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PRESENTATION

Operator

Good morning and welcome to the Verizon Third Quarter 2022 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 third 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. Discussions 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.

Now let's take a look at consolidated earnings for the third quarter. In the third quarter, we reported earnings of $1.17 per share on a GAAP basis. Reported third quarter earnings include a pretax loss from special items of approximately $881 million. This includes a net pretax charge of approximately $645 million, primarily related to a mark-to-market adjustment for our pension liabilities and the impacts of amortization of intangible assets related to TracFone and other acquisitions of $236 million. Excluding the effects of these special items, adjusted earnings per share was $1.32 in the third quarter.

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

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

Thank you, Brady, and good morning, everyone, and thank you for joining us. Last quarter, we told you we would take actions. Today, I'm here to share the results those actions have delivered.

We ended the third quarter with wireless service revenue growth up 10% year-over-year and 2% sequentially. And adjusted EBITDA grew sequentially by almost 3% to $12.2 billion. We had total phone gross adds of nearly 2.6 million and about 5% year-over-year increase. This includes an increase in Consumer of 1.3%, a significant improvement from minus 11% in the second quarter.

These results are early indicators that the actions we are taking across our businesses to build momentum are gaining traction. Of course, we're not done yet. I continue to work with my team to take actions to grow revenue and to take cost out of our business to unlock the full potential of Verizon. I'm glad to see sequential improvements based on our efforts, but there is more to do. Based on our momentum and plans, our financial guidance for 2022 remains unchanged.

Throughout the call, you'll hear the actions we took and the impact they've had on our business to position Verizon for growth. Our pricing actions in the second quarter in both our Consumer and Business groups helped increase our wireless service revenue. Postpaid phone net adds came in 8,000 for the quarter with a loss from Consumer offset by gains in Verizon Business. Matt will share more details with you later in the call.

Let me turn to some of our group results. In Consumer, we have started to gain traction with customers reacting positively to our new offerings, and as a result, increased store traffic. Our Welcome plan improved customers' pricing perception and contributed to consumer phone gross adds being up year-over-year.

With the launch of the iPhone 14, we delivered a first-of-its-kind Apple One Unlimited bundle. Verizon customers now have access to Apple services all under one subscription. Apple remains a unique and trusted partner of Verizon because they recognize our network quality and high-value customers.

In the value segment, we launched Total By Verizon, redefining no contract wireless service, a key step in our continued integration of TracFone. And just this week, we introduced a prepaid wireless home Internet service on our Straight Talk brand. We continue to expand our offerings in the value segment, and customers are taking notice. This helped us generate positive prepaid net adds for the quarter, our first positive quarter since second quarter 2021.

For postpaid, we're focused on attracting and retaining high-quality consumers in a disciplined and measured approach. As we see areas of opportunity, we will address them in a surgical manner just like we have done with some of our recent actions. There is more progress to make. Our premium strategy is working.

We ended the third quarter with 53% of our customers having a 5G phone, and 81% of our base is on Unlimited plans. With a 42% uptake on premium unlimited, there's a great opportunity for step-ups. And we see that demand with approximately 60% of our new customers choosing Premium Unlimited right from the start. It is clear we have a high-quality customer base, so we will continue to focus on retention and winning these customers.

Moving to Verizon Business. We see a continued very good momentum in both fixed wireless access and mobility. And I'm encouraged also by the large 5G infrastructure deals we made in the quarter. These include digital transformation projects with Astellas Pharmaceuticals, Fujifilm and our continued work with the Department of Defense.

And this is just a start. We recently announced an important agreement with the U.S. Department of State to modernize its communications infrastructure across embassies and other locations around the world. I'm proud that we are partner of choice for these global enterprises and public sector clients.

In broadband, our fixed wireless access and Fios services continued to see strong demand. Total broadband net adds were 377,000, a sequential growth of over 40%. All of these services are built to deliver on top of our world-class network. We have a premium network and experience that our customers value and that demands premium pricing.

Our network is a core value proposition. America relies on us, and we deliver. This was evident before, during and in the aftermath of Hurricane Ian. Our team did what we always do: we ran to the crisis, quickly restoring our network as needed and using our technology solution to protect impacted areas. Bottom line, our network infrastructure was resilient, and our people delivered in the way that you have come to expect from us.

Our mission has always been to build and operate the best, most reliable, highest-performing network. Our use of advanced technologies, our spectrum portfolio and our expansive own fiber footprint are critical to achieving that goal. Where we deploy our C-band, we see direct correlation to customer growth on both mobility and fixed wireless access. We are currently covering over 160 million POPs with C-band and on track to deliver 200 million within the first quarter of 2023.

C-band usage is up 170% quarter-over-quarter, and fixed wireless access now covers more than 40 million households. Right now, more than 48% of our cell sites are connected by Verizon owned fiber. We're expecting to be about 50% by year-end with the majority of our 5G sites already on our own fiber. This not only improves network performance but also improves our owners' economics.

At the same time, we're making efforts to take cost out of our business. We're constantly thinking about how we run our enterprise every day to enhance our performance while delivering on our strategy. In this period, we have designed a company-wide cost-savings program that we expect will save between $2 billion to $3 billion annually by 2025. A first step in these efforts is the creation of a global service organization under the leadership of Craig Silliman. This is one part of our larger program to leverage cross-functional opportunities across the business.

