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EDITED TRANSCRIPT

VZ.N - Q2 2020 Verizon Communications Inc. Earnings Call

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OVERVIEW:

Co. reported 2Q20 consolidated operating revenues of \$30.4b and GAAP EPS of \$1.13.



CORPORATE PARTICIPANTS

Brady Connor *Verizon Communications Inc. - SVP of IR*

Hans Vestberg *Verizon Communications Inc. - Chairman & CEO*

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

CONFERENCE CALL PARTICIPANTS

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

Colby Synesael *Cowen and Company, LLC, Research Division - MD & Senior Research 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*

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

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

Peter Supino *Sanford C. Bernstein & Co., LLC, Research Division - Research Analyst*

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

Simon Flannery *Morgan Stanley, Research Division - MD*

PRESENTATION

Operator

Good morning, and welcome to the Verizon Second Quarter 2020 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 over the call to your host, Mr. Brady Connor, Senior Vice President, Investor Relations.

Brady Connor - Verizon Communications Inc. - SVP of IR

Good morning, and welcome to our second quarter earnings conference call. This is Brady Connor, and I'm here with our Chairman and Chief Executive Officer, Hans Vestberg; and Matt Ellis, our Chief Financial Officer.

As a reminder, our earnings release, financial and operating information and the presentation slides are available on our Investor Relations website. A replay and 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 posted on our website. 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.



Now let's take a look at consolidated earnings for the second quarter. In the second quarter, we reported earnings of \$1.13 per share on a GAAP basis. Reported results included a pretax loss from special items of approximately \$255 million, including a net pretax loss of \$102 million related to early debt redemption costs and a net charge of \$153 million related to a mark-to-market adjustment for our pension liabilities. Excluding the effect of these special items, adjusted earnings per share was \$1.18 in the second quarter compared to \$1.23 a year ago.

Let's now move to Slide 4 and take a closer look at our second quarter earnings profile. Consistent with the approach we have shown for several quarters, we have illustrated the ongoing impacts to earnings from the adoption of accounting standard ASC 606 for revenue recognition in 2018. As a reminder, we expect 2020 to be the final year that the adoption of this standard will have a material year-over-year impact on our income statement.

As we illustrated in previous quarters, we realized a lesser benefit from the adoption of ASC 606 during the second quarter compared to the prior year primarily due to the deferral of commission expense. The reduction of the benefit realized creates a year-over-year headwind to both reported and adjusted earnings per share, which will continue throughout 2020. The impact was \$0.02 for the quarter and \$0.05 year-to-date. For full year 2020, we continue to expect the headwinds from the deferral of commission expense to be approximately \$0.09.

Matt will go through the COVID impacts that we experienced throughout the quarter in detail in his section. Overall, we estimate that there was a \$0.14 headwind included in the reported and adjusted EPS from COVID during the quarter. In addition, we recognized an aggregate tax benefit of \$156 million in connection with a series of legal entity restructurings related to an internal reorganization, which resulted in a benefit of approximately \$0.04 within our reported and adjusted EPS. While adjusted EPS was down 4.1% in the second quarter as a result of the impact of COVID and ASC 606, we continue to see underlying growth in our operations.

With that, I'll now turn the call over to Hans.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thank you, Brady, and thank you, everyone, for joining this earnings call. Let me reiterate what I said in the -- after the first quarter. We are in unprecedented times with multiple crises and a business that we need to run at the same time. I can only say to all of you I'm extremely proud of how Verizon and our employees have responded to all of it.

I think of this quarter as a quarter where the stakeholder capitalist strategy of Verizon really bore fruit. I have reported many earnings calls in my life. This quarter comes together with good support of our employees, a great support to our customers when it comes to our network and our flexibility, a big contribution to our society when it comes to how we are acting and supporting the society in these tough times, but also a very good and solid financial result for our shareholders. That's a really good sort of ending of the second quarter or the first half of a very unprecedented year.

We have continued as a leadership team to work in a 3-pronged governance. Part of our team is working with the daily crisis to see that we are doing the right things and with the right priorities in this pandemic, economical downturn, racial injustice that is ongoing in the country. The second part is, of course, working business as usual and seeing that we continue to lead and deliver results for all our stakeholders. And finally, the third prong is to work with what are opportunities created from this pandemic, economical downturn so we come out even stronger as a company after this, coming out to a new normal.

Our strategy and our underlying strategic priorities has not changed during this time. They have reconfirmed that we are on the right path with our network-as-a-service and our go-to-market. Many of the things that we outlined in the Verizon 2.0 are really playing a vital role for us being able to deliver to all our stakeholders, especially to our customers in times like this.

One of the transformations was, of course, to have a purpose-driven company where our employees are very engaged and excited of our future but also seeing that we're doing the right thing for our society. If I look back on the first half and looking back on our response to the COVID-19, I think we have done very well. We have decided to prioritize the health and safety of our employees. Not only that, we have also started to return to office with very safe protocols to see that our employees actually can work in the offices if they wanted to.

But if you then look at our frontline, which never closed and never worked from home, they have continued to innovate. They innovate with curbside delivery in our stores, Fios in a box, et cetera. And as Matt will later on talk about, we have seen a great uptake on those innovations when we look into the latter part on the second quarter.

If we then talk about the racial injustice that we have seen in the country the last couple of months, I'm also proud for how we have really brought that together with our team to discuss this, having a conversation in the company but also with our partners and externally. No one can say we have done enough, and we just need to continue to do that. At the same time, we have donated money for some of the most important foundation that can support that transformation.

Finally, I am also proud that we have packaged all our activities that we are doing for our social stakeholders in what we call the Citizen Verizon. I will not dwell on that today, but it's an important piece of our overall strategy.

In addition to serving our employees and society, we have, of course, also been very focused on executing on our core business and our core strategies and continued to develop our platform for the network-as-a-service. I'm extremely pleased to report that once again, for the 25th time, we are winning the award for the best LTE network from J.D. Power. I have to say the engineers in Verizon continue to amaze me, and they will continue to do so in the future.

