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VZ.N - Q1 2021 Verizon Communications Inc. Earnings Call

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OVERVIEW:

Co. reported 1Q21 consolidated operating revenues of \$32.9b and GAAP EPS of \$1.27.

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PRESENTATION

Operator

Good morning, and welcome to the Verizon First Quarter 2021 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 - *Verizon Communications Inc. - SVP of IR*

Thanks, Brad. Good morning, and welcome to our first 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. The quarterly growth rates discussed 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 first quarter. In the first quarter, we reported earnings of \$1.27 per share on a GAAP basis. Reported first quarter earnings include a pretax loss from a special item of approximately \$223 million related to the sale of certain wireless licenses. Excluding the effects of this special item, adjusted earnings per share was \$1.31 in the first quarter.

On April 8, we announced a recall process for approximately 2.5 million Jetpack units, which impacted some customers enrolled in our distance learning program. The overall impact included within consolidated operating income was approximately \$160 million during the quarter, split between \$100 million in the Business segment and the remaining \$60 million in Consumer. The impact included within reported and adjusted earnings per share was \$0.03 in the first quarter.

With that, I'll now turn the call over to Hans to take us through a recap of the first quarter.

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

Thanks, Brady, and welcome to all to this first quarter earnings call.

We marked more than 1 year since the devastating effects of COVID-19. While we see significant progress in vaccination, customer sentiment and recovery of our economy, there's still a lot to go before we're back to normal.

I'm proud of how Verizon has responded during this period for all our stakeholders as we have executed on our balanced stakeholder-driven strategy. And as I said during the worst period of the pandemic, Verizon will come out stronger as a company when this is over.

During the last 12 months, we have progressed all our position with customers, employees and added great assets to an already strong position. And today, we stand stronger than ever to compete in the market and serve our customers.

Looking back on the quarter, we amplified and accelerated our strategy through our average 160 megahertz nationwide position in C-Band. And as we laid out in our Investor Day, the combination of C-Band and our millimeter wave places us in a unique position of strength to execute on all 5G opportunities: 5G Home, 5G Mobility and 5G mobile edge compute.

On top of that, we have all our 5 vectors of growth in play together with our network leadership and a strong Network-as-a-Service foundation. And the progress we made in the quarter confirms that our strategy is working. We had growth in all our businesses for the first time since the launch of Verizon 2.0. We had growth in both EPS and cash flow.

With all this work by our great team, we have a head start in the post-COVID era with a clear and differentiated strategy, diverse go-to-market models, network leadership, industry-leading partner ecosystem and a strong brand, all of which together provides a great platform and foundation to achieve our growth targets for 2021 and beyond.

Let me talk about some of the highlights from the first quarter. Our network team continues to do great things by leading the network performance in the market as well as deploying more assets than ever before: millimeter wave, C-Band, 4G, 5G and fiber. I have a lot of confidence that this team will accelerate our network leadership.

Our unique Mix & Match model continues to deliver with the migration to unlimited and unlimited premium in the quarter as well as building on our exclusive offerings like Disney+ and the most recent discovery+ that was launched earlier in the quarter. And we are pleased with the discovery+ with the current enrollment rates we have seen so far.

Our brand and responsible business framework, Citizen Verizon, continue to set standards in the industry. Verizon was recognized by Fast Company as the sixth most innovative company in the corporate social responsibility earlier this quarter. Brand Finance recognized us as the most valuable telecom brand.

Within ESG, we have ambitious goals such as our commitment to be net 0 in the carbon emission by 2035. Our long-standing focus on diversity, equity and inclusion is evidenced by the fact that we have 100% pay equity by gender globally and by race ethnicity in the United States. And earlier this week, we also launched our 2020 ESG report.

We continue with a high level of deployment of millimeter wave and fiber in the quarter. And we're on the track to deliver on our operational targets for the year. We brought 5G service to several additional cities. We currently have 30 5G Home and 67 5G Mobility cities live and more to come.

We recently signed our first European private 5G deal with Associated British Ports. We also expanded our 5G Edge partnership with AWS with private 5G and edge computing to our customers.

We continue to scale our Network-as-a-Service strategy across new markets and verticals through a diverse set of partnerships. We have partnered with leading brands across diverse verticals such as Honda to innovate connected and autonomous driving; Deloitte and SAP to create a 5G and edge computing retail digital platform that will provide retailers with real-time operations data; and Dreamscape and Arizona State University to build and commercialize immersive learning and training.

At our Investor Day, we shared with you our plans and commitment for C-Band and Ultra Wideband deployment, which continues to progress well. Our intent is to invest \$10 billion of incremental C-Band CapEx to accelerate the integration on this capacity into our network. We recently signed deals with Crown Castle and SBA to accelerate our C-Band deployment and look forward to providing further updates on the build status throughout the year.

We have already ordered half of the total network equipment needed from our 5G suppliers to support C-Band deployments in 2021. And the satellite operators are on track to clear the spectrum between third and fourth quarter of 2021 for the first tranche of spectrum.

In addition, we continue to expand our Ultra Wideband coverage in Q1. We deployed 3,600 new Ultra Wideband sites. And to date, we have close to 21,000 sites on air and on track to reach 30,000 by end of this year.

One Fiber form the strategic backbone of our intelligent edge network, and we continue to expand fiber deployment. And to date, we have deployed more than 42,000 route miles. We were also pleased with the low rates we achieved for long-term financing of this critical strategic investment. We view the record investor demand as support of our strategy and our financial discipline.

