly, it's based off of the core underlying business continuing to grow year-over-year.

Brett Feldman - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

And if you don't mind, just a quick follow-up. You walked through the wireless components that are driving that core growth. What have you assumed for Oath in your outlook for 2019 that were Verizon Media services? I believe it was dilutive to earnings in '18. What are you assuming the impact will be this year?

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

Yes. So Verizon Media Group, certainly, we talked a lot about in the second half of last year. We didn't provide a breakout of earnings. I'm not going to now. But certainly, when you see a negative 6.9% revenue growth in 3Q and negative 5.8% in 4Q, it wasn't as much of a contributor to earnings as much as we would have liked to have been last year. The assumption, as we head into this year, is that we'll make progress on the revenue line. And as they make progress on improving that revenue trajectory, it certainly will have a -- will change the earnings side as well. But -- so we would expect the -- they've got some good plans in the business. We now need to execute against those, get the revenue trajectory turned around, and that will then impact earnings in a positive way as well.

Operator

Your next question comes from David Barden of Bank of America Merrill Lynch.

David Barden - *BofA Merrill Lynch, Research Division - MD*

I guess, a couple for Matt. You're focusing on the wireline side, Matt, kind of pros and cons. We saw a little bit of an uptick in enterprise. We saw a big step down in wholesale, and margins really kind of came off in that division. And I'm wondering if that's going to be kind of a focus for the Voluntary Separation Program that you've undertaken, and that's -- we're going to see some of that. So if you can kind of walk us through the drivers on the wireline side. The second question is just for the sake of kind of thinking about 2019. Where are we going to see the IFRS 16 lease accounting changes kind of have an effect on the business on the income statement? That'd be helpful.

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

Thanks, David. So on the wireline side, and I'll ask Hans to add a couple of comments as well around it. But certainly, the ongoing secular decline in some of the legacy technologies, that continues. What's encouraging in the business, so -- is as we build out our fiber assets and the opportunities, that creates there some of the incremental technologies we're deploying in the area like SD-WAN. We're seeing some good progress to offset those secular declines. So we will continue with that. And then as you rightly say, as you think about the margins as you head into '19, wireline will see a good part of the benefit from the Voluntary Severance Program. So that, in addition to the other ongoing cost actions that we continue to take, should be of assistance to the wireline margins in '19.

Hans Vestberg - *Verizon Communications Inc. - CEO*

Yes. And if you look at the whole wireline team, as you rightfully pointed out. I mean, we have a secular decline in certain areas there but -- we also see -- with the assets we are now bringing out with Intelligent Edge Network, we see a possibility for many new solutions sort of coming out of our customers based on the fiber we're deploying. But also, when it comes to SD-WAN and a couple of other very important solutions that we're bringing out, at the same time, the small and medium sized segment's very important for the U.S. economy, where we are well positioned. The wholesale has, of course, come down a little bit. But remember now, we are deploying more infrastructure than ever before. So I think that over time, but it will take some time, we will definitely see even more possibility there. We have a very strong focus on that team to actually break the trend, and we have now been coming down for -- when it comes to growth. I think the team is really focused on getting new products out, and we have a really good customer base throughout the wireline base. And as we move into the second quarter and our customer-centric organization, it will even be more important with these customers that we can work straight with all our product portfolio from wireline, wireless, the IoT business, et cetera. So I think we're really focused on coming back to growth. At the same time, you see that we're taking out costs, so we see that we're managing that. So again, we have a surgical focus on actually top line, but at the same time seeing that we're managing our cost basis at the same time. And I think that Matt and the team are on to that operation all the time, and we will continue so in 2019.