Remember, in February, we made some bold statements about our deployment of 5G in 2020, all the way from mobile edge compute, 5G Home cities, 5x more small cells on 5G and some 60 cities on 5G Ultra Wideband as well as a nationwide coverage on 5G with DSS. I'm happy to report we're on track on that and in some cases, even ahead of the plan. We have continued to deploy our technology. Our test with DSS is going very well. And as well, we have launched some of the 60 markets when it comes to mobility and some additional markets on 5G Home. However, you're going to see that in the second half of this year, we have a lot of new things happening and building on the foundation of the strategy and the strategic priorities that Verizon has outlined in the last couple of years.

If you then look into the different segments. And first of all, starting with Verizon Consumer Group, in the second quarter, continued to gain improvements when it comes to the customer loyalty, not only in measurement but also by creating new services. We saw them coming out with a Verizon credit card in the second quarter, and they continue to gain a lot of accounts based on their Mix & Match and the way we have developed the ladder with different unlimited offerings. I'm really happy with what Ronan and his team has done, and you're going to see in the financials and operating numbers that even with the challenges we had, they have performed very well.

If you look at the Verizon Business Group that are in the middle of the transformation, and I have to say, the way they are now dealing with customers are bearing a lot of fruit. They are progressing well with the transformation, and I'm also happy to report the acquisition we did in the second quarter of BlueJeans are performing well. And the growth, both on usage and new customers, are continuing to go very well. And I was also happy last week to announce a large partnership with Airtel, one of the largest carriers in the world, to use BlueJeans for their corporate customers in India.

Finally on the Verizon Business Group, 5G mobile edge compute, an important piece of our growth strategy. We have said that we're going to have 10 5G mobile edge compute sites this year deployed. And now we also start gearing up our partners. We have announced IBM and we also talked about SAP as 2 very important application providers that's going to take part on our deployment and that we are collaborating with right now. So we're creating a lot of excitement around the 5G mobile edge compute and a lot more to come in the second half.

Finally, Verizon Media Group, of course, being impacted by the advertising market coming down. We see them coming back a little bit in June. But anyhow, they have done also quite a lot of work to see that we continue to create more monthly active users on our owned and operated properties. And they also made an agreement with Walmart, which is, of course, one of the largest companies on earth to see that they are using Yahoo Mail as a grocery and purchasing platform.

Finally, our financial team under Matt has continued to do good work on our balance sheet. We are coming out from the quarter with elevated liquidity. But not only that, we have continued to work well on our net debt, and we have reached credit metrics levels similar to pre-Vodafone level. So that's really good work by the team.

If we look into the financials of the second quarter, and Matt will cover that in more length. I only want to say that we had a very good quarter. We show resilience. Of course, there are challenges in certain customer groups like Verizon Media Group, small and medium businesses, but many others have actually been performing well.

We also need to remember in the quarter, we have had not all our stores open when it comes to consumers as well as limited sort of visiting hours, et cetera. However, if you see in the momentum we created on the consumer side, we added 26,000 consumer postpaid accounts this quarter, which is, I would say, good work compared to what we had lost 1 year ago in the second quarter. We also are on historical lows on our churn. And all in all, that is giving us a good beat in the Verizon Consumer Group.

Finally, I just want to highlight very strong cash flow. Of course, we have some extraordinary tax items there, but in general, it was a strong cash flow quarter. And as Matt will talk about with you later, we have not increased our bad debt reserves in the second quarter, and he will also allude to we have good metrics when it comes to what happened in June compared to the rest of the quarter.

So all in all, I think we have executed well for all our 4 stakeholders in this quarter. And by that, I hand it over to Matt to go through the financials in more detail.

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

Thank you, Hans, and good morning, everyone. Let me echo what Hans said. The second quarter is unlike any other we have seen, and I'm extremely proud of our team and our performance. The results demonstrate the resiliency of our business and the agility of our employees to not only adapt to rapidly changing conditions but to deliver for our customers and communities while also producing strong financial results.

Due to the strength of our business model, we delivered \$1.18 of adjusted earnings per share. This includes an estimated net impact due to COVID of approximately \$0.14, primarily driven by impacts to wireless service revenue and lower advertising and search revenues from Verizon Media Group. While the company's performance year-to-date has been strong, there is still a high degree of uncertainty regarding when and how quickly the economy will recover. We are confident that we are implementing the right approach to meet demand as consumer and business activity increases.

Let's begin with the review of our consolidated operating and financial results on Slide 7. In the second quarter, consolidated operating revenues were \$30.4 billion, down 5.1%. Results reflected significant declines in wireless equipment revenue, which was down approximately 20% in the second quarter primarily due to limited in-store engagement and the impact of COVID on customer behavior. As we highlighted in the previous earnings call, consolidated wireless service revenue was impacted by the commitments Verizon made to waive certain fees and provide additional data for our customers as well as significant changes in customer roaming activity during the quarter. In addition, we experienced lower advertising and search revenues within Verizon Media Group as customers scaled back their advertising campaigns.

Including the impacts from COVID, adjusted EBITDA was \$11.5 billion as compared to \$12.1 billion in the prior year. This is primarily the result of the wireless service revenue impacts and lower advertising and search revenues. Second quarter adjusted EBITDA margin was 37.9% as compared to 37.7% in the prior year and includes headwinds of approximately 30 basis points from the deferral of commission expense that Brady discussed earlier.

Through our Business Excellence program, we have realized cumulative cash savings of \$7.2 billion and remain on track to achieve our goal of \$10 billion of cumulative cash savings by the end of 2021. We will continue our focus on operational efficiencies even after the current target is achieved. The current environment provides us with the opportunity to explore additional longer-term business transformation initiatives and related cost savings.

Let's now turn to our segment results, starting with consumer group on Slide 8. Our consumer team quickly pivoted to adapt to the new environment. In mid-March, we temporarily closed the majority of company-operated retail stores and transitioned most of our employees to work from home, including telesales and customer service roles. We optimized our sales channel to drive more activity through online and through telesales while introducing touchless retail and curbside pickup to streamline the customer experience as we reopened our retail stores.

People are depending on connectivity now more than ever, and they need reliability and quality of service. And because of that, we are seeing them increasingly choose Verizon. For the quarter, we increased postpaid customer accounts by 26,000 as compared to a loss of 34,000 in the prior year, highlighting the momentum in the business and value of the Verizon customer experience. We have seen activity levels increase during the quarter with an expansion of overall volumes in May and June.