Lastly, we were also very proud to offer prominent roles to 9 diversity and inclusion financial firms as part of the USD 25 billion financing.

As I outlined earlier, our investments in our network and customers are generating solid revenue growth across all 3 of our operating groups. Our success in Mix & Match continue to drive uptake of unlimited plans and higher ARPA, supporting year-over-year growth of 2.4% in wireless service revenue, up from 2.2% in the fourth quarter last year.

Ronan and the team closed out Q1 with strong momentum. And I'm excited to see their Q2 performance now that almost all of our stores have reopened. In addition, we see solid growth in Fios and with Fios Internet reporting the best first quarter net adds in 6 years. Additionally, Verizon Media Group continues to contribute meaningful growth, including the second consecutive quarter of double-digit growth year-over-year on the top line.

With that, let me ask Matt to provide some deeper insight to the financial of the first quarter.

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

Thank you, Hans, and good morning, everyone. As Hans mentioned in his prepared remarks, the first quarter has been a truly exciting and transformative period for our company. I am pleased to report that we're off to an excellent start for the year based on our strong operational and financial performance.

We are seeing continued strength in our core business with traction across all 5 of our growth vectors, driving higher revenues and increased demand for our products and services. With the positive momentum exiting the first quarter and the ongoing recovery of business activity, we are highly confident that our actions in the marketplace all deliver strong results throughout the year.

In the first quarter, consolidated operating revenue was \$32.9 billion, up year-over-year by 4.0%. High-quality sustainable wireless service revenue growth, a recovery in wireless equipment revenues, strong Fios momentum and excellent digital advertising trends resulted in revenue growth across Consumer, Business and Media.

Total wireless service revenues were up 2.4% year-over-year, an acceleration from the 2.2% year-over-year growth that we delivered in the fourth quarter. Additional details on total wireless performance are provided in the financial and operating information and the supplemental earnings release schedules on our website.

Total Fios revenues were up 2.5% year-over-year driven by the strong broadband volumes in recent quarters. Our portfolio of mobility and broadband products and services continues to lead the industry, delivering value to our customers. And we are well positioned to maintain and expand our leadership position as we enter new markets and broaden our offerings and network capabilities.

I'm extremely proud of the team's execution of our business excellence program over the past 3 years. At the end of the first quarter, we achieved our cumulative cash savings goal of \$10 billion, well ahead of our year-end 2021 target. We will realize additional benefits moving forward from the ways we've improved our operating systems and procedures. As we've said previously, we will create additional savings opportunities on a continuous basis beyond this program.

The strong revenue performance across our 3 business segments for the quarter, combined with our best-in-class cost structure and disciplined focus on the business, delivered adjusted EBITDA of \$12.2 billion, which represents growth of 2.0% over the prior year. The Jetpack recall had a 50 basis point impact to adjusted EBITDA margin during the quarter.

Brady highlighted the adjusted EPS for the first quarter at \$1.31. The growth of 4.0% reflects the strength in our core business and sets the stage for Verizon to fully capitalize on the opportunities in the marketplace while giving us excellent momentum relative to our full year adjusted EPS guidance.

Now let's review our operating segment results, starting with Consumer on Slide 7. This quarter, we continue to see excitement around our unlimited offerings, 5G capabilities, Mix & Match value proposition and our best-in-class Fios broadband services. All of this is part of our customer differentiation strategy, which drives deeper and broader relationships with our customers.

Starting with wireless. We had total postpaid activations of 6.4 million for the quarter, up approximately 14% compared to the same period last year, made up of approximately 2.3 million gross adds and 4.1 million upgrades. First quarter seasonality drove phone net losses of 225,000, which included the last major cohort of disconnects of approximately 90,000 phones related to our Keep America Connected program.

Early in the quarter, wireless in-store sales were again tempered by our COVID safety protocols as we saw elevated levels of store closures and limited foot traffic. Beginning in March, the improved COVID environment allowed for almost all of our stores to be open.

Not surprisingly, we saw our best volume of the quarter in March, producing positive phone net adds in the month. The strong March momentum, combined with our new innovative promotional offers, positions us well for the second quarter.

We continue to be pleased with the quality of the additions we are attracting. Similar to last quarter, over 90% of new accounts came in on an unlimited plan, and over 50% of these accounts opted for premium unlimited service. At quarter end, over 65% of our base was on an unlimited plan with more than 23% of our base taking a premium plan.

We have plenty of room to continue to expand these penetration rates and believe that they will grow alongside our 5G adoption rates, which currently resides at 14% of our consumer postpaid phone base. 5G adoption and the customer differentiation associated with our premium and

unlimited plans will further benefit our retention efforts, which remained strong in Q1, with phone churn of 0.77% for the quarter. We continue to take a balanced and cost-effective approach to customer retention with strong NPS scores, best-in-class network performance and strong value proposition, leading to our excellent levels of customer retention.

Turning to Fios. We posted our third consecutive quarter of strong growth and high take rates for our best-in-class broadband products with consumer Fios Internet net adds of 98,000, well ahead of the first quarter 2020 performance of 59,000. Total Fios Internet net adds of 102,000 was the best first quarter performance in 6 years. This reflects both the quality of the product as well as the positive sentiment around our Mix & Match home pricing structure, which provides our customers with unmatched simplicity and optionality.

Now let's move to Slide 8 to discuss the Consumer financial performance. The higher phone activations in the quarter were the major driver of the 4.7% increase in operating revenues to \$22.8 billion. The continued adoption of our unlimited and premium unlimited plans drove a 1.5% increase in Consumer wireless service revenue for the quarter of \$13.7 billion. This growth comes even as TravelPass and our international roaming revenues remain at subdued levels.