Over the past 2 years, under unprecedented circumstances, we have learned a lot about how we deliver our services to customers. Verizon Global Services will help unlock significant efficiencies and reduce cost across the business. Keeping in line with our company values and strategy, we continue to practice financial discipline even in a competitive market and delivered solid financial performance quarter-over-quarter.

Verizon is in a strong position, no matter economical environment with our high-quality customer base, diversified go-to-market options, including our value offering, the benefits from strengthening our organization through our cost-savings program and the best network that just keeps getting better.

I will now hand it over to Matt to go deeper into our results.

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

Thank you, Hans, and good morning, everyone. Our results from the third quarter were not yet where we would like them to be. But as you heard from Hans, the actions we've taken in the past 2 quarters are gaining traction in the marketplace. As a result, we saw positive developments in store traffic and consumer phone gross adds, further gains in broadband and a sequential improvement in our financial results. We anticipate that we'll be able to build on this momentum as we head into the fourth quarter.

Let's now walk through results from the third quarter, beginning with an overview of our postpaid mobility results on Slide 7. Our strategy for mobility growth is to drive revenue growth by attracting and retaining high-quality customers and migrating them into premium tiers. Premium penetration in the consumer segment increased to approximately 42% at quarter end, a sequential increase in line with prior quarters even with the introduction of the Welcome plan and the current economic backdrop.

As a result of the continued increase in premium plan penetration, combined with the benefit from our admin fee increase and the impact from metered price-ups, consumer postpaid ARPA increased 3.8% year-over-year. Overall phone gross adds were up approximately 5% year-over-year, reflecting continued strength in business as well as the improvement in consumer gross adds.

With the impact of 3Q churn, which increased as expected as a result of our recent pricing actions, phone net adds were 8,000 for the quarter.

Business delivered 197,000 postpaid phone net adds in the quarter, their fifth consecutive quarter exceeding 150,000. The results were again balanced across the 3 customer groups with enterprise delivering their best-ever phone net add performance and SMB and public sector both seeing double-digit phone gross add growth.

On the Consumer side, postpaid phone gross adds were up 1.3% year-over-year, a notable sequential improvement from an 11% decline in Q2. The launch of the Welcome plan and the Apple One Unlimited plan helped to generate more store traffic while providing another avenue to compete outside of promotional spend. We have now seen year-over-year improvement in phone gross add performance for 4 consecutive months through September and anticipate another low single-digit year-over-year growth performance in the fourth quarter.

As expected, the pricing actions we took around administrative fees and metered plans led to an increase in disconnects. With certain price-ups being phased in throughout the third quarter, we would anticipate some disconnect pressure to carry over into Q4. Taken together, we currently expect the gross add and disconnect performance to result in positive consumer phone net adds in the fourth quarter.

Let's now discuss broadband performance on Slide 8. Total broadband net adds were 377,000 in the quarter, reflecting a strong demand for reliable and high-value broadband offerings. Fixed wireless access momentum continued throughout the third quarter. We added 342,000 net adds, up from 256,000 in 2Q, reflecting increased demand across business and consumers. More than 75% of our consumer net adds are coming from urban and suburban locations with data usage that continues to mirror our Fios customers. We anticipate further share gains in this space as we continue to expand our household coverage and begin to realize benefits from our offering in the prepaid segment.

We also added 61,000 Fios Internet net adds during the third quarter, reflecting improved gross add performance from Q2 as well as continued strong retention levels. Our ability to grow Fios in spite of some secular headwinds due to lower move activity shows that the quality, value and reliability that Fios offers continues to resonate strongly with customers.

We further expanded our nationwide broadband opportunity by adding more fixed wireless households and businesses covered as well as growing our Fios open for sale within our ILEC footprint. Total fixed wireless household coverage surpassed 40 million in the quarter, including over 30 million covered by 5G Ultra Wideband. Fios open for sale is now at 16.9 million, a year-to-date increase of 410,000, and we remain on track to hit our full year target of 550,000.

Now let's talk about the value market on Slide 9. Our work to integrate TracFone continues, highlighted by the launch of our new prepaid brand, Total By Verizon, late in the quarter as well as the launch of fixed wireless for our prepaid customers earlier this month. For the quarter, we delivered positive prepaid net adds of 39,000, which excludes a base adjustment of 102,000 primarily relating to a competitor's 3G network shutdown. We saw significant improvement in TracFone's performance, which had positive net adds for the first time since Q1 2021.

With our current momentum, combined with the launch of our new brand and fixed wireless, we're excited about our positioning and ability to further grow in the value market, bringing more connectivity and benefits to customers in this space.

Now let's move to the consolidated financial results on Slide 10. On a consolidated basis, total revenue was up 4.0% year-over-year as wireless service revenue growth and higher wireless equipment revenue more than offset wireline declines and the net impact of last year's M&A activity. As a reminder, the third quarter last year only had 2 months of Verizon Media activity before its divestiture.

Total wireless service revenue growth was up 10.0% from the prior year, primarily driven by our ownership of TracFone, continued effectiveness of our premium Unlimited strategy and business volumes. The core business is strong as wireless service revenue, excluding all TracFone activities, grew above 3%.

Additionally, we saw a benefit from the pricing actions taken earlier in the year, which we previously said would generate roughly $1 billion across Q3 and Q4. These actions helped to generate a sequential increase of $494 million in wireless service and other revenue and an increase of $345 million of adjusted EBITDA as total adjusted EBITDA came in at $12.2 billion for the quarter.