Customer retention is at an all-time high and is both a function of customer activity as well as a testament to the Verizon network performance and customer experience. As a result, postpaid phone net adds were 97,000 for the quarter as compared to 73,000 in the prior year while phone gross adds were down approximately 26%. We experienced phone churn of 0.51%, an improvement of 21 basis points from a year ago. Our retail postpaid upgrade rate remained low at 3.9% during the quarter, contributing to the decline in wireless equipment revenue.

Fios Internet net additions of 10,000 were down sequentially and year-over-year as Fios installations were limited during the quarter due to temporary restrictions put in place on work inside customers' homes. Our team responded with innovative solutions in developing self-installed capabilities, and beginning in June, we resumed technician in-home visits across our footprint. Fios Video net losses were consistent with previous quarters as cord-cutting trends continued.

Now let's move to Slide 9 to discuss the consumer financial performance. Consumer operating revenues were down 4%, primarily driven by a significant decrease in wireless equipment revenue due to low activation levels. This decrease was offset partly by growth of 15% in other revenue, primarily driven by recurring services such as device protection. Wireless service revenue was down 2.7%, primarily driven by declines in roaming, usage and waived fees that accounted for approximately 320 basis points of pressure in the quarter.

Consumer EBITDA margin was 47.0%, which was up 50 basis points from the prior year and includes approximately 40 basis points of headwind from the deferral of commission expense. Margins benefited from lower equipment volumes in the quarter though, as a reminder, lower equipment revenue has a limited impact on consumer EBITDA dollars as the segment primarily operates on a device payment model.

Now let's move to Slide 10 to review the business group results. Reliable and secure connectivity have never been more critical as companies continue to adapt to new ways to support their employees while simultaneously driving their businesses forward. During the quarter, our business team responded to the challenges of COVID, handling increased traffic needs while also meeting a surge in demand for connectivity and devices, particularly from public sector and enterprise clients.

While wireless demand remained high throughout the quarter in public sector, we experienced offsetting pressures in both small and medium business as well as global enterprise. As a result, segment phone gross adds were down approximately 17% from the prior year, contributing to postpaid phone net adds of 76,000, down from 171,000 in the year-ago period. Business segment phone churn of 0.90% in the quarter was down 7 basis points year-over-year, driven by strength in public sector.

Let's now move to Slide 11 to review the business financial performance. Total operating revenues for the business segment were down 3.7% from the prior year. Wireless revenue was down year-over-year due to declines in wireless equipment revenue offset by 3.1% growth in wireless service revenue primarily driven by small and medium businesses as well as public sector customers. Wireless service revenue growth included approximately 400 basis points of headwinds from lower roaming and usage revenues in the quarter, which are likely to continue in the third quarter.

Suspended lines as a percentage of the base have come off the highs we saw early in the quarter but remain above pre-COVID levels. The likelihood of these lines to turn into active status is primarily a function of macroeconomic conditions and will be a significant factor in upcoming wireless service revenue growth rates.

Operating revenues were also impacted by legacy wireline declines. However, global enterprise wireline revenue was nearly flat in the quarter, a significant improvement, primarily resulting from strong demand for advanced communication services during the pandemic. Business EBITDA margin in the quarter was 26.2% as compared to 27.3%, which included approximately 20 basis points of headwind from the deferral of commission expense.

Now let's move on to Slide 12 to discuss Verizon Media Group. As expected, the economic environment around COVID had a meaningful impact on both search and advertising performance in the quarter. Total revenue is \$1.4 billion, down 24.5% compared to last year, primarily as a result of COVID-related impacts.

We continue to drive increased customer engagement on our owned and operated properties and saw monthly active users up approximately 4% with strength in both Yahoo! Finance and News, which were up 45% and 25%, respectively. For the quarter, we added 1/3 more client accounts on our demand side platform compared to the prior year and signed key partnerships with leading content and e-commerce companies. As a culmination of this strong momentum, Verizon Media won Adweek Readers' Choice: Best of Tech Partner Awards for all 4 nominated categories, DSP, SSP, ad network video and ad network mobile.

Let's now move to Slide 13 for a quick look at the overall wireless performance. Slide 13 shows the key metrics and financial data of the combined wireless products and services for the consumer and business segments for the second quarter. Total wireless service revenue was down 1.7% over the prior year, including the headwinds mentioned in both the consumer and business segments. Phone gross adds were down 23.3% while phone net adds were 173,000 as compared to 244,000 in the prior year. Phone churn was 0.58%, down 18 basis points from the prior year. Additional details are provided in the financial and operating information and our supplemental earnings release schedules on our website.

Now let's review our cash flow and balance sheet for the quarter on Slide 14. Year-to-date cash flow from operating activities totaled \$23.6 billion, an increase of \$7.7 billion from the prior year. The year-over-year growth was driven by strong performance in the business as well as nonrecurring items and timing differences. These items include the COVID-related postponements of approximately \$2.0 billion of second quarter tax payments to July 15, the receipts of the previously disclosed \$2.2 billion cash tax benefit related to preferred shares in a foreign affiliate sold during the fourth quarter of last year, improvements in working capital primarily due to lower volumes and payments related to the voluntary separation plan in 2019 that did not repeat this year.

Capital spending for the first half of the year totaled \$9.9 billion, which was up approximately \$1.9 billion year-over-year. At the beginning of the year, we indicated that we expected capital spending to be more front-end loaded, and we see that in our first half results. Our capital expenditures further support capacity to traffic growth across our networks while we continue to deploy more fiber and additional cell sites to expand our 5G rollout. We maintain our full year 2020 CapEx guidance of \$17.5 billion to \$18.5 billion.

The net result of cash flow from operations and capital spending is free cash flow for the first half of the year of \$13.7 billion, a year-over-year increase of 74%. Despite the pandemic, our balance sheet was further strengthened in the quarter. We continue to operate with elevated liquidity levels, which we believe is appropriate in this environment.

During the quarter, we further lowered maturities through year-end 2022 by \$3.8 billion with liability management transactions, which also improved overall portfolio borrowing costs. We now have no unsecured bond maturities for the remainder of this year and less than \$1 billion in 2021. Overall net debt for the quarter decreased sequentially by \$5.7 billion. Net unsecured debt totaled \$94.4 billion for the quarter, resulting in a net unsecured debt to adjusted EBITDA ratio of about 2.0x, down slightly from last quarter.