Strong Internet volumes drove the 2.2% increase in Consumer Fios revenue to \$2.9 billion. While we continue to experience revenue pressure associated with secular video trends, our broadband subscriber growth, combined with the shift up in speed tiers, more than offset that pressure and will continue to drive solid revenue performance for us.

Consumer segment EBITDA grew 2.8% to \$10.4 billion. The EBITDA margin was 45.5% in the quarter, down 90 basis points from the prior year due to higher volumes, which drove increased equipment revenues and associated costs as well as the Jetpack recall, which had approximately 30 basis points of impact on EBITDA margin for the quarter.

Now let's move to our Business segment on Slide 9. Our Business team continues to lead the industry towards next-generation B2B applications. Hans referenced some of their accomplishments from the prior 90 days, including announcements on MEC and private 5G.

In addition, we launched Verizon Frontline, our branding for our advanced network and technology we deliver for first responders. Being the wireless market share leader for public safety and in all of our other customer groups puts us in an ideal position with our customers to be their digital transformation partner of choice.

Business wireless trends continued their strong momentum in the first quarter of 2021. Postpaid activations were 2 million with total net adds of 156,000, including 47,000 phones. Remember that Q1 of last year benefited from the COVID-related bulk purchases, providing much of the variance for the year-over-year change in gross and net adds.

Public sector demand remains strong even as distance learning programs settle into a more normal pattern of buying activity. Small and medium business trends improved sequentially as the team continues to make progress in supporting local businesses as they position for an improving environment.

As more stores reopened in early March, not only did consumer volume see a lift, SMB volumes benefited as well, an encouraging sign for the rebound. Our enterprise team continues to assist our customers in their digital transformation and unlock the potential of 5G.

Segment postpaid phone churn was 1.01% in the quarter, an improvement of 1 basis point over the prior year. Our strong churn performance reflects the strength and reliability of our network, combined with the full suite of services and solutions that we provide.

Let's now move to Slide 10 to review the Business financial performance. The high demand for our services and our brand reputation for reliable connectivity have translated into healthy revenue growth of Verizon Business Group.

Operating revenues for the Business segment was \$7.8 billion, up 1.3% year-over-year, the highest rate of growth since the creation of the Business segment in the Verizon 2.0 structure. This growth highlights the success of our business transformation process as strong wireless service growth of 6.2% offset secular pressure in wireline.

Business segment EBITDA margin was 24.6% in the quarter, down approximately 100 basis points year-over-year. The Jetpack recall mentioned earlier had a more pronounced impact on the Business segment, reducing EBITDA margins by about 130 basis points.

Now let's move on to Slide 11 to discuss Verizon Media Group. Verizon Media Group continues to deliver strong performance driven by high customer engagement with our brands and demand for our advertising platforms. Total revenue for the quarter was \$1.9 billion, up approximately 10.4% from a year ago, the second consecutive quarter of double-digit year-over-year growth. Growth in the quarter was fueled by strong advertising trends growing 26%, including 45% growth in DSP revenues.

Revenue from our owned and operated brands grew 13% compared to the same period last year. We saw continued high consumer engagement with strength in sports and finance as daily active users grew 22% and 8%, respectively, from the prior year.

Let's now move to our cash flow results on Slide 12. Cash flow from operating activities for the quarter totaled \$9.7 billion, up approximately \$0.9 billion from the prior year driven by our continued operational discipline and net benefits from our liability management activities, which lowered borrowing rates from last year.

Capital spending for the first quarter totaled \$4.5 billion as we continue to support traffic growth on our 4G LTE network while expanding the reach and capacity of our 5G Ultra Wideband network. This includes approximately \$40 million for C-Band-related items.

As a result, free cash flow for the quarter was \$5.2 billion, up 46% year-over-year. We made payments of \$45 billion in the first quarter to the FCC for C-Band spectrum won at the recently completed Auction 107. To finance this purchase, we raised over \$31 billion in March in addition to the \$12 billion raised in Q4. The weighted average maturity of these C-Band borrowings was 17 years, and we achieved a very attractive average cost of funding of 2.5%, benefiting from record order books for our U.S. dollar offerings.

We are delighted that the credit rating agencies consider the spectrum asset purchases as strategic and critical to our business operations and held their rating levels unchanged. The success in the capital markets is a result of our disciplined capital allocation policy, coupled with our consistent track record of delivering on our commitments made to our investors.

We exited the quarter with net unsecured debt of \$137.4 billion, and our net unsecured debt-to-adjusted EBITDA ratio was approximately 2.9x. Based on our current cash flow assumptions, we expect our net leverage ratio to be approximately 2.8x by the end of the year. We will evaluate the level of our cash balance based on the recovery in the economy and developments with the pandemic.

Now let's review our annual guidance targets on Slide 13. As Hans mentioned in his opening remarks, we are on track to achieve our guidance for the year, which remains unchanged.

Reaffirming our comments from the Investor Day last month, we expect no material impact to our adjusted earnings per share guidance from our C-Band program for this year. We do expect C-Band-related capital spending to be between \$2 billion to \$3 billion for 2021, and we will provide updates on the quarterly earnings calls.

With that, I will now turn the call back over to Hans to discuss our expectations for the remainder of 2021.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thank you, Matt. Let me sum this up in a couple of easy buckets. First of all, our strategy is unchanged. Our focus is clear. We're going to accelerate our multipurpose network strategy, including the C-Band that we have acquired.