We continue to feel the pressures of higher device subsidies and promotional spending despite taking steps throughout Q3 to be disciplined, including the launch of the Welcome plan, which comes without a device subsidy. Inflationary pressures remain elevated both from a year-over-year and sequential point of view with the increase from Q2 primarily coming from higher electricity rates. Expectations for full year 2022 impacts of inflation remain consistent with comments during our Q2 earnings call.

To further mitigate inflation impacts, we have started a new cost-savings program that we expect will provide a reduction in annual cost of $2 billion to $3 billion by 2025. This program will be focused on several areas within the business, including digitalization efforts to enhance the customer experience and streamlining internal operations through automation and process enhancements. While part of this will benefit the bottom line, a portion of these savings will be reinvested into the business to help accelerate opportunities.

As Brady noted, adjusted EPS for the third quarter was $1.32. In addition to the impact from EBITDA, this reflects sequential pressures in interest expense due to rate increases and a reduction in other income associated with noncash changes to pension and OPEB.

Based on year-to-date interest rate increases and market expectations for additional Federal Reserve actions this year, we now estimate cash interest expense for 2022 to be about $400 million higher than our expectation coming into the year. We anticipate this pressure will continue into next year given the full year impact from interest rate increases, providing an EPS headwind in 2023. Likewise, the impact from noncash pension costs due to higher interest rates and lower return on assets this year is expected to put additional pressure on below-the-line items for 2023.

Now let's take a look at our third quarter Consumer financial results. Total Consumer revenue for the quarter grew 10.8% year-over-year driven by wireless service revenue growth of 11.0% as well as higher equipment revenue. Wireless service revenue increases were the result of the inclusion of TracFone, core wireless service revenue growth and the impact of the pricing actions.

Total Fios revenue was up versus the same period a year ago by 0.3% as growth from our Internet base offset the revenue impact of a 9% year-over-year decline in video subscribers. Fios content costs have also dropped, resulting in an improved margin profile that we expect will continue to benefit from further shifts away from video.

Consumer EBITDA was $10.6 billion, up 0.7% compared to the same period last year. The pricing actions as well as the full inclusion of TracFone results more than offset the pressures from higher promotional activity and the impact of inflation.

Next, let's take a closer look at the Business financial results on Slide 12. The Business segment's wireless results remained strong in 3Q, though wireline service revenue declines continued due to ongoing secular headwinds. Wireless service revenue growth of 5.7% was up from 3.0% last quarter, aided by pricing actions as well as continued growth in our customer base. Wireline revenue declined by 6.7% versus prior year. Operating trends are consistent with prior quarters though in Q3, we saw a sequential increase in USF revenue due to higher rates. Business EBITDA was $1.8 billion for the quarter, down 6.7% from the prior year. In addition to pressure from wireline, we experienced higher growth-related costs as wireless sales volumes were up by 15% from the prior year.

Now let's move on to Slide 13 and the cash flow summary. Cash flow from operating activities for the first 3 quarters of 2022 totaled $28.2 billion compared with $31.2 billion in the prior year period as working capital impacts from higher device activations and increased inventory levels continue, as we expected. Capital spending for the first 3 quarters of the year totaled $15.8 billion, an increase of $2.0 billion compared to last year.

C-band spending was $4.5 billion for the first 9 months of the year. The net result of cash flow from operations and capital spending is free cash flow of $12.4 billion for the first 3 quarters of the year. We exited the quarter with $129.3 billion of net unsecured debt, a sequential improvement of $1.3 billion, resulting in a net unsecured debt-to-adjusted EBITDA ratio of 2.7x.

As Hans mentioned earlier, our low unsecured bond maturities over the remainder of this year and next and strong operational cash flow generation puts our balance sheet in a strong position. Payment trends remain at or better than pre-COVID levels, and the quality of our postpaid base has never been better as evidenced by recent asset-backed securities prospectus filings.

As we look at Q3 results, we delivered the sequential revenue and EBITDA growth that we had anticipated from the actions taken in 2Q. Our guidance for 2022 remains unchanged. We are building momentum and remain confident that our strategy will deliver strong cash flow growth into the future. It is this confidence, combined with the health of our balance sheet, that enabled us to recently increase our dividend for the 16th consecutive year. We recognize the importance of the dividend to our shareholders, and we intend to continue to put the Board in a position to approve annual increases.

I will now turn the call back to Hans for concluding comments before we open up to questions. Thank you.

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

Thank you, Matt. The actions we have taken are showing progress, but there's more work to be done. Our priorities through the end of the year and into 2023 are straightforward: continue our traction in Consumer wireless through the holiday season and into 2023; maintain and grow our momentum in fixed wireless access and Business wireless; implement the initial framework of a cross-functional efficiency program and improve our working capital efficiencies; and finally, continue our measured and strategic approach to the market with financial discipline and increased momentum for the quarters to come.

While there's work to be done, I'm confident that we are well-positioned to deliver. So thank you. Now we're ready for your questions. Brady, back to you.

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from John Hodulik of UBS.

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

Two quick ones, if I can. First, I know you guys don't -- you often hold off on giving guidance until the fourth quarter call, but it sounds like you got a number of sort of below-the-line headwinds to growth next year. But what's the prognosis for EBITDA growth in '23 given all the moving parts and all the cost savings you have coming through?