Though we are at the high end of our targeted range of 1.75x to 2.0x, we continue to manage our balance sheet under our capital allocation policy. Our estimate of the leverage ratio Standard & Poor's uses for their credit rating analysis is now less than their boundary for an A- rating. Therefore, we have now met our commitment to return to our pre-Vodafone credit rating profile.

Let's move on to Slide 15 to take a deeper look at the trends we have seen exiting the second quarter. This slide highlights select key metrics and year-over-year results for both the full quarter and the month of June. Our various customer groups experienced a wide range of trends in customer demand during the quarter and exited the period with different trajectories.

As restrictions began to ease during the second quarter, we gradually started reopening our company-operated stores with limited hours and our new touchless retail approach to further employee and customer safety. At quarter end, more than 60% of our stores were opened, up from roughly 30% in April, and we expect to be close to fully opened by the end of July, conditions permitting. As a result, we exited the quarter with significantly better levels of consumer activity than at the beginning of the quarter.

Consumer postpaid wireless gross adds declined approximately 21% in June, a material improvement over the decline seen in April. In June, upgrades were relatively flat versus the prior year given pent-up demand, the availability of more 5G devices and a new lower-priced iPhone. Despite the increased gross add activity, churn remained historically low in June.

In Fios, we transitioned from an initial period of not performing installations to the introduction of Fios in a box in late April, to having technicians resume entering customer homes in the beginning of June. And we are constructively working to bring our installation pipeline to normal levels. This activity led to a significant improvement in Fios Internet gross adds in June, which has carried into July.

In our business group, we have separated results for the different customer groups as they experienced different trends. We continue to see significant pressures in small and medium business. June gross add declines of approximately 23% for small and medium business were in line with the impacts experienced at the onset of the pandemic while phone churn was marginally higher. Similar to consumer, upgrade activity was more robust in June. While we are encouraged by the June trends, we may see ongoing impacts to this cohort.

In April, we highlighted the surge in demand of connectivity within our public sector and certain global enterprise customers. As we exit the quarter, we continue to see robust demand for both phones and connected devices within the public sector. In global enterprise, we experienced a year-over-year reduction in wireless volumes beginning in mid-April but exit the quarter with improvement in gross add activity. We remain committed to serving the needs of these important customers, including all those on the frontline as they continue to adapt to new ways of doing business.

Throughout the quarter, we made a number of voluntary commitments, most notably participating in the FCC's Keep Americans Connected Pledge, to ease the impact on consumers and small businesses by waiving various fees, agreeing not to disconnect eligible customers for nonpayment and providing increased data to metered customers, among other initiatives. The effect of these commitments, along with reductions in roaming and other usage-based activity, resulted in headwinds on total wireless service revenue in the quarter that were in line with the expectation shared on our first quarter earnings call.

Ongoing impacts to customer behavior from the pandemic mean that usage-based revenue, including roaming revenue and travel pass, is likely to be suppressed for some time. And we expect total wireless service revenue in the third quarter to increase sequentially and for the year-over-year growth rate to improve from the second quarter and be within a range of negative 1% to flat. We are encouraged by the payment trends of consumers and small businesses that opted into the Keep Americans Connected Pledge, with the majority of these accounts making some payments while under the pledge and more than 1/3 of such accounts current at the end of the pledge. At this time, we have taken no additional bad debt reserve.

We continue to monitor payment trends and will reassess as needed. We are working with affected customers and have a long and successful track record in this area. These customers value the communication services that are vital to their everyday lives, and we value the longevity of these relationships. To that end, we have enrolled many impacted customers in a repayment program beginning in July, providing extended terms for past due service and device payments. We believe the vast majority of these accounts can be cured over time but it will heavily depend on the macroeconomic environment.

As previously mentioned, declines in Verizon Media revenue were consistent with the anticipated range provided in April, although trends improved in June and were down approximately 19% as compared to the prior year. Advertising is rebounding faster than search, with strength in our owned and operated properties. Given this trajectory, we anticipate that the revenue decline percentage in Verizon Media will be in the teens in the third quarter.

Now let's go to Slide 16 to discuss our guidance and outlook for 2020. We are very pleased with the momentum we saw building throughout the quarter, but I would also note that a fair amount of uncertainty remains in the operating environment particularly as many states now confront rising COVID cases and some are reimposing restrictions. The second quarter demonstrated our ability to produce strong earnings even in a challenging operating environment.

We are maintaining the outlook provided in April for adjusted EPS to be within a range of negative 2% to positive 2% for the full year. It is important to note that our guidance assumes no significant deterioration to the macroeconomic environment or material changes to our bad debt reserves. Guidance for other income statement items, including depreciation and amortization, interest expense and the adjusted effective tax rate, remain unchanged from our initial outlook.

As mentioned previously, we are maintaining our full year CapEx guidance of \$17.5 billion to \$18.5 billion. At the beginning of the year, we communicated expectations of CapEx to be front-end loaded in 2020, and that is exactly what we have seen. We continue to have good access to the supply chain for equipment and related items and remain confident we can achieve our build-out plans for the year.

In summary, I am proud of this team's performance in the second quarter, adapting to unprecedented circumstances while continuing to make strides moving our business forward. Our balance sheet remains strong and provides us confidence to continue to invest in the business while also supporting all of our stakeholders.

With that, I'll turn it over to Hans to discuss our priorities for the remainder of the year.

Hans Vestberg - *Verizon Communications Inc. - Chairman & CEO*

Thank you, Matt. And let me summarize a little bit where I think we stand when we're now entering the second half of 2020. First of all, I think we are entering with strong fundamentals. We have the network that is performing very well. I talked about the J.D. Power, and the LTE network is really performing well.

We're entering the second part of 2020 with a growth mindset with a lot of key strategic partnership as well as activities. Our 5G are, of course, of essence coming into the second half but has already been built in as we are building so much in the first half. The way we have been dealing with the pandemic and all the other crisis will continue, of course, in the second half. And I think we are coming in with a good foundation, with a strong brand, but also a strong employee sentiment, how we are actually dealing with the situation.