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

Yes. On the lease accounting, David, so a couple of different things. On the income statement, as you heard upfront, we expect $0.01 to $0.02 of headwind per quarter. That's going to come mostly above the line. There may be some initial adjustments that'll hit below the line, but mostly above the line. If you think about it, there's some costs, upfront costs associated with leases that we historically would have capitalized under the old rules that we won't necessarily be able to capitalize all of those rules -- all of those upfront costs under the new rules. So that's where you'll see some of the change come through. From a balance sheet standpoint, we will be grossing up both the asset and liability side of the balance sheet in -- at this point, we expect in the $21 billion to $23 billion range. So that's the impact you should see come through in the first quarter of 2019 from adopting that new standard.

Operator

The next question comes from Craig Moffett of MoffettNathanson.

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

I wonder if we could just stay with the discussion of wireline for a second. Matt, when you were talking in your prepared remarks, you talked about pressure from programming costs. I wonder if you could just think about kind of the Fios Video business for a moment. It seems like you've been hitting on some of the same themes for a while now, and that it may be right for sort of reimagining what you do with that business. Can you just talk about your strategic thinking about how long does it make sense to stay committed to a linear video product for Fios versus certain repositioning it along with your 5G product as really almost a pure connectivity service focused on broadband?

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

Yes. Thanks, Craig. So, as you say, a number of the trends we've seen in wireline have been ongoing for a number of years, including the increase in content cost. So we continue to look for creating different options for customers that make sense for the price points you can then put in front of customers. And so -- but we don't expect the trajectory of content cost to change significantly over the next few years unless we take some actions. And if we have the opportunity to provide customers with different ways of getting to the video content they want, we will certainly be excited about doing that. So look, ever since we did Choice TV about 4 years ago now, we've been looking at ways to give customers better choice around the cost of getting their video product, and we'll continue to do that.

Hans Vestberg - *Verizon Communications Inc. - CEO*

No, and I agree with Matt there. We will, of course, over time, see that we can create the optionality for our customer to choose between different solutions for their TV viewing. So we will have that definitely in our pocket. Initially, of course, 5G Home has been focused on other cities than our footprint for Fios. But ultimately, we will see that our customers have all the choices when it comes to how they want to consume their video. I will see the trends in the market. And as Matt said, we are working hard with our cost in the Fios business all the way from content to other cost elements to see that we're managing that well. But ultimately, we need to create optionality for our customers that what Verizon all has set down, and that we'll continue to do.

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

I guess, if I just -- if I was going to paraphrase, it sounds like you still believe that the linear video product is still helpful in your ability to market Fios broadband and that Fios broadband is not more competitive on its own as a broadband-only product?

Hans Vestberg - *Verizon Communications Inc. - CEO*

No. I think that first of all, we're going to manage our customers and see that they are getting what they want. I mean -- and we're going to follow the market very closely. But we still have plenty of customers using our Fios business on the linear TV, and we will continue to serve them if they think that's important. But at the same time, we're going to create optionality, and that's the job that we have as a tech innovator to constantly innovate and bring new solutions to our customers as the markets are evolving. So we were going to see that the ones having Fios they are getting that. We have upgraded our Fios technology during 2018 and 2017 after a while of holding back a little bit. You'll also see that the ones that our customers that feel that is good service, they are getting more of the service as well. So we will continue with that, but at the same time, create optionality over time. That's what we will do.

Operator

The next question comes from Michael Rollins of Citigroup.

Michael Rollins - *Citigroup Inc, Research Division - MD and U.S. Telecoms Analyst*

Just a couple, if I could. First, going back to the comment for expanded commercial launch of 5G in 2019, can you frame how much of the country Verizon will cover for mobile 5G by the end of '19 and maybe also by the end of 2020? And then secondly, can you quantify the specific potential earnings benefit from the Voluntary Separation Program once it fully rolls through the financials?