And then secondly, on postpaid phone churn, it ticked up. And just looking for clarifications on Matt's comments that it's going to stay elevated. How do you expect that to progress as we move through '23? And what do you think is really driving? It sounds like you obviously -- you had the price increase. But just fundamentally, are the prices at Verizon just too high at this point given what we're seeing from a macro environment and given the -- something approaching network parity that we have in the market today?

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

Thank you, John. I can start and Matt will fill in. I mean when it comes to the quarter and the gross adds and the churn, I think what happened is that we came out from the second quarter where the soft quarter on the Consumer side when it comes to gross adds. We added a couple of new products all the way from the Welcome plan to the price adjustments. And of course, the outcome we were expecting was that we continue to grow both ARPA but also our wireless service revenue. And as you heard, we grew the service revenue with 3.5% if we exclude TracFone, but then with TracFone. So that clearly is working for us, and we will continue to do that.

But we will do it in certain segments where we see weakness. I mean we also saw a very strong continuation in our premium segments, where we continue to have now more than 81% of consumers on unlimited and 42% on Unlimited Premium. So we -- that area is going well. So we just need to find those areas, and we will continue to do that. But I think that we have a very competitive pricing in the market.

We add that with values like the One plan with Apple right now, Apple One Unlimited, et cetera, and we have more to come. So it's -- for us it's a grind it to see that we do the right in the segment. And of course, we have the largest consumer base in the market. So we just need to see that we're doing this in the right way. And ultimately, our goal is to continue to grow our EBITDA. And you saw this quarter, we grew our EBITDA with almost 3%. And that's what we're doing, and we keep our guidance for the full year.

So we -- that's our job. And then on top of that, we take out costs. So I think all in all, that's what we're working with constantly here. And it's a big ship we're moving. I think that this quarter, we saw all the actions we took in the second quarter having impact -- positive impact. That doesn't mean we're done. We think we can do more and we have more to do. So that's sort of the summary of where I think we are and how we're executing, and then we'll continue to execute this in this quarter and the quarters to come.

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

Yes. Thanks, Hans. And John, so maybe the second part of your question first around churn and is our pricing in the right place. I'd point you to the fact that our gross adds were up almost 5% on a year-over-year basis in 3Q. So obviously, our offerings continue to resonate with customers, obviously, built on having the best network, and consumers continue to see the value of that. So continue to believe that the gross add traffic will be there, and we'll get our fair share.

On the churn side, just to put it in perspective, the pricing actions we took across both the metered plans and the fees touch more than 75 million phone customers. And so the uptick in churn that we saw in the quarter was highly expected. We kind of mentioned that 90 days ago that we expected it to happen. But the financial benefits came through as well, which was exactly as we expected and was the right approach to take.

So obviously, the impact of those changes will mitigate as we go forward here, and we'll continue to make sure that our churn is where it needs to be to ensure the right results. In terms of the first part of your question, you're right, we'll speak to you more specifically about 2023 on the next call. We're obviously in the middle of our planning cycle right now. But you should certainly expect us to build on the momentum that you saw us deliver in the third quarter.

You saw that wireless service revenue up sequentially 2%. As Hans mentioned, EBITDA up sequentially about 3%. That gives us a good platform to build on here in 4Q and then as we head into '23. And then you mentioned below-the-line, there will be some pressures next year. I'm not going to quantify those now. But as you think about the specifics of those, some of those we've spoken to all of you about before. When we came out of the C-band auction. We said that we would expect depreciation to increase and capitalized interest to reduce as we've deployed C-band sites and put them on there, and really having kind of significant year-over-year impacts in '23 and '24. So that's in line with what we've been talking about for a while.

And then you layer on top of that, obviously, interest rates are higher, and we'll have a full year impact of that next year. And that impacts both the interest expense line, but also other noncash below-the-line items around pension and OPEB, where the imputed interest cost will be higher with the higher macro rates and then also starting the year with lower assets because of the performance this year.

So we'll obviously quantify those things. But as we think about '23, we had good momentum coming out of 3Q on a sequential basis, look to build on that in 4Q, continue to generate significant amounts of cash flow that puts us in a position to be successful going forward.

Operator

The next question comes from Brett Feldman of Goldman Sachs.

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

It's about your sort of emerging nationwide broadband strategy. So I think you mentioned that you can now offer the fixed wireless product to over 40 million potential customers. I think from your Analyst Day last year, the ultimate target is 64 million with 50 million of that being residential and the rest being business.

You're also -- and you made a point about this, you're deploying a lot of fiber, primarily just to put your mobile network on a national basis. And so the real question is, now that you have seen the fixed wireless product perform and what it does on the network side of things, how are you thinking about that target of eventually reaching 64 million homes? You think it could potentially be greater?

And then yesterday, AT&T talked about evaluating opportunities to do more of a fiber-to-the-home strategy out of region. I imagine leveraging some of the fiber they're deploying in their wireless network. Considering how expansive your national fiber footprint is becoming, is that something you're evaluating as well?

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

Thank you, Brett. When it comes to our national broadband strategy, first of all, I think it's working really good for us. You saw in the quarter adding 377,000. The Fios footprint continue to be extremely high-quality customers and continue to grow. We will continue to expand that footprint.

Outside that, we, of course, have a very high focus on fixed wireless access because the speed to market, because the demand in the market right now is high for broadband. And of course, we have a very disruptive model where it takes low single digits minutes to actually get broadband at home. It's a total different product when it comes to fixed wireless access. So we capture the market as soon as we can right now, and you see on our growth rates that is happening both for Consumer as for Business.