And as I said before, Matt has prepared the balance sheet for us to be strong when it comes to going into the second half. And if I look into the second half of 2020, we are, of course, excited for scaling the 5G to nationwide, scaling the Ultra Wideband to over 60 cities, scaling the 5G Home to more than 10 cities and of course, start monetizing that. That's going to be a key focus for our executive team as well as capturing all the opportunities especially on the 5G mobile edge compute with our business-to-business applications and the way we're working with our partners as well as the partners that we have acquired like BlueJeans.

Finally, we also have a lot of customer innovation when it comes to our Mix & Match as well as how we're seeing that our customer can follow us on the journey all the way from the metered plan up to unlimited plan. And as we've heard previously, the way that Ronan and the Verizon Consumer Group has been working in the second quarter, we have continued to gain success with our unlimited. Our customers are moving together with us up the ladder.

And we also continued expanding into new customer groups with Visible, Yahoo Mobile and others. And we are working to see that we are addressing the full market and the opportunities regardless how the second half will look like in 2020. So all in all, I think we are in a very good position for executing and leveraging all the things we now have prepared in the last 18 months.

So by that, let me kick it back to Brady for starting the Q&A.

Brady Connor - *Verizon Communications Inc. - SVP of IR*

Yes. Thanks, Hans. And just a quick note before we get into Q&A, I just want to remind everybody we're in a quiet period for CBRS given the auction and the anti-collusion. So the comments we make around spectrum will be very limited.

With that, Angela, let's get started and take the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Simon Flannery of Morgan Stanley.

Simon Flannery - Morgan Stanley, Research Division - MD

Matt, thanks for all the color on the trends in June, very helpful. I wonder if you could unpack the \$0.14 of COVID impacts. And how much of that is sort of particular to Q2 with the Keep America Connected plan? And what elements do you think will continue on into Q3 and beyond?

And related to the outlook, you did talk about some of the SMB pressures, but generally, global enterprise wireline revenues were holding up given presumably some increased demand for capacity, et cetera. But how are you seeing -- we've seen stories about IT budgets getting cut. Are you seeing any signs that we may see more pressure on that side in the second half of the year?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

I can start, and Matt will chip in. I can say that in the quarter, Simon, we have met so many enterprise customers. And yes, there are, of course, some that are more hit than others that, of course, have their recourse on the IT budget. But the majority of the large enterprises, they feel that this is the time to digitalize. This is the time to actually use the momentum to be more digital using capabilities all the way from SD-WAN to video conferencing to 5G mobile edge compute. So I actually see a very good momentum with this type of customers, and I just wanted to chip in there before Matt comes in and comment to COVID-19 impacts. So Matt?

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

Thank you, Hans. Thank you, Simon, for the question. So \$0.14 of impact from COVID in the quarter, the vast majority of that is driven by revenue, both service revenue within the wireless side of the business, predominantly in consumer, but some in business and then also the impact in Verizon Media Group. So the service revenue, obviously, there was a couple of major components to that. One is the actions we took, we've talked about the Keep Americans Connected Pledge; but also the increases to customer data plans, those who aren't on unlimited. We had that during the course of the quarter as well. And then you had the impact from customer behavior, primarily around roaming.

So when -- as you think about coming into the third quarter, as we said, we expect service revenue to be better in 3Q than it was 2Q, getting closer to flat on a year-over-year basis versus the negative 1.7%. That's going to come from growing the accounts, growing the net adds that we had coming through, but also because we don't have all of those things taking place in the third quarter at the moment that we had in 2Q. But we do also expect customer behavior to continue to reflect what's going on. So we certainly don't expect roaming revenues to be at the levels they would have been without COVID. That will continue.

And then you mentioned on the business side, especially within SMB, that's a customer group we're paying close attention to in terms of how they navigate this obviously very difficult environment, working very closely with them. But certainly, there could be some pressure there. But all in all, the pressures that we saw in the quarter from COVID were as expected. And so we'll have some of those as we continue into Q3 and see some improvements in other areas as well.

Simon Flannery - Morgan Stanley, Research Division - MD

And so it will be below \$0.14, but will still be sort of incurring impacts...

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

Well, we'll wait and see how the environment plays out here. But certainly, we can -- some of the things, we'd expect to be a little bit better. As we mentioned on Verizon Media Group, they were negative 25% in revenue in Q2. We said we expect that to be in the teens in 3Q. That should give less of an impact there.

Service revenue, we hope we'd see a lower impact, but we'll see how the quarter plays out. Obviously, over the past 30 days or so, we've added a level of uncertainty to the forward view with everything -- the number of COVID cases around the country. So we'll see how the quarter plays out here.

Operator

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

David Barden - BofA Merrill Lynch, Research Division - MD

I guess I want to follow up on that answer, Matt. Obviously, at the top line, we're seeing some sequential improvement. The question I think that people have is, as we start to see the equipment revenue velocity -- or the equipment volume velocity improve in the third quarter, are we going to see an equal or potentially even offsetting effect on margins as we kind of look ahead?

And then I guess the second question I'd have would be just kind of zooming out a little bit and thinking about the 5G millimeter wave. Obviously, the critique has been that 5G millimeter wave availability is not that great. Is there any way that you guys can kind of offer some kind of metric or some kind of KPI on 5G millimeter wave availability in the markets where you put it out so we can kind of measure its growth?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

David, let me start on the millimeter wave discussion about that. So as I said, we are on plan to deploy more than 5x more millimeter wave base station this year compared to last year. So the footprint will be much broader. And we will be into 60 cities, and those cities will be much more covered than they were last year.

So -- and we are disclosing that -- usually on a fairly frequent basis, how that map is growing. As you've seen, we have launched fairly few markets in the first half when it comes to the 60. So you should expect quite a lot of noise from us in the second half, and we're really excited about that.

But you also need to think about our model will also include the nationwide. So think about our model being a millimeter wave that is transformative. No one is even close to it in the world. Then we will have a national coverage on top of that. And then in the bottom, we have the best 4G network in the world. I mean I don't think that our customer would be disappointed with that. We build things that are transformative, that are so different than the others.