Hans Vestberg - *Verizon Communications Inc. - CEO*

Okay. If I start with the 5G, I mean, we have not disclosed where we are on the deployment. I can say we're deploying as fast as we can. And much of the work that we have been doing in the last couple of years is, of course, to prepare everything from the fiber to the agreement with the cities to get the Intelligent Edge Network from the transport network, core network all out to the access. As the industry matures, the equipment is maturing for NR, so we can bring that in. And we actually have quite a lot of deployment already of those types of ready-base stations. So we will come back to that when we commercially launch that. What we have noted, there's nothing we want to disclose for competitive reasons. So I won't talk about it right now. But I think what is important to understand is the lead that Verizon has on 5G. But we have been on to this for several years, including the millimeter wave, where already our commercial service, where we, of course, not only understand the engineering of the 5G technology and the spectrum, it's also all the way from operations, marketing, installation, all of that. And that is extremely valuable insight when we want to go fast as soon as we see that we have all the pieces that is needed for launching 5G Home or 5G mobility with the ecosystem there and all of that. So again, we have triggered the industry to be probably 1.5 to 2 years ahead of the schedule of 5G. We think that is enormously important for Verizon to be on the forefront of innovation. And we're going to push that. As I said, we're -- nothing holding back after coming out to 5G, it's more that we need to see that the ecosystem is equally ready as Verizon is right now.

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

Mike, on the voluntary benefits, so as we announced 10,000 people coming off payroll, in terms of the benefit this year, they come off in predominantly 3 different waves. Some came off at year-end, and we've got a couple of additional waves coming off. So that factors in. We'll have a small amount of backfills, not for exactly the same positions, but as we reimagine the work. But net, net, a significant -- down the vast majority of that 10,000. So the timing at which people come off will matter. Remember, the charge we took was $1.8 billion. We haven't disclosed what we expect the income statement benefit in 2019 will be, but certainly, we expect to get a good payback on that initial cost of doing the severance. So you should expect a pretty significant benefit in 2019. And as we continue to change the way the work gets done, those heads don't come back into the business, and that should be a sustainable cost improvement as we go forward.

Hans Vestberg - *Verizon Communications Inc. - CEO*

And I just want to put it into context. I mean, remember, we started with a lot of transformation in the network. And by that, you have the new -- a lot of new ways of working. Then secondly, on top of that, we also defined a new way of working with the right team, where we have a fairly large outsourcing ongoing. At the same time, we have the voluntary program. All in all, it's our way to prepare ourself for the future to be even more efficient, so that we can be even more agile in the future. And you saw also last week, I guess. We had announced also that we're doing a work in the Verizon Media Group, where we out there are reducing. And all in all, it's part of a large transformation for us to prepare doing that when we are as strong as we are right now. So we're actually coming out there when the competitor landscape continues to be around than what's happening. We're going to be agile and much more quick on the investments, et cetera. So I think it's a larger transformational dividend launch in the third part of that transformation, of course, the Verizon 2.0 that we are implementing in the second quarter in order to have much more customer-centric solutions for our customers. And that's based on our assets when it comes to the network, our brand, and our distribution and seeing that we're excelling in this marketplace. So that -- so you need to put all that in the context when you think about what we're doing right now. And I think I've been here now for quite a while. I mean, I see the response of the organization be very positive to all the change and to see that we continue to be the leader in this market.

Operator

The next question is from Matt Niknam of Deutsche Bank.

Matthew Niknam - *Deutsche Bank AG, Research Division - Director*

Just 2 brief ones, if I could. First, have you seen any signs of impact in the business from either a slowing macro backdrop or the government shutdown earlier this month that we should consider? And then, secondly, on the wireless competitive landscape, can you just talk about what you saw in the marketplace in 4Q and whether anything has really changed materially thus far in January?

Hans Vestberg - *Verizon Communications Inc. - CEO*

Yes. Matt, so on your first question, no major impact at this point on the macro economy or even the shutdown. On the shutdown, we did see some impact in our government business, as you would expect, but nothing significant to the overall business. And then in the wireless market, we see a continuation of the trends that we saw in 2018. The vast majority of the promotions now are more on the handset side, the hardware as opposed to on the service revenue. We continue to see that promotional activity in the marketplace, but we continue to believe that -- and see the evidence with the great network experience and having the right offers where we compete effectively. And I would reiterate what we said earlier. When you talk about that Best Network experience, when you look at a number of the third-party surveys that came out for the second half of 2018 performance, not only did our performance improve, but we widened the lead against the competition. So that continues to matter to our customers and put us in a position to compete effectively in the marketplace.