We're going to focus on amplifying, accelerated the 5 vectors of growth. And we're going to see with that, that we're going to deliver on our 2021 commitments, both operationally and financially. And as I said earlier, I feel really good about our position and the team that I have that they will deliver on that.

With that, I hand it over to Brady.

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first 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*

Great. Hans, could we get your thoughts on the competitive landscape now and maybe whether the new pricing from Comcast or any other competitive development sort of affects your view of the return to growth in terms of postpaid phone net adds here in the second quarter? From your -- the last slide there, it looks like that you expect some nice acceleration.

And then secondly, there's potentially just a massive amount of federal stimulus money flowing into broadband infrastructure deployment over the next year or 2. I realize we're very early in the process and the rules aren't laid out yet, but do you think Verizon is in a position to capture some of those funds as you sort of continue your heavy spending on Ultra Wideband deployment?

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

Thank you, John. On the competitive situation, I mean, as you have seen yourself, it is a competitive market, and it's been for quite a while. But with our model, I can see that we are actually winning in any case because with our growth trajectory that we have in all our businesses and the unique bundle, especially on the Consumer side with the Mix & Match, the value proposition. And you saw in the quarter, we continue to do that.

And -- but also, as Matt mentioned, it was a little bit light in the beginning of the quarter because stores that were closed to that, et cetera. And then we saw a very good sort of strength in our port ratios and our growth in the end of the quarter because we have all the stores open. So we look forward to the second quarter and the second part of the year.

And as Ronan said when we had the Investor Day, we believe we're going to have a good second part of the year. Second quarter is really close to us. And what we have seen so far, we feel good about it. So again, we have an overall strategy in order to address the market for consumer that is really working with these step-ups, the migrations and all of that. So in general, we feel good about it.

The team is doing well. You saw we came out with a new promo as well. And we have always had -- we have a lot of financial discipline. We do this because we know we can actually capture market at good high-quality customers.

On the infrastructure, I mean, as you said, this is in the planning stages. So it's hard to say if this is -- will go through or not. So -- but on the other hand, I think that what we are telling the administration is, of course, that accessibility, affordability and usability are the 3 buckets to address the digital divide.

And when it comes to accessibility, we have to recognize, and I worked in 180 countries with networks, that the networks during the COVID-19 in the U.S., they were really working well. There were basically no major issues at all. They could deliver even though traffic moved around.

So I think that what we are advocating for, we want that private sector continue to invest in the network and leading that charge and then having government work more with the affordability of it. So we have plans that meets all needs for all different customer segments in the market. So that's what we're advocating for. That's the same as BRT is advocating for as well. We don't think that any price regulation would be -- that will be contra productive to the market.

So in general, again, it's very early on. I mean it's a plan that has not been approved and submitted. But at least we're advocating, together with BRT and with ourselves, what we think should be the right. Matt, any more comments on the competitive landscape?

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

No. I think you touched on the key points, Hans. The only other thing I'd add is you mentioned the strong momentum coming out of margin to the quarter. You add that with the promotion that we put in place at the start of the month, we think is an innovative promotion that's addressing a customer pain point that nobody else has addressed in the past. We're seeing good traction on that in the early days of that. So we certainly feel good about the momentum heading into the quarter on the volume side. When you add that in with the financial performance we saw in the first quarter, we're set up nicely for 2Q and the rest of the year.

Operator

The next question comes from Simon Flannery of Morgan Stanley.

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

You had another strong quarter with Fios Internet. Perhaps you could just give us a little bit of insight into the sustainability of that? Obviously, 2020 was a great year in terms of broadband demand, but you seem to be sustaining that into this year. Is this share? Is this incremental marketing opportunities? And what's happening with the speed-up tiering there?

And maybe related to that, on 5G Home, you've had a number of announcements here recently. I know we're headed to 15 million households. But what's the latest on the ground today? And what should we expect through the year?

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

Thank you, Simon. Yes, we had a good Fios quarter again. I mean, overall, I think the broadband is in demand and our high-quality Fios, of course, a great opportunity for us to expand on them.

We -- I think, personally, that this will continue. The demand for broadband will continue. We are just starting a total revolution of using technology, which is scalable and sustainable in the post era of the COVID. So -- and we are in a great position. And that also is going to help me tremendously when we come with 5G Home, on millimeter wave and C-Band and all that because we know how to deal with home broadband. And that is an advantage we have to any others that is trying to do fixed wireless access, and we have been on to it for a long time.

And as you saw as well, I mean, now we're up to over 30 markets with 5G Home, I mean added some 20 very recently. So we are on fire on this right now. We have very big belief in our 5G Home. And then later in the year, when C-Band comes, we're going to add even more coverage on that.

And all is embedded in how we work with the ecosystem from the beginning and how we have developed our own IPRs on how to do self-install, how to do all the sort of grids when it comes to millimeter wave and having a great opportunity to see that our customer gets a fantastic service. So all in all, this is a full package that we are bringing to the market in order to have a fully scaled broadband for the country. And I think it's absolutely the right moment.

But don't forget on the business side as well, we now -- it's called 5G Internet on the business side. We are using the same methodology. We are doing the scaling on the same platforms, and we address another market with it. It goes back to a strategy that we had for all the time. We have a Network-as-a-Service, and we scale it with different customers. And that scale will help us with growth, but it also means that with the platform thinking we have, that will fall to the bottom line. And if you see in this quarter, all 3 units are growing. And we're bringing it to all to bottom line, and we still have more to do. But we know how to do it, and we have the model.

Operator

The next question comes from Brett Feldman of Goldman Sachs.