But as you rightfully said, we are deploying the network as we speak, and we are just into certain markets given on the C-band, we will have more and more markets. And as we stated in the remarks, I mean, we are now covering 40 million households with our fixed wireless access. So we will continue to expand that, and we have plans and execution. It's working well. The quality is improving. The customer satisfaction is really high on fixed wireless access. And of course, there are the competition in these areas are, of course, not equally good customer satisfaction.

So no, I think -- we think -- we are confident that this is a good strategy for us. Then when it comes to our fiber, you're absolutely right. We have done enormous investment in fiber. We want owners' economics on our network, and we are getting that because with the majority of all the 5G sites have our own fiber, and we're now passing 50% by year-end on all our sites.

Some sites will never need fiber. So it's not like 100% is the end goal. But in order to have a good experience for our customers, that's what we're doing. Then we want to see opportunities, especially for the Business side to use that fiber footprint outside. I'd like to see that some customers can get a better or we can substitute third-party fiber that we are getting from others. But clearly, focus on fiber in the Fios footprint, fixed wireless access going as fast as we can outside that.

So yes, we are confident about the strategy and it's working. We have talked about for several years. We come out with new products that's going to be multi-spectrum. That's going to handle everything from 4G, C-band, millimeter wave. So the resilience and the performance and quality of the products is even getting better. So yes, that's where we are. Matt?

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

Brett, I'll just add one thing. You mentioned fiber to the home. Of course, our Fios team had another good quarter here, 61,000 net adds despite a low-mover environment. So as Hans said, we're very focused on doing broadband through fixed wireless access, but our Fios business continues to perform very strongly and add customers to that network.

And we continue to build more open for sale in our Fios footprint. And just as a point to note, 3Q was a milestone for Fios in terms of going over 7 million connections with -- for that business. So it continues to perform very strongly. And then we supplement it with fixed wireless access around the rest of the country.

Operator

The next question comes from Simon Flannery of Morgan Stanley.

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

Matt, a quick one for you. Any changes to the 2023 CapEx guidance you gave out for that significant drop from this year? And then more broadly, back in March, you talked about a clear path to 4%-plus revenue growth in 2024 and beyond. Could you maybe update us on how that looks, how the kind of things like mobile edge compute, B2B applications are scaling? And what you can do to get there and give us more visibility around that.

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

Yes. I can start on the enterprise side with the mobile edge compute, which we -- and the private 5G networks. As I said a couple of times before -- right now, we had 3 different sort of use cases on the edge computing: one was private networks, another was public mobile edge compute, and the third was the private 5G mobile edge compute. We see clearly a very strong demand on the private 5G networks, which is the prelude to go into all others, and the funnel is strong. And we talked about a couple of examples this quarter, which we have gained.

And it's a normal typical enterprise or B2B cycle, where you start with one proof of concept, then you start deploying it, and then you roll it out. So that's going to continue to happen over the years is, of course, not going to be any significant revenues in the short term. But over time, we're building a totally new opportunity for Sampath and his team to be with customers in larger sort of turnkey projects to reform and transform their digital asset for enterprises.

So we are still really confident this is a good strategy for us. And it's -- again, we're building on the same network. We built a network once, and we have several different use cases where the mobility and now the fixed wireless access, both are going in a high speed. And now we're adding the mobile edge compute that's starting to get off to a good start, especially with private 5G networks. And then we move into mobile edge compute. So that's how I see that market continue for us.

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

Yes. Simon, so your first question around CapEx. Obviously, we'll be more specific on '23 guidance in January, but nothing has changed around our view of CapEx. So very much in line. And that's because of the great work the team has done this year. I mean we said we'd be at 175 million POPs covered by the end of the year. As you heard Hans say earlier, already at more than 160 million through 3Q. Not only will we be ahead of the 175 million, but we'll be at 200 million at some point during the first quarter. So phenomenal speed that the team has built the network there.

That means a significant chunk of the $10 billion CapEx for C-band will have been covered between last year and this year. So it will just be a small stub piece of that left next year, and then we'll be at those BAU levels that we've spoken to all of you about numerous times.

In terms of the longer-term revenue growth. I mean, obviously, we'll come back to that, but certainly encouraged by what we saw in the third quarter. As I mentioned in my prepared remarks, wireless service revenue growth when you -- obviously, the year-over-year 10% number has the noise in there from closing on the TracFone acquisition, November last year. But I mentioned, even if you ignore all of the Trac revenues, up more than 3% year-over-year. So we're building the right momentum there.

Obviously, we'll have significantly more customers on FWA that we'll be billing next year than we did this year. Hans mentioned the positive momentum around 5G private networks and MEC. So we'll get '23 plan locked down here, and then we'll be in a position to talk about longer term where we see things as well. But certainly continuing to build on the momentum that we've seen in the last quarter.

Operator

The next question comes from Phil Cusick of JPMorgan.

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

First, a follow-up, please, on John's question. You're still losing accounts in Consumer despite pushing pretty hard this quarter. What did you see an impact from the introduction Unlimited plan? And how did that contribute to your gross adds improvement this quarter?

And then second, can you give us any idea of what's going on in Business? You're seeing really strong adds. AT&T as well and T-Mobile is saying the same thing. Is this second lines being bought by businesses for their employees? What type of usage do you see in those lines? Just give us an idea of what's going on in the industry.