Operator

Our next question comes from Mike McCormack of Guggenheim Partners.

Michael McCormack - *Guggenheim Securities, LLC, Research Division - MD & Telecommunications Senior Analyst*

Maybe just circling back on the wireline side. The enterprise decline seemed to be a little bit more muted this quarter. Was there some sort of CP benefit that you got or anything else going on, on the enterprise side? And then secondly, on the competitive front, I guess, both in wireless and wireline, any change from the recent launches in cable? I know we have Charter launching wireless. And in the broadband side obviously rolling gigabit services across the footprint, any change that you're seeing across both of those segments?

Hans Vestberg - *Verizon Communications Inc. - CEO*

Well, the enterprise decline, there was nothing special from that. It was also a normal mix, and of course we had some good wins in the quarter, but it was nothing from the CP that was sticking out. On the MVNO, I mean, I can only comment that we're happy with the agreements we have. I mean, we -- for us, with the technology and the network we have, I mean, it makes sense to work with MVNOs. And I think that we are very happy with the setup that we have with the 2 cable guys right now in the market.

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

No, exactly. I think the -- nothing we saw changed significantly in fourth quarter from the trends we discussed previously in the year in terms of the makeup of competitors in the marketplace. And look, as the supposed gig footprints expand, it doesn't seem to be impacting our competitiveness. It's also -- we continue to believe by having the best product out there is resonating with customers, and we welcome the other guys into the market and look forward to competing with them.

Brady Connor

This is all the time we have for questions today. Before we end the call, I want to turn it back over to Hans for a few closing comments.

Hans Vestberg - *Verizon Communications Inc. - CEO*

Thank you, Brad. And I'll just summarize up a little bit what we have been 'discussing. I mean, first of all, we have a strong financial operating performance in the fourth quarter, but not only that, the whole 2018. I think the wireless team has built the momentum all the way from Unlimited launch. I have to say I'm proud of the team that continues to innovate and as Matt has said several times on this call, that gives us a very good start for 2019, what they have been doing so far this year.

So we are coming in with -- in 2019 with good momentum, both from a business point of view, but also our business excellence work we are continuing to doing. And we are in the start of it. And I think that both Matt and I, we will do it in the best way and in a cautious way, but also prepare ourselves for the future to be an even stronger company.

I've outlined my 5 key priorities. You heard them, and I think that they should be resonated with all of you, both from the growth point of view, implementing the new structure, the 5G and, of course, our asset in our employees, and continue also to see that our brand evolves and that we're doing the right thing for our society. I think that goes for any company in today's world where employees, customers and shareholders are expecting it from you. And I think that's our normal strategy. So it's nothing new, but it's more that we need to continue to leverage that in our humanability.

We will continue to focus on innovation and our network. There's no debate that, that is extremely important to us. And I'm proud of what the team did in the engineering in the network, on the 4G network. It continues to lead and extend the leadership, which I think is a great contribution to the skill set we have in our technology group. And that, of course, continue in the 5G, which we have already our 5G Home commercial. We want to see much more of 5G commercial, both Mobility and Home during 2019. And I hope that you are equally excited as I am, and I hope that you will join us for the Investor Day in February. We're going to bring the executive team there. You're going to meet the new leaders. We're going to go a little bit deeper on the things we're discussing today in the structure, what we're doing. And of course, we want to talk about 5G.

So with that, thank you for the time today, and great that you're listening. Thank you very much.

Brady Connor

Thanks, everyone.

Operator

Ladies and gentlemen, this does conclude the conference call for today. Thank you for your participation and for using Verizon Conference Services. You may now disconnect.