So I would be excited for the second year if I would be you. I mean this is time when it's crunch time for Verizon. We have been here -- I've been talking about this for 1.5 years. I think our customers will be very excited in the second half. Matt?



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

Yes. So David, your question around equipment volume, certainly, we saw in June an improvement in the volumes across both consumer and business on the wireless side. But I don't expect that to have a material impact on volumes in the third quarter versus the second quarter. And that's largely because of the way we do the accounting now and being on the device payment plan model.

So you have -- if you get that increase in equipment revenue, you also get kind of a very similar increase in -- on the expense side. And even any higher commissions and so on under 606 now get recognized over the expected life of that customer. So the increase in volumes should not be causing a significant change in the margin, a hit to the margin there that -- as you phrased in the question.

One area where the volumes do maybe have any EPS or EBITDA impact is in especially enterprise and public sector, where you still have some of those sales on a subsidy model. But overall, the vast majority of our wireless business is now on device payment. And then you get a much closer matching of the revenues and the expenses. So I'm not expecting to see a significant headwind to the EBITDA in 3Q as volumes pick up.

Operator

Our next question comes from Brett Feldman of Goldman Sachs.

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

And I was hoping we could just follow up again on the outlook for improving wireless service revenue growth in the third quarter. It sounds like from your comments you're not expecting any further pressures from fees and usage-based revenues. And so I was hoping you could talk about what's going on with the mix at an ARPA level. Are you seeing customers continuing to upgrade into unlimited plans? Or has that slowed? And really, what's your outlook for what that pace of upgrading is going to be?

And then you did talk about the efforts you're making to help customers who've had payment issues. Can you give us any update on the number of accounts who are in some type of payment program? And I think that the thing most people are really interested in is how many customers have fully stopped making payments at this point in time. And what are your assumptions about how you're going to manage that base in the third quarter as you structure that outlook?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Matt, I think you are on mute.

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

All right. There we go. I forgot to come off mute. So Brett, as you -- thanks for the question. As you think around service revenue, it starts with having more customers as we come into the third quarter than the second quarter. I mean you saw the 173,000 adds in the quarter and especially the 97,000 in consumer and adding accounts. So that obviously is going to help us sequentially with billing those customers.

You mentioned some of the fees. We'll see how those play out, but certainly, that will be a factor. The usage from a roaming standpoint, we don't expect to see that get sequentially better as a large part of our roaming revenue is international, and we don't expect either business or personal travel to be at the levels this year -- it was last year for some time.

So all of those things will play in to service revenue being up sequentially. But it starts from increasing the base of our customers as we've done for a long time now, and that will continue to be the largest driver. We still have the ability to upgrade customers to unlimited. We made further progress on doing that during the course of the quarter and now well over 50% of our base on unlimited. There's still opportunity to step more customers up there as we go forward.



Pivoting to your questions around the customer payments and where we are with the Keep Americans Connected Pledge. Obviously, that pledge ended as of June 30. We ended at around 1.5 million accounts. It was right in line with our expectations 90 days ago.

I'd tell you what's most encouraging though is what we're seeing in terms of payment patterns from the customers. We have approximately 1/3 of the customers are current as of the end of June. I said in the comments that the vast majority have made some payments during that time period. I mean it's more than 80% of those customers -- those wireless customers who took the pledge have been making payments. So I am very, very encouraged by what we've seen, and my expectation is the vast majority of these customers will be customers of ours a year from now.

Operator

Our next question comes from Phil Cusick of JPMorgan.

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

First, following up on that last comment, Matt. So have you contacted everyone at this point as you've gone through July? And I think I believe you're on sort of a 60-day cutoff cycle at this point, so you would know by September 1, give or take, who of the pledges is going to come out or not.

And then for Hans, can you talk about sort of CapEx priorities and maybe how things might shift over the next year, assuming you get more mid-band spectrum? I know you can't talk too much about spectrum but how may capital spending shift there.

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

Phil, thank you for the question. So I'll go first on the follow-up question, then Hans can get on to CapEx. So here's what we did at the end of the quarter. For those customers who weren't current -- as I mentioned, more than 1/3 of them were current. So we saw the customers want to continue to pay for the service they get from us. We have a well-established process for customers who late pay. We do this every day. We've done it for years. But what we did for these customers in the Keep Americans Connected Pledge, we rolled them into a program that took whatever balance they had built up at the end of the pledge and put it to be paid off over a number of months. And so we've applied that to them.

As you said, because of the billing cycle and so on, we won't get to see where they are here for another few weeks. We're watching that closely. But as I mentioned, we've seen obviously an intent for these customers to continue to pay. We have a great track record of working with customers and when they have difficult personal circumstances, helping them get back current over time and allowing them to remain customers, and I expect nothing different with this group of customers in this situation.

Hans Vestberg - *Verizon Communications Inc. - Chairman & CEO*

Thank you. And about the CapEx, I mean, I'm just looking back at 3 years I have been in Verizon. Even though the overall absolute number of CapEx has been very stable, what is inside is dramatically changed all the time because we, together with our engineering team, is all the time doing the right priorities, given the assets we have. I mean you think -- 1 year ago, we didn't talk about DSS. But of course, our team was working to prepare all the networks so we can actually deploy DSS in all the radio base stations we have.

So we constantly are ahead of the game, thinking where -- what is needed to be preparing for the network. So I think -- but right now, our focus is very much about the commitment we have to our customers when it comes to 5G but also to keeping the best network on 4G. That's where we have it, and then do that fiber reach.



Those are the priorities, and it will continue. So then in the speculation on future spectrum or something, that's a little bit early to have right now. But I can tell you my team is always proactively thinking about how to do this network to continue to be the best in America. I mean there's no debate about that. And I have a high confidence that they will continue to do so when it comes to our CapEx allocation as well.

Operator

The next question comes 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 question about wireless competition. Obviously, T-Mobile just did some refreshing of their low-end pricing. Do you guys see this as sort of something new or aggressive? Or is it just sort of regular course of business?

And then as we look out into the second half, obviously, the industry has been talking about 5G for a while. We sort of had some pent-up demand given the low upgrades. Do you guys see the launch of the 5G iPhone, which looks like it's been kicked out into the fourth quarter, as a sort of a big event for the industry and one where -- similar to what happened with the LTE iPhone, an opportunity for Verizon to take share?