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

I can start on the Business side. We have seen strong business growth on the wireless side for 5 consecutive quarters. So clearly, what we see is that both from the government, from large enterprises, small and medium businesses, they rely on the -- on high-performing networks is extremely important, and that's what we're giving them. And that's why we are growing.

I mean we have had a really good run on it, and the team is doing a great job. I mean this quarter was 197,000 net -- phone net adds in the Business segment. And as Matt said, it's across over all the 3 segments: government, enterprise and small and medium businesses. So clearly, we have a good transformation there with our customers. And of course, adding to that, we have a great sales force out there every day with all these accounts because it's about the network, and it's about the go to market. And we are the strongest in both, so we feel really good about that.

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

Yes. And just building on that maybe a little bit...

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

I'm sorry, Hans, if I can just...

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

Go ahead. Go ahead, Phil.

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

I just wanted to follow up on Hans, the question was more what are people using this for, right? So industry penetration is very high. Everybody is looking at around trying to figure out where we're going. Are these -- do you think these are second lines being bought for maybe sort of high security measures? What's the usage look on the growing lines in Business versus maybe the new lines in Consumer? We're just trying to get an idea of what's driving this strength. And it's not just you, it's across the board.

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

Okay. No, it's the same -- it's normal. We see more, of course, as any company will go in more mobile. It's not like we're seeing secondary lines or something like that. And remember, we -- if it's sort of an IoT line, et cetera, that's outside this. We're talking about phone net adds here. So this is normal lines that is coming into our customers for normal usage. We haven't seen any difference in that compared to previous quarter that is something strange there. No, it's actually normal lines coming in that customers are transforming more to mobility.

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

Yes. And Phil, just maybe building on that a little bit. Certainly, the continued strong employment position feeds into this. That's very much supported. But look, I think the other thing as you think about Business to think about is the depth of the relationships we have with Business customers over many years from both wireless and our legacy wireline relationships. And the quality of the network continues to matter to our Business customers, and our team have been very effective at selling into those customers.

But if you're -- if the suggestion from anything that you've been hearing is these are secondary lines with low usage on it, that couldn't be more further from the truth. These are absolutely primary lines. We see it in the usage. Certainly, as businesses continue and more and more people are mobile, and we see that. But these are absolutely primary use lines, and we know that from the usage we see on there.

In terms of on the Consumer side, on accounts, certainly, that trend is something that continued into 3Q. And -- but you also saw the positive momentum from a gross add standpoint, and that feeds through into the account trend also moving in a better line than it was. And as we said in the prepared remarks, we expect 4Q to have positive phone net adds, and that should show up in the trend on the account side as well.

So look, overall gross adds are up 5%, and they were up on a year-over-year base in Consumer. So there's a lot of good things going on. And then within our base, we just have to keep reminding people of the value. The team is doing an outstanding job there, and they've got more to bring to the market here as we go forward.

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

Any idea of what the contribution from Welcome and Unlimited was not?

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

Yes. It's mix. You've got to think about the contribution from Welcome in 2 ways: one, obviously, in terms of the number of adds that people signed up for; but more importantly, the number of additional visits to the stores that it drove. Because certainly, some people who came in to Welcome, but it also gave us the opportunity to talk to more customers coming into the stores about all of our plans.

So we'd have a good number of customers that came in because they had seen the Welcome pricing, but then actually purchased one of our Mix & Match price plans as well. So we don't really have a specific breakout there for you, but definitely a contributor to the increase in store traffic and the increase in gross adds.

Operator

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

David Barden - *BofA Securities, Research Division - MD*

I guess 2, if I could. I'd like to ask a corollary to Phil's question there, which is -- obviously, we had like negative 11% gross adds last quarter, positive 1% in Consumer this quarter. Where are those gross adds coming from? I think you highlighted that you felt there was a hole in the portfolio with respect to BYOD. I would suggest that the BYOD concentrated players, maybe the cable players, are maybe ones that are giving you market share or maybe you've seen something else in the porting ratios that have changed the game. I'd be interested in where you think this SOGA shift is coming from?

And then the second piece, Matt, your exposure on the balance sheet to variable rates -- rising rates is not because you have floating rate debt per se but because you took actions in terms of swaps and hedges to create that variable rate exposure. Theoretically, you could buy your way out of that if you felt that was an economic way to go. Arguably, you could maybe take those losses through to your adjusted EPS, and then it could affect your earnings per share trajectory. Is there any part of you that thinks that there's an economic opportunity that might present itself to reverse gear in some of that variable rate exposure?

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

Thank you. A couple of things, what drove the gross adds. I mean, first of all, I think, as Matt said, the Welcome plan drove -- because that was a segment we were softer in the first and the second quarter, and that's why we addressed it. And that was probably the quickest turnaround we have done ever to bring out a new plan dedicated and nationwide. And that should be a reflection of how we plan to work.

I mean we will be very agile. We will quickly move into segments where we see softness in our consumer base. And I'm happy with what I've seen so far. But also the marketing work because if you think about the growth we had both in gross adds, but also, as Matt said, when it comes to store visits, that was up more than double digit in the quarter compared to second quarter. So all that together work, and that's what we need to continue to work and see if there are other weaknesses in the Consumer portfolio.

Remember now, we're going all the way from the premium down to the lowest and most cost-efficient plans on our prepaid. And the work we're doing, we have integrated that in our Consumer group right now. And we're look into that we're doing the right things for every segment and see that we have the right offerings for our customers. That might be that we're aggressive in certain segments and not in others.

