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VZ.N - Q4 2022 Verizon Communications Inc Earnings Call

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OVERVIEW:

Co. reported 4Q22 total operating revenue of $35.3b, full year 2022 adjusted EPS of $5.18 and 4Q22 adjusted EPS of $1.19. Expects full year 2023 adjusted EPS to be $4.55-4.85.

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PRESENTATION

Operator

Good morning, and welcome to the Verizon Fourth 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 fourth quarter earnings conference call. I'm Brady Connor, and I'm joined by our Chairman and Chief Executive Officer, Hans Vestberg; and Matt Ellis, our Chief Financial Officer.

Before we begin, I'd like to draw your attention to our safe harbor statement, which can be found on Slide 2 of the presentation. 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.

Earlier this morning, we posted to our Investor Relations website a detailed review of our fourth quarter and full year results. I hope you all had a chance to read the material. I'm going to briefly discuss the financial highlights before turning the call over to Hans to lead a discussion on our strategy, guidance and forward-looking view of the business.

Slide 3 shows a summary of our results. Consolidated total operating revenue was $35.3 billion in the fourth quarter, up 3.5% year-over-year. Wireless service revenue grew 5.9% year-over-year in the fourth quarter, benefiting from unlimited plan migrations, our best fourth quarter total postpaid net additions in 7 years, pricing actions that we began implementing in June of 2022 and a full quarter contribution from TracFone.

Consolidated adjusted EBITDA was $11.7 billion for the fourth quarter, down 0.2% year-over-year. Wireless service revenue growth was offset by higher promotional expense, declines in our high-margin legacy wireline business and inflationary cost pressures. Adjusted earnings per share in the fourth quarter was $1.19, a decrease of 10.5% compared to the similar period in 2021, driven by higher interest expense, depreciation and lower pension-related income. Finally, we delivered $14.1 billion of free cash flow for the full year 2022 and exited the year with a net unsecured debt to adjusted EBITDA ratio of 2.7x.

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

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

Thank you, Brady, and good morning, everyone. On today's earnings call, I will focus on our strategy, guidance, expectation for the business and why I'm so excited about the opportunities for the year ahead.

Let me start by saying that we delivered against all of our revised financial targets provided in July, including 8.6% wireless service revenue growth, $47.9 billion of adjusted EBITDA and adjusted earnings per share of $5.18. I'm pleased that the momentum built during the third quarter continued into the fourth quarter.

Last quarter, we set the expectation of a positive consumer phone net adds in the fourth quarter, and we delivered against that expectation. Although we have more work to do, I'm encouraged by the improvement and expect to build on the momentum in 2023. The improvement in the consumer performance was complemented by yet another strong mobility quarter in Verizon Business Group as well as continued success in fixed wireless access with net adds up sequentially in both consumer and business. Together with Fios result, we added 416,000 broadband subscribers in the quarter, our best total broadband performance in over a decade, and approximately 1.3 million total broadband net adds for the year.

Regarding our guidance, we have positioned ourselves to improve on our performance in 2023 and expect to build a good underlying operational momentum, although that will be offset by the impact of the noncash factors such as promo amortization in our revenue growth and adjusted EBITDA. Additionally, we're seeing some impact of high interest rates. At the same time, we expect our capital spending to reduce significantly in 2023 as we reach the end of our incremental C-Band spending, which will be a tailwind for free cash flow. We're striving to make further improvements and take even more action that will ultimately lead to better performance than the guidance we have outlined today. Matt will discuss the guidance in more detail later in the call.

The industry enters 2023 with continued macroeconomic uncertainty as elevated inflation and interest rates impact the broader economy. Still, demand for our service remains strong, given the growing importance of mobility and broadband to both consumers and businesses. The combination of our network reliability, diverse portfolio of products and services and the industry's strongest customer base provides us the flexibility to meet the changing customer needs even in a difficult economic environment.

We measure our success in maximizing value across stakeholders by our ability to grow service revenue, EBITDA and cash flow. Taking these 3 metrics together is how we hold ourselves accountable. We are well positioned to improve our performance and accelerate growth on a go-forward basis with network quality as the foundation for our strategy and growth. We expect that wireless mobility and nationwide broadband will be the most significant contributors to Verizon's growth for the next several years. In 2022, we made important progress in each of these businesses. Our growth in these areas will be driven by extending our network advantage using our C-Band spectrum, which we expect will strengthen our network leadership in the coming years.

We are taking a balanced approach on how we run our business. Adding the right customers and generating ongoing profits from them is how we maximize value. We remain focused on our cost reduction and efficiency actions while also maximizing our return on invested capital via better monetizing our assets to put us on track to improve free cash flow going forward. We're proud of being the strongest in the industry in terms of generating cash and want to preserve that while also continuing to strengthen our balance sheet. We're executing with discipline and will continue driving a strategy which produces sustainable, long-term growth and profitability.

As connectivity plays an increasingly important role for consumers and businesses, it is the quality of the connectivity that matters the most. Not all networks are architected and built the same nor have the same quality. We have seen these differences in the past and expect that 5G will be no different. Our engineers have the best track record for designing and building networks that produce the best experience. Our network will continue to evolve with a relentless commitment to quality and reliability, adding capacity where needed and filling service gaps where they exist even as capital intensity declines in the coming years.

In the shift to 5G, we have been rapidly building out our C-Band spectrum with the most aggressive deployment plan in our company's history. We are tracking to 200 million POPs this quarter and are well ahead of schedule to reach our 250 million POPs targeted by year-end 2024. C-Band propagation is very similar to that of AWS and PCS spectrum, which covers more than 300 million POPs today. This gives us a clear path to scale C-Band quickly and efficiently, including in the 330 markets where we expect to gain complete access to the C-Band spectrum later this year.