Hans Vestberg - *Verizon Communications Inc. - Chairman & CEO*

Thank you, John. First of all, I mean, I think we're as prepared as we can be. I mean we have prepared ourselves with our models when it comes to Mix & Match on the consumer side. We have taken out costs. We have the best network. I feel very good about the competition.

I mean we have always had competition. This is nothing new. And so I think Ronan and the team, because that's primarily where, I guess, your question is related to, I think they're well prepared. And as I said, I'm really excited for our second half and what we are doing right now. And we are prepared for it.

And when it comes to 5G phones from Apple, I cannot comment on that. But of course, it's a big event whenever it comes because the U.S. market has a very high penetration on IOS. And of course, customers are reluctant to change between the different operating systems. So that's why 5G from Apple is a very important event. And especially if you have built a network like us, where it's so transformative that so many customers will be able to feel that transformation and that's different in usage of the network compared to some other networks, that will be not a big difference. So I'm excited. I think Ronan is super excited for going in the second half and compete. And we have been prepared for this for years. So -- and we have been doing it for years.

Operator

Our next question comes from Michael Rollins of Citi.

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

Two, if I could. First, as you've done more with service bundling with things like Disney+, can you share some of the results of customers entering into those bundles and how it's affecting the economics of your customers?

And second, if I go back to when you talked about 5G in the past, you outlined some time frames of when you thought there'd be material financial contributions to the consumer and business segments. And as we're getting closer to those points in time, I was curious if you can give us an update on where that stands and maybe some examples of the way that you're anticipating getting that monetization in each of the consumer and business segments.

Hans Vestberg - *Verizon Communications Inc. - Chairman & CEO*

Thank you, Michael. Good questions. On the first one, on the bundling we're doing, I think this is a key differentiator for us. We have been able to do partnership with the greatest brands that we have on earth and combining that with the best network, the best brand and our distribution. And as I said several times before, our metrics has proven to be far better than we even initially thought, meaning how many is taking the premium from the beginning and how many were converting to paying customers.

But not only that, I mean, it tells you a difference when you start comparing to competition. What do you get when you work with Verizon? You get not only the best network, you get some of the best services that are running at the moment. And I think that's unique for us, and that's why if you look at our churn numbers, we are record low. I mean, I think that hangs together for us, and we will continue to do so. But we are very picky who we are choosing. It has to be the right brand. It has to be addressing our full customer base, that they really appreciate it.

So again, the Verizon Consumer Group with the lead of Ronan and all the team, they are working with it daily. And I would say we have many services that want to join us because they have seen the model panning out in a very good fashion. I mean the examples, you are mentioning Disney+ or Apple Music, both of them have, I would say, been very successful for both parties, and that's how we see it.

And for the 5G, when it comes to our commitment and what we outlined when it comes to our revenues, we have not changed those. Those are the same. We are gearing for sort of the consumer part of it, home and mobility, in '21 to see some revenues from there or -- and then in '22 from the 5G mobile edge compute. But you're going to see much more sort of milestones right now of customers, sites and all the early indicators of that -- we're heading into that. And that's what we're trying to provide you with.

You see that now we are preparing for that with announcement. I mean if you think about the mobile edge compute, I mean just the last week, we announced partnership with IBM and with SAP. That's going to be part of the fiber -- the mobile edge compute in order to serve our customers. So you're going to see that's how we are doing sort of laying out early indicators on that path to revenue that we have outlined both internally as well as externally.

Operator

Our next question comes from Craig Moffett with MoffettNathanson.

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

Hans, I want to stay with the same theme as the last few questions where we talk about 5G. You've talked a lot about mobile edge compute. But I wonder if you could just -- sort of 2 things. First, drill down a little bit into the actual use cases for 5G that you're seeing from your, particularly, business customers that are -- that you think are starting to materialize. And then just -- I wonder if you could just talk about the health of your customers and I think, in particular, about municipalities and cities and towns for some of those applications where budgets are now very perilous, but even large enterprises where they're seeing big downturns because of the recession and how much that really affects the likely uptake of 5G in terms of time lines.

Hans Vestberg - *Verizon Communications Inc. - Chairman & CEO*

Thank you, Craig. Good questions. Let me start at the last question, and I'll come back to the other. When we see the customers -- I think that, first of all, when it comes to our governmental business, as you have seen, that has been really going well for the last few quarters here in the pandemic. Many of these states, municipalities, of course, need to go to new models of delivering services to the students or to the community at large. And that's why we have seen -- I mean we just announced yesterday several different states that are now using our services for remote learning, for example.



So there, we see that there is a craving for actually going to digitalization. That's the only way, and that's not a onetime thing. For me, I think it's a new normal. We're going to see that going over. So I'm really encouraged about that and our strength working with these customers.

Then, of course, there are some advanced customers. I mean you saw also earlier this week, we, together with the Defense Department, are now doing 5G tests, et cetera. So they're also both advanced, but also -- so there, I feel really good. We have a really good go-to-market. We have great network, which is the main thing here.

Then on the enterprise side, you're absolutely right. Here you see a divider. I mean, of course, the travel enterprises, the airlines companies, the restaurants, large enterprises, they, of course, are in furlough and actually trying to reduce their cost as much as possible. But on the other hand, you have the large enterprise that actually see the change -- see the opportunity right now to transform. I probably do 5 to 7 large enterprises executive meetings per week right now, discussing how to do the digitalization of these enterprises. And many of them are accelerating the plans rather than delaying them. Then, of course, we know a lot of infrastructure is already in place on these enterprises, so still it takes time to do it. And this can be SD-WAN, video conferencing, fiber or whatever. So it's core things we sell today.

Then you come to the 5G mobile edge compute. I think that the use cases we see today is very much real-time decision-making. If that's a big distribution center, that's going to have 5G-enabled distribution center to actually take real-time decisions. Or if it's a big manufacturing plant, that's going to use 5G mobile edge compute by wirelessly connecting to all the robotics. We're in many of those cases. And then you also see cases where sort of IoT devices with 5G will actually enable a new way of delivering a service. And finally, the whole VR and AR for large enterprises, where you need a low latency on the campus or on the -- in the manufacturing or whatever it might be.