And that's sort of where we come with our size right now, we can do that. And I was happy with seeing what happened in the second quarter -- or in the third quarter with some of the actions we've taken. But we're not finished yet. We need to do more of this. We need to be more surgical. We need to attack the areas where we see weakness. But that was what's growing the gross adds in the quarter, clearly.

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

Yes. On the question around interest rates. So we've absolutely had a targeted rate of effective variable to fixed, and that served us very well, continues to serve us very well over the course of the economic cycle. And we think that creates value over the course of the cycle for the company, and obviously, shareholders as well.

As you mentioned, Dave, obviously, this year has seen significant increase there. And so some of those hedges have obviously moved around in value. I couldn't be happier with the work the treasury team has done, not just this year but over many years now to not just manage the overall debt profile but also the interest rate expense. You see that in the income statement over the past few years, where even as our debt has gone up to pay for the C-band acquisition and so on, our total interest expense cost has actually remained relatively flat.

So we'll continue to manage the balance sheet there. And as you mentioned, if there's opportunities to create incremental value, I think our track record would tell you very strongly that you should expect us to be doing everything, taking full advantage of those.

Operator

The next question comes from Michael Rollins of Citigroup.

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

When you look across the strategic products, postpaid phones for Consumer and Business and Fios broadband, what's the risk that customers trade-down in rate plan tiers, if the U.S. goes into recession?

And then pivoting over to the value segment, has Verizon begun to migrate any prepaid customers to the postpaid base? And can you size the future opportunity and timing for this possible migration? And then just one more, if I could, on prepaid. Is there an update on the size and timing of savings, especially for roaming when you think about the TracFone integration?

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

Okay. Let me start with the first one. As we said earlier, the Welcome plan worked very well for us, and we didn't see many of our customers trading down. Actually, it was more about softness in the marketplace there, and that's where we actually gained success. And then -- but on the other hand, we saw many of our customers coming into the store. And then we -- after a conversation, of course, we saw them actually doing a step-up and then going for another plan.

So it actually worked. We didn't see that step-down in the market has happened so far, where I think we're segmenting it up with the values we have in each and every segment. So -- but if they would do it over time, given the economic situation, we will be better prepared than anybody else. And when we are actually addressing all the segments of the market, so we can work with that.

When it comes to the prepaid -- to the postpaid migration, that is, of course, one of the pillars in our strategy to see that our customers can do that and part of our acquisition strategy to see that we can offer the customers. That will take some IT work. And as I said before, that will technically, meaning that you can now more easily work in between prepaid and postpaid. That will take some time before it's finished.

But already today, of course, we have a collaboration in between our groups as this is sort of under one roof, the whole value and premium segments. So I think that's what we're going to do. But that's, of course, an opportunity for us over time to have more of that. But already right now, we're seeing good sign on our value segment as we start growing in the third quarter.

And we just added new products, including Total wireless, which is a higher end of the value market as well as adding now fixed wireless access to the -- to some of the brands. So there is much more to do. And we're encouraged what we have seen so far about the potential, and that was the reason we acquired TracFone, because we saw this potential to play in all the Consumer segment and adding products in different ways and scaling sort of our platforms. The more we can scale the platforms, the network and the products, the more efficient we're going to be on the return on capital invested.

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

Yes. A couple of follow-ups there, Mike. So the risk of trading down, we've obviously seen a number of different economic cycles during the life of the wireless business. And we don't historically see significant amounts of trade-down during a macro downturn. So I don't expect anything different, again, because the value that people place on their connectivity products, whether that's broadband or wireless, is higher than ever. So we'll obviously monitor it closely, but history would suggest the risk of that is not that high.

And then your last question around integration on roaming, we should largely have the roaming integration, all of the customers, over onto the Verizon network during 2023. We haven't quantified the benefit there but obviously significant. But that will be -- that should be in the financials by the end of next year.

Operator

The next question comes from Tim Horan of Oppenheimer.

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

So C-band build-outs going faster and it sounds like better than expected. So Matt, can you talk about when you think you'll largely be done with that spending and maybe just the ultimate -- thinking on the ultimate POPs covered and capacity that you're adding? Any color there would be great.

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

Yes. I can start, and Matt will come in there as well. But when it comes to the C-band spending, you remember, we said we're going to do an additional $10 billion on CapEx. The year has not ended, but you have seen more or less where we are guiding. So it's going to be some portion left for the next year on CapEx, but that's a smaller part. And then it's going to be BAU because then we have done all our initial.

What is happening after that is, of course, we're getting a much more spectrum to the sites and we get some more markets. But then we're down to BAU as we have always been building capacity and network on 4G, 3G. Now we'll do it on 5G with the spectrum we have. So feel good about that situation and how we have been doing it. And this was part of the strategy we laid out for the network already 2017, in order to draw the benefit of a unified network with a strong sort of edge capability with different type of access technologies.

And now, of course, with C-band, we're adding that strength. So we're going to pass the 200 million POPs in the first quarter 2023, and then we will just continue to deploy as we're getting more spectrum. I mean still today, we're using mainly 60 megahertz. There are some places where we've started to trial out 100 megahertz. But as you know, we have 161 megahertz nationwide. And in some places, we're 200 megahertz. So we have so much more spectrum and capacity. But the guys have been building smart. So when the spectrum comes, we turn it up. It's not going out to the site again. So we are ready for that.