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

So earlier this week, you announced that you had officially commenced the deployment of your C-Band licenses and that you would expect 100 million POPs to be covered by at least 60 megahertz as we get into March of next year. Equally important to creating that coverage is making sure your customer base is able to use that capacity, which is going to require a fairly significant handset upgrade cycle.

You noted that you had just put a new promo into the market this quarter. How are you thinking about stimulating device upgrades over the course of the year? What's embedded in your guidance in terms of maybe doing more of this?

And then just as a follow-up question, you had noted you do expect that the Phase 1 spectrum will be cleared by 3Q, 4Q. But it seems like you don't expect to be fully utilizing it until March. So there's a bit of a gap. I'm just wondering if there's anything you can do to close that or that's just what the supply chain can deliver right now.

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

Yes. When it comes to -- first of all, I can only say that we are on to a fast start on the C-Band. I mean, it's only some 6 weeks ago since we can start to talk to our employees, we could talk to our partners, we can talk to the satellite companies, our suppliers. And as you have seen, I mean, we have already ordered half of the equipment. We have made agreements with the tower cos. We have talked to the satellite companies that has reaffirmed that they believe that they can clear this first tranche of the spectrum in third quarter and fourth quarter.

So we're -- and we actually made a press release yesterday that we're now starting deploying C-Band as well, and that's 6 weeks. So we are -- the technology team was on fire to make this happen. And as I said, when we had this see -- at our Investor Day, we said that we worked with the dates we've got from the FCC because we haven't talked to anybody. Right now, this is the best date we have. And of course, we are pushing as much as possible to see that we get this up for our customers as soon as possible in order to get a great experience.

And then flowing that over to the phone question, I think that we have seen a great uptake on 5G phones and on unlimited premium. And as Matt said, in the quarter, over 20% of the unlimited new customers took unlimited premium. That tells you there's a lot of value in it and a lot of 5G unit.

And with the new promo that Matt talked about, we believe that is going to also drive 5G. So we believe that what we have in the market right now will continue to grow the 5G base. And as I said, this is growing faster than what we saw in 4G. So we will continue to monitor, of course, but we see a good uptake on it. And we can also add that when it comes to the iPad that have been just recently launched, it's also another additional millimeter wave and how that comes into the whole ecosystem.

So again, we feel good about the uptake, and we feel good about the line of products we have. And we have the promo supporting it. So that's going to also go well together with the C-Band deployment coming later this year then.

Operator

The next question comes from Phil Cusick of JPMorgan.

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

I wonder if you can dig into the enterprise and small and medium business results. SMB was up year-to-year, which is great to see. And I'm curious what you see in bookings versus growing revenue this quarter.

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

Phil, thank you. Yes, we -- one of the hardest-hit businesses during the COVID-19 has been small and medium businesses. And for the simple reason that they are most vulnerable of these type of things and the economic recession.

And we had enormously strong wireless business with SMBs coming into the COVID-19 that actually came down quite a lot. We have seen over the year that we slowly are coming back on that. And in this quarter, we actually had a very small growth in SMB.

So as the economy recover, we think our positioning is really good on the wireless side, but also with the 5G Internet, meaning fixed wireless access, I think we have a great combination to support our customers with that on top of some value-added services on top of it. And I know that Tami and the team is working with this every day.

I don't think we're over it that SMBs are coming back immediately. But clearly, we see some signs of improvement in the base.

On the enterprise side, on the large enterprise side, I think we have the tale of 2 cities here again. I mean, you have certain large enterprises that are really impacted by the COVID-19 and the recession. They are basically holding back on investments.

Then you have certain that has been fortunate in these tough times to actually grow better and having a lot of demand. So they are investing. And that is giving the blended rate that we have right now. And of course, in the enterprise business, we have the wireline sort of secular decline in the wireline, which will not go away, but the wireless business is coming in. Our mobile edge compute is happening. You saw how many announcement we did in the first quarter. We start to see exactly what we have predicted, that this year is the year of building the funnel and making this customer commercial. And Tami and the team are working together with Kyle, our CTO, every day to see that the customers are really seeing the benefit of it.

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

Is there any impact here from the One Fiber initiative? Is that helping at all in the enterprise or SMB side? Or is it still too early for that?

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

I think on the enterprise side, of course, we have some opportunities with the fiber. But remember, our priorities was clear. It's getting fiber to our 4G and our 5G network. That's really where we get the most bang for the buck. And then we do transfer enterprise when we have them.

On the small and medium, that's going to take some time, that's what I said before. But now when we have the 5G Internet where we actually have fixed wireless access, we have a really good product for small and medium businesses. So some possibilities in enterprise, but they are also still to come. As we said, it's more focused on building the network with fiber, right, so we can see that our customer get the experience that they need to have when it comes to our exceptionally great 5G with millimeter wave and C-Band.

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

But Phil, just a follow-on on that. I mean, it is part of, as Hans mentioned previously, about building the network once and then monetizing it different ways. Just as we talk about with wireless and 5G, monetizing it in different ways. With the fiber, we have the same opportunity, too.

So once you -- as you're lighting up those cell sites when you go past an enterprise building, the opportunity to go in there and have more customers or enterprise customers on-net rather than paying third-party access absolutely is an opportunity for us to create incremental return on that investment in fiber. So again, another example of a multiuse network.

Operator

The next question comes from David Barden of Bank of America.

David Barden - BofA Securities, Research Division - MD

I guess the first one, on the Fios revenue. We saw a pretty strong pickup. I know that kind of on a year-over-year basis, there's been a mix shift in an uptake on the higher speed broadband services, but sequentially, it was just a big number. I was wondering if you guys did something on price on the broadband or even on the video that would have contributed to that move.