Those are the early cases. Many of them right now are based on low latency. We see it creeping into security because the data can then be contained with the company, meaning they can actually process and have all the processing and storage at the edge, which means they can keep the data for themselves. So those 2 capabilities are the first ones. I think in the next, we're going to see enormous bandwidth of enterprise that needs to send a lot of data to the edge in order to take decisions. But so far, latency and security, that's how the 5G mobile edge compute scenarios are working out.

And we basically have 2, 3 -- or 2, I would say, industry vertical that are lead customer for us, and we work with them to do the solutions. And sometimes we're a third party as we don't have all application ourselves. That's how we're working it right now. And I'm encouraged. And of course, as I said before, acceleration has been seen because all the digitalization and touchless, that is needed going forward.

Operator

Our next question comes from Mike McCormack of Guggenheim.

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

Hans, maybe just a quick comment again on the enterprise side. So it sounds like you're not seeing any sort of delayed decision-making contracts that have been in process or still going through.

And then secondly, one of your competitors was talking about 5G as a home broadband replacement, not really being such a great replacement. Any thoughts around that? And then I guess, does that change any of your view on the importance of Fios going forward?

Hans Vestberg - *Verizon Communications Inc. - Chairman & CEO*

On the enterprise, I mean, to some extent, you are right because certain customers are delaying and not doing decisions. Those are usually in industries that has huge impact from COVID-19. That's extremely clear.



But we work with them anyhow because ultimately, they are going to be our customers when these come out and those industries will flourish. So we are resilient. We support our customers in good and bad times. And that -- our business model is actually working in good and bad times, which is really, really good. So that's working.

The comments on 5G Home from people that are not really doing it, of course, I cannot even comment on that. We feel really good about our model. As we have said before, minimum of 10 5G Home cities. We're going to have the CPE with much better chipset. That's on plan for this second half. So again, we feel good about it.

Our learnings are deep on building coverage, throughputs and all of that. And the self-install, which I have been talking about now for 1.5 years, which excites me that our customers should be able to receive the gear, the CPE and be able to install it themselves in a short time frame. It's not that I'm down to the times that I have envisioned. I want it to be below 1 hour, but we have come far away from the 8 hours we started with. And compared to fiber installation, where you need to first put it on the agenda, you wait for a couple of weeks, then you have to come there and install it and it takes hours to do, this is a totally different way. It's transformative. As I said, we are building 5G that's transformative, not the me-too to my 4G.

Brady Connor - *Verizon Communications Inc. - SVP of IR*

Thanks, Mike. And hey, a special shout out to Mike today. I heard it's his birthday. So happy birthday, Mike.

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

Thank you.

Operator

Our next question comes from Peter Supino of Bernstein.

Peter Supino - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

On 5G Home, wondering, as you look out at the arrival of the high-powered CPE, which I think comes in Q4, what the key unanswered questions are for you in terms of performance and unit economics that would allow you to speak a bit more clearly about expectations. And I'm curious whether you think it can scale in 2021.

Hans Vestberg - *Verizon Communications Inc. - Chairman & CEO*

I think we have answered the majority of the questions when it comes to how we can scale. And there are always things -- I mean we are at the forefront on technology. We're first in the world doing this, and there's no one even close of thinking like this. So of course, there are challenges.

We as an executive team, we sit down once a month, the whole executive team, reviewing all this with our engineers to be better, all the way from the installation to the marketing. So I feel that we have a good plan. Of course, there are still things outstanding, and we can do better over time. But I think we're in a good place to relaunch. When the more powerful CPE is coming, that's what -- that should enable us to go into 2021 with a better understanding how we can scale it and where we will scale it.

I think one thing that we have learned also is that, of course, fixed wireless access, we think a lot about consumers. But there is an opportunity clearly when you see this also as a fixed wireless access opportunity for small and medium business, et cetera, that we will start working on later on.

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

Peter, it's Matt. Just a couple of follow-ups there. One, remember, you're driving these revenues off of the same network that you're getting 5G mobility revenues on. So this is the first time we've had that opportunity to drive multiple revenue streams off of the same investment. And so as we roll out the network, we'll have the opportunity to add more market share. And so we're very excited about that as we head into '21 with the progress we're making this year.

Operator

Our last question comes from Colby Synesael of Cowen.

Colby Synesael - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

I have 2 for Matt, if I can. One, just given the various moving parts as it relates to free cash flow and some of the bigger benefits you saw in the second quarter that were onetime, I was wondering if you can give us some color on what free cash flow could look like for the back half of the year; more simplistically, whether or not you would expect free cash flow in 2020 to be above or below that of 2019.

And then secondly, as it relates to the upcoming C-band auction, which I know you're not going to talk too much about. But when you think about how you're going to finance that, do you think, at that point, you'll have enough as it relates to cash on hand and room within your debt financing to pay for what you will ultimately spend at that auction? Or do you think that there could be a point where you might have to curtail at least temporarily your level of investment just to ensure that you're able to get the most out of that option that you want to?

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

Thanks, Colby. So with regards to the last question, we're certainly excited about the opportunities that come with the C-band auction. One of the great things about having got the balance sheet in the position that we have is it gives us the opportunity to take advantage of items like that when they come along. And so I don't think that, as I look at the balance sheet and I look at the auction, that, that will provide any inhibitors to us either in terms of what we do in the auction or how we invest in the rest of the business.

In terms of the free cash flow for the second quarter, as you say, a couple of items in there. We had the tax benefit from the item that we recognized in fourth quarter last year. We also had a timing difference of about \$2 billion moving just to regular cash payments from second quarter to last week. But all in all, our cash flow will continue to be strong because we have -- obviously, we have a strong business with a recurring revenue stream. That will continue into the second half of the year.

Working capital provided benefits in the first half with lower volumes. We'll see how that plays out in the second half of the year. And I think that will be one of the key determinants of how cash flow looks for the full year on a year-over-year basis. So we'll see how it plays out, but I certainly expect free cash flow to continue to be strong for the business.

Brady Connor - *Verizon Communications Inc. - SVP of IR*

Yes, great. Thanks, Colby. And with that, I think we're going to wrap up the call. And just want to make sure everybody's safe, and thank you for everything today. And Angela, back over to you.



Operator

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

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