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

Yes. So Tim, just on the -- exactly what Hans said on the timing. If you think about it, we're still spending on the LTE network today, and that's obviously 10-plus years from when we launched. So that's because the usage on the network continues to grow, the utility people get from it continues to grow. And that's why you see our customer base expanding as a result.

But as you think about connecting the dots here, as we said, we'll be close to 200 million -- well, we'll cross 200 million POPs in the first quarter of next year. The $10 billion will largely be spent -- we said there'd be a stub left over to next year, so that kind of overlaps there. So think about it from the standpoint, the $10 billion took care of covering the first roughly 200 million POPs.

Then the rest of it goes into BAU. And you create space in BAU because those 200 million POPs have now got C-band coverage. We said over half of our base has a 5G compatible device in their hands. And so the usage growth in those areas is going on C-band. That means we don't have to continue spending on LTE in those markets.

And then combined with other programs that are coming to an end on the peak spend, such as One Fiber, Intelligent Edge Network, that's the space for the C-band continued build, both from a coverage and a capacity standpoint, to be in the BAU-level spend, just like as we continue to expand the LTE network for many years. It was part of the BAU-level spend. So absolutely peak level this year. CapEx comes down next year. And then I'd expect even further in '24 as the $10 billion is completely gone, as we spoke about earlier this year. And that obviously has a positive impact on free cash flow and the decisions we'll be able to have in front of us as a result of that going forward.

So couldn't be happier with the pace at which the team has built it out and spent that money, unbelievable work the team has done there. And it puts us in a great place to reduce CapEx going forward.

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

So any updates on the ultimate amount of coverage that you'll have or POPs covered and rough timing on that?

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

I think Kyle has said pretty clearly that you should expect -- where you get 4G today, you should be expecting to get 5G in the future as we continue to build out.

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

Yes. Our C-band spectrum is nationwide, every market, every state. So we're just going to complete that and see that we have a similar as the 4G network, as Matt says.

Operator

The next question comes from Craig Moffett of MoffettNathanson.

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

Hans, I wonder if you could talk about convergence a little bit, particularly on the Consumer side of your business. There's certainly a broad sense that the industry is moving towards converged offerings of wireless and home Internet. How do you think about that? And how do you think about it differently in areas where you have Fios and where you have fixed wireless broadband? Is that, in some ways, what's driving the fixed wireless broadband deployment? Or do you see them as still somewhat 2 separate services that are trying to fill 2 separate needs?

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

Craig, I think, first of all, we have seen some early steps of convergence in a market where mobility and home is going together. Of course, ultimately, the customers will define, is that the best model. I think we're in a great position for obvious reasons, where we deploy our fixed -- remember, when we deploy our network on the C-band, we start in urban and suburban. And that's, of course, also where the fixed wireless access opportunity arises.

So then the combination of fixed and home and mobile is emerging there. So we're going to play on that. And as you have seen we have offerings on that in the market and also working with our Fios footprint equally much. We have the optionality. And the customers will decide if that is a good way forward. I think we are in a very strong position. We have owners' economics on all our home broadband and all our mobility and being able to see that we can follow the market.

And it goes back a little bit to what I said before. We need to be agile and be surgical in different segments. If we see that, for example, convergence is happening in certain segments, we quickly come out with offerings and do that. And that's what the team is working with constantly right now.

And if that is a trend going there and it's just accentuated, we're going to be super well-positioned for that. If it's not, we're also super positioned for keeping it separate.

We're going to see that the market. We're going to drive the market. We think it's a strength for us that we have owners' economics on both mobility and broadband. So we will drive it where we see a good traction on it. And as you have seen already, we have already our offerings out there, and we'll continue to do so.

Operator

Your last question will come from Frank Louthan of Raymond James.

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

What are the largest factors impacting your churn in your base right now? And kind of after we get through this bump from the pricing action, what do you need to address to get the churn back down? And how soon can we see those tactics begin to work?

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

I think when it comes to the consumer churn, as Matt explained, the vast majority in the third quarter was coming from the price adjustments we did, which was a deliberate decision we took in the second quarter, and it was as expected. That was the larger piece of it in the churn.

And as Matt said before, our job right now is to continue to drive this downwards and see that, that is evaporating out there. We have some leakage into the -- into October from it because -- given how the price adjustments come out in the market.

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

Yes. Just, Frank, to build on that a little bit. So absolutely, we expected to see that increase, but it was certainly a good a good trade for us because it drove the gross add increase that we spoke about earlier, also drove a 2% sequential increase in service revenue and 3% in EBITDA. So we'll work through the bubble from that as we go forward. But obviously, the actions produce the type of results that we wanted.

We'll expect to get back to more normal levels going forward. We constantly have to communicate to our base of customers, the value of being on the Verizon network, and that's something that we've got many years of doing. As we just spoke about a couple of questions ago, the quality of that network with the C-band build-out is expanding rapidly. And we have the opportunity to continue to demonstrate to customers the premium service they get on Verizon.

And as we do that, I'm very confident that churn will get back to the levels we'd expect it to be. And combined with the improved gross add performance, we'll see that show up in the financials, and more importantly, in strong cash flow from the business. So really happy with the sequential trajectory we have. We need to keep building on that as we go forward here. That's what the team is focused on.

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

Brad, that's all the time we have today.

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.