And then the second question, I guess, Matt, you guys threw a lot of numbers out on Media. 26% advertising growth, 13% owned property growth, 10.4% total revenue growth. Could you kind of break that down, what the moving parts are kind of dragging down some of those bigger, higher, eye-popping numbers? And kind of is this kind of a 1-year level set over a depressed 2020 and we're going to return to some kind of more "normal" revenue growth pattern in 2022?

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

Yes. Thanks, David. So if I start with the Fios revenue, what you're really seeing here is the impact of what the team started. In the first quarter last year, we introduced Mix & Match into our Fios offering. It's been great for our Consumer business. We introduced it into Fios in first quarter last year.

Obviously, the initial benefit we were seeing there got interrupted as the pandemic got underway. But you saw, we now have 3 quarters of very strong volumes starting in third quarter last year, fourth quarter and now again in the first quarter here, our best first quarter in total Fios for 6 years. And so what that means is you've got an Internet base of customers in Fios that's now more than 5% or higher than it was a year ago. And so that's driving the revenue growth even if you have the secular pressures coming on the video side.

It's really volume created as much as step-ups or anything else, although there are obviously step-ups in there and opportunities to move customers to gigabit service and so on. But the strong volumes based off the quality of service, combined with bringing the Mix & Match there, it's worked very well for us in consumer mobility, now working well for us in Fios. And as you saw, we brought the Mix & Match construct into our SMB wireless offerings as well. So very excited about what that's going to do.

On the Media revenue side, as you say, the 10.4% up double digits for the second consecutive quarter. You remember both fourth quarter and now first quarter aren't really lapping COVID-impacted quarters. So what you're seeing here is the benefit of the hard work the team has been doing over the past couple of years. And that's really showing up on the advertising trends as we talked about there, offsetting that, to your question, how do you get from those higher numbers down to the 10%? Things like search revenue continue to be a headwind and will likely continue to be so. But we're very encouraged by the advertising and the O&O momentum that we have. And as you say, now we -- that's not a 1-year thing. As we go forward, the team is getting some good momentum. Hans?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thank you. David, yes, I just want to reiterate on the Verizon Media Group, again, we got back to where we started the strategy in 2018. We reset the business plan and we start to cut costs, then we reshaped all the products all the way from the open, owned and operated, all the old brands, we combined the ad platform. The work has been immense by the Verizon Media Group team. And now we see sort of the fruits of that hard work with the growth in 2 consecutive quarters with double digits.

So I just want to shout out to the team that this was the plan we set, and they are actually delivering on the plan. So I think we have a great future with these guys. They have clearly a good product portfolio, and we know digital is going to be important in the future. So by that, I think we're in a good position.

Operator

The next question comes from Michael Rollins of Citi.

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

I was curious if we could go back to one of the comments you made earlier about Verizon reaching the cumulative cost-cutting target of \$10 billion. And if you could unpack that in terms of how much of that helped the EBITDA versus the CapEx side of the investment process for Verizon? And then maybe secondly, how should investors think about the pace going forward of what incremental cost cutting can look like for Verizon over the next 3 to 5 years?

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

Thanks, Mike. And so look, I am incredibly proud of the team's efforts over the past 3-plus years now as we've really leant in on identifying ways to continue to make us more efficient and maintain our position and having the best cost structure in the industry, which we think is going to continue to be important going forward, obviously.

In terms of your first question, it's -- there's a split between both CapEx and P&L items behind the \$10 billion. It's roughly even between those 2 where you see that come from.

So on the CapEx side, that means we've been able to do more deployments for the same amount of money than we would have done previously. That's allowed us to do some of the things across the network as we continue to transform the network, not just in deploying 5G but also the intelligent edge network transformation going on, the One Fiber, there's a backbone in there as well, that's going to give us benefits for years to come as a result of some of the efficiencies.

And then on the P&L side, some of those have helped contribute to the bottom line. But some of them have also allowed us to reinvest in the business so that we can continue to be competitive in the marketplace, continue to bring new promotions and so on to our consumers. And you see the value of us doing that.

And in terms of the pace going forward, just because we've hit the target, it doesn't mean we slow down. We will have continuous improvement going forward here. The team's got good momentum. And the great news is we didn't coast to the finish line here. We ran through the finish line. We accelerated through the tape. There's a lot more opportunities for us. Obviously, the last year has identified even more items for us. So as we go forward, we will continue to increase the efficiency of the business, both on the income statement and also from a capital side as well. So a lot more to come.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Now, and I just want to agree with Matt. I mean I think the structural changes on platform thinking and using -- making the network with the Verizon Intelligent Network. Some of those benefits, we haven't even seen yet even with those investments are done. But also the new structure we have in the group where we have the 3 strong CEOs running their businesses has also unveiled much more efficiencies than we have seen before and how they run it.

So I agree with Matt, I mean this is part of our governance constantly to see that we find more efficiency because that means that we can be even stronger in the market and having the best cost structure for us is important.

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

And is this a target you would expect to continue to give further updates on and compare it relative to what the initial \$10 billion goal was? Or now that you've achieved the goal, does the progress just get wrapped into the totality of financial performance and outlooks for Verizon?

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

Yes. As we go forward here, I mean, obviously, over the past 3, 4 years, as we looked at the opportunities ahead of us, this was a major opportunity. So that's why we gave a very specific target.