Due to the timing of spectrum availability, our deployment strategy targets the highest usage areas first with the capability to deliver the most distinguished experience in places where the majority of our customers consume mobile services. As additional spectrum is cleared, we will have access to many new markets. As with prior generations of wireless technology, customers in all areas can expect to receive the best network experience.

And where we have built out the C-Band, we're only getting started. Early deployments have been limited to 60 megahertz or 100 megahertz in some early clearance markets. Consumer performance in these markets has been encouraging as evidenced by better retention, more favorable gross add trends and higher premium uptake. In addition, the majority of our consumer fixed wireless net adds are on C-Band. With the final tranche of spectrum expected to be available in late 2023, we can deploy an average of 161 megahertz and up to 200 megahertz in certain markets across the entire continental U.S.

When we turn on the full breadth of spectrum, we expect peak download speeds to reach 2.4 gigabits per second, up from the 900 megabits per second we see with 60 megahertz deployed, all while supporting far more users and applications. At the same time, we're also deploying our 5G stand-alone core. So by the end of the year, you should see a network with incredible speeds, both downlink and uplink, and positioned to deliver 5G capabilities such as network slicing, voice over 5G NR, among others.

We believe our network will allow us to maintain our premium position with our wireless mobility customers and provide reliable fixed wireless access services to consumers and businesses across the country. This is an example of how we can monetize our multipurpose network by scaling several revenue streams on the same infrastructure to enhance our return on investment. We're adding far more capacity to our network than the peak usage increase we're expecting in fixed wireless markets. We continue to expect that we'll have 4 million to 5 million fixed wireless subscribers by the end of 2025, and those subscribers will be enabled by our current build and capital plans.

Our mobility and broadband plans are supported by our deep fiber position and ongoing fiber investments. Approximately 50% of our sites are now served by our own fiber, up from 45% last year. We believe we are the only provider serving that level of its wireless network with its own fiber. This supports superior quality of service and end-to-end owners' economics. That means better reliability and higher margins and look for us to continue to expand the percentage of sites on our own fiber. We also expanded our Fios footprint by over 550,000 locations in 2022, extending our Fios open for sales to more than 17 million locations. You can expect continued fiber expansion in the years ahead.

In summary, network quality is the foundation for our strategy and growth, and all of the moves we are making are focused on ensuring we continue our network leadership in the future.

As I mentioned earlier, Verizon's success should be measured against 3 important metrics: service revenue, EBITDA and free cash flow. Let me now cover each of these in detail and tell you why I'm so confident in our ability to deliver against all 3 of these benchmarks.

We expect that our network differentiation will be the cornerstone of our service revenue growth and that it will allow us to continue to attract the highest quality customer base in the industry and maintain our market-leading share of the B2B market. Our fixed wireless access is also expected to contribute more meaningfully to service revenue as we enter the year growing rapidly with a base of more than 1.4 million subscribers. 2022 demonstrated to us that we need to be even more agile and responsive in the consumer market. This is one of the reasons I assumed leadership of the business late last year. We are moving into 2023 with momentum and expectation for improved performance based on recent actions and planned initiatives.

After integrating TracFone over the last year, we now have a full complement of offerings from entry-level prepaid all the way up to premium unlimited postpaid plans for the first time in our history. This will enable us to better attract new customers while also retaining customers through their mobile journey. You have already seen us take more segmented approach to the market through the Welcome Unlimited and One Unlimited plans in postpaid and the launch of Total by Verizon in prepaid. We're already seeing the benefits from these actions.

In 2023, our plans will continue to evolve as we look for the best ways to cater to our customers, whether through network experience, content or other product offerings. Each new offering gives us an opportunity to engage with the prospective customers and ensure they receive the plan that best fits their needs. We remain disciplined around our core pricing and continue to perform well with our premium customers on retention and step-up activity. As we move into 2023, we're taking a more localized approach with our network and go-to-market strategy, providing greater autonomy to the teams on the front line and speeding up the pace of decision-making. This will allow us to compete more effectively across geographies, particularly where dynamics may differ by individual market.

Finally, we continue to revise our sales compensation structure, ensuring we have the right incentives in place to drive sales growth. The customers we have and continue to attract represent the highest quality customer base in the industry. Based on our customer payment patterns, which are at or better than pre-pandemic levels, and the low delinquency rates in our securitized device payment plan portfolios, we continue to see only a limited impact from the macroeconomic environment on our customers. While we are watching this closely, we have a lot of confidence in the resilience of our customer base.

Scaling of new business such as private 5G networks and edge computing will also be a strategic focus in 2023. Our funnel is strong, and we are making the appropriate investments to ensure such services provide a meaningful contribution to future growth in the years ahead, which differentiates us in the industry.

You can expect Verizon to compete, but I want to underline again that we will not sacrifice financials for volumes. We continue to focus on improving our cost of acquisition and retention and believe current promotional incentives are not sustainable for the industry in the long run. Although we have participated, to some extent, in this dynamic, expect us to pursue more ways to move away from the aggressive handset subsidies with offers like Welcome Unlimited plan, which offers attractive headline pricing for customers while reducing device subsidies. We manage the business for profitability, and such actions drive healthy lifetime value for the business.

Moving to Business wireline. We're taking several actions to reduce the financial impact of the unit and are scaling back on pursuing low margin revenue in order to again drive improved profitability. While this may result in missing out on some revenue, it is the right move and one that will lead to higher margin and cash flow over time. At the same time, we are focused on further improving the cost structure through greater efficiencies.

You may recall that we embarked on a new cost-cutting initiative late last