As I mentioned, we'll continue to work with this. It will be obviously inherent in our targets. But as I think about the biggest opportunities ahead of us over the next 3 to 4 years, they're around growth, everything we're doing with 5G and all the other parts of our business. So that's why the targets that we gave at the Investor Day were all about growth, whether that be how quickly we're going to deploy the C-Band that we got, continuing to build that millimeter wave, the total addressable markets for 5G Home, for MEC and then the revenue growth that we talked about over the next 5 years.

So that's -- we will obviously continue to drive cost savings and efficiencies throughout the business. But the biggest opportunities for us going forward here when we look at everything in front of us is driving top line growth, and we're very excited about pursuing those.

Operator

The next question is from Craig Moffett of MoffettNathanson.

Craig Moffett - MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst

So Comcast significantly changed its pricing on your -- in the MVNO to now offer sort of family line -- family plan discounts. Can you just talk about the renegotiation that you and the cable industry just had on the MVNO and what your view is of the kind of the status of that relationship and how you see it evolving going forward? Obviously, the new pricing is considerably more aggressive and now sits on top of your pricing all the way down in family plans up to about 4 or 5 lines.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Craig, I cannot go into detail to any commercial agreements we have. But what I can say is that we feel good about our Network-as-a-Service strategy where we have our value -- our own sort of premium brand with Verizon. We have the MVNOs addressing a certain part. And then we have the Visible and all of that. That's the whole idea. And for us, this is accretive.

We have a good relationship with our MVNO partners. We see them as enterprise customers, but we also see that this is accretive to us because we have all this. I mean, nobody in the market has the same opportunity as we have to play all the way from our premium Verizon, which you heard Matt and me talk about how we migrate and we're doing it in a great job, Ronan and team. And then we also have the MVNO partners bringing in customers and revenue and the best return on investment.

And ultimately, we start building new markets with Visible and later on this year, with TracFone. And then we have an unparalleled position to anyone else in the market to be growing. So I feel good about it. I feel good about the relationship with MVNOs. We treat them as important enterprise customers, and we will continue to do so.

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

Yes. I would agree with everything that Hans said. Look, the idea of bundled pricing for customers, I think we -- when we introduced Share Everything Plans back in 2012, we -- so it's something we've been doing for a long time. It makes a lot of sense. And we -- as Hans said, we're glad to have the traffic on our network. And it just gives us another opportunity to monetize the network in multiple different ways.

Craig Moffett - MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst

And if I could just ask one follow-up. Do you have any update on the timing of the TracFone transaction and the progress through regulatory in Washington?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

I think what -- everything we said from the beginning is holding true. The process is continuing as expected. And as I said, this is a second half of '21 event when this is going to be approved. So it's progressing as expected. We don't believe it's going to be earlier. We think it's going to be somewhere in the third quarter, which we said also when we announced this.

So we will give an update when we know more, but there's a couple of different events still there. So -- but again, it's progressing as we expected from the beginning.

Operator

The next question comes from Tim Horan of Oppenheimer.

Timothy Horan - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

Two questions. One, AT&T obviously has phone subsidies for all. Do you think this becomes a permanent fixture in the industry again?

And then secondly, business, I think, communications networking probably transformed more in the last year than the last decade with a lot more collaboration and conferencing. And obviously, you acquired BlueJeans a year ago. Can you talk about how well integrated that is for the rest of your communication strategy and go-to-market strategy? And maybe are you creating more UCaaS products or other bundles of SD-WAN services to go after the business market?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thank you. On the first comment, I mean, you have seen our strategy, how we address the market. I mean, I cannot comment on what our competition is doing. We feel good about our positioning with the promos we are coming out right now. And it actually resonate with our customers, the migration path we have and all of that. So I don't think that you're going to see from us anything like that.

So on the BlueJeans and collaboration tools, we are integrating that every day here in new settings with new partners all the time because this is a great asset. And we're scaling it right now as we acquired it. So that feels really good. And we still have the whole 5G area and the mobile edge compute area, which is going to need video conferencing, et cetera, or communication services. So there's a lot more to be done there.

And we build that into the C-Band solutions, where Tami and her team are continuously working with our customers that want to migrate right now. And we have great offerings in the market. So we feel good about that to be part of that transformation in the market, which is offsetting some of the wireline secular declines that we see as well. So overall, I feel that we have a good position and a good work. Matt, anything more on that?

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

No, I think, look, the team has done a great job over the past 12 months. Remember, we closed this transaction during the pandemic. So the ability to integrate and so on, we've done it all virtually and remotely. And so a lot of good work going on. And as you mentioned, Tim, it's the opportunity for us to broaden the offerings that we have with our enterprise customers and some good traction there. So I think they've done everything we expected to do at this point.

Operator

The next question comes from Frank Louthan of Raymond James.

Frank Louthan - Raymond James & Associates, Inc., Research Division - MD of Equity Research

Can you walk us through plans for the balance sheet? And then in particular, would you consider monetizing any assets like Verizon Media and so forth to delever? And how we should think about the timing for delevering if that's changed at all since the Analyst Day?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thank you, Frank. Our capital allocation priorities are the same, as we said before. Number one, we will invest in our business. And I think we've been very clear what we're investing in right now and the CapEx and the increased incremental CapEx for the C-Band.

Then secondly, we have clearly outlined we're going to put our Board in the position to continue to grow the dividend. Matt and I feel really confident about that.

And then thirdly is to do as we did after the Vodafone acquisition, to come down again to pre-Vodafone, we call that pre-COVID or pre-C-Band right now because we want change here or a little bit [fashionist]. So we're trying to -- we're doing that. And we see a great moment for that. And we have basically a plan for that given how we're going to generate growth and cash flow over the years.

And as Matt outlined, when we spoke about this last time, 4 to 5 years is what we believe is going to take us to get there. So that's what we have in play right now. And no other things are included or no other new updates neither. So we are just happy with the first quarter where we generated very good cash, which means that the first quarter is in there for us to start doing our work to get back to the pre-C-Band sort of financial metrics.

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

Yes. I mean, Hans, just building on that, the leverage is no change since the Investor Day. Good first quarter results. As you think about the revenue targets we've given for the 5 years, certainly on track there.

The only other balance sheet update I'll give you is just on the cash balance. We've obviously had that at elevated levels since the start of the pandemic. Given the progress we've seen since the start of the first quarter in terms of the vaccination rates in this country and then also the stimulus getting passed, we didn't know if that was going to happen or not. And now having the auction behind us, we do think that there's the opportunity for us to start moving cash to what was closer to something at a pre-pandemic level. So now that we've got all those things done and we get into the second quarter here, we'll start work on that.

Operator

The next question comes from Colby Synesael of Cowen.

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

Maybe just to follow up on that. Free cash flow was pretty strong in the quarter, \$5.2 billion. It seems like there was some benefit on the working capital side. Just curious if you could talk about how you see that progressing for the remainder of the year and might be implied in terms of free cash flow for the year based on your target of 2.8 turns of leverage by year-end 2021.

And then secondly, I'm not sure if you'll be able to give it, but I'm curious if you can give us any color in terms of subscriber numbers for the fixed wireless product at this point? And also just from a housekeeping perspective, what line item are you actually including subs if it's anywhere at all? And then also, where is the revenue for that being shown?

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

Yes. Thanks, Colby. So look, absolutely happy with the free cash flow performance in the first quarter. Obviously, working capital was part of the benefit in there.

And as we look at that, there's a couple of things going in different directions. As we saw the increase in equipment volumes, we saw the device payables, the receivables related to that increase. As you would expect, that was a benefit on cash flow last year. We said that would be a headwind this year, hope to be a headwind this year, absolutely saw that.

Offsetting that a little bit was the volumes that we saw in March helped inventory levels. But also, we saw really good customer payments in the month of March, too, as those stimulus payments hit. So as I think about cash flow for the rest of the year, I would expect the device receivables to continue to be a little bit of a headwind as those return to a more normal level after the lower volumes last year.

And then obviously, we don't have cash tax payments in the first quarter. Those come through the final 3 quarters of the year. And as we mentioned, we had a couple of favorable items in there last year. So still feel good, obviously, about where cash flow is going to play out. So no update on our year-end leverage target at this point, but really nice to have a strong first quarter in the bank.

In terms of the fixed wireless access subscribers, as those expand, we'll start to disclose them. In terms of where the revenue shows up, you're seeing that show up in service revenue as Fios broadband does today. So that's where the revenue will show up in the income statement.

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

So it's actually in the Fios segment opposed to in the...

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

No, no, no. Not in Fios. I'm just saying Fios revenue show up in service revenue. So I'm saying fixed wireless access will also show up as service revenue. And then...

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

On the wireless side?

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

It will be on the wireless service revenue, correct.

Operator

Your last question comes from Kannan Venkateshwar of Barclays.

Kannan Venkateshwar - Barclays Bank PLC, Research Division - Director & Senior Research Analyst

So I guess on the margin front, when you look at the Consumer segment, you have a tailwind from Fios margins as that revenue stabilizes or potentially starts flatlining due to broadband or even mix shifts away from video. And then as volumes pick up and you focus a bit more on volumes over the course of this year, there's a tailwind -- I'm sorry, there's a headwind from that. So if you could just talk about the puts and takes when it comes to margins over the course of the year in the Consumer business, that would be useful.

And then secondly, when you think about the stimulus that was passed in December, it looks like some of that money can flow to wireless consumers, the subsidy. The \$3 billion subsidy for broadband, I guess some of that could flow to wireless consumers as well. Are you guys starting to see some of that impact? How big of a tailwind do you expect that to be in the second quarter?

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

Yes. Thanks, Kannan. So on the Consumer margins, I think we've historically produced very good margins across the business there, and I'd expect that to continue going forward. As you identified, there is always a number of puts and takes out there as we move forward. And certainly, Fios is performing very well and is contributing nicely to that.

But as you also rightly pointed out, equipment volumes were up significantly year-over-year. And obviously, that increases the denominator in the margin calculation without really increasing the numerator. So you've got a number of different puts and takes. You'll have the ongoing impacts of building out the network in there as well. But we feel very good about the margins that we'll have for the rest of the year within Consumer, very much in line with what you would expect.

And then certainly, the seasonality showing up in the fourth quarter with the seasonal volumes that you would expect to see over the course of the holiday period. So certainly, to continue to be on track to give the -- to meet the EPS guidance we have for the year, Consumer margins need to be a strong contributor to do that, and I expect them will be.

In terms of stimulus benefits, as I think I mentioned in the comment about working capital, we're seeing very good payment patterns from consumers at this point. That's where I think we'll see the vast majority of any benefit show up. So those payments were very strong in the first quarter, and I suspect the stimulus bills had something to do with that. But it means that our consumers are in very good shape as compared to where they

otherwise might have been given the impacts of the pandemic going into the second quarter, and we feel good about the outlook for the rest of the year ahead of us.

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

Everybody, we're done for the day. Thank you very much for the participation, and we'll see you soon.

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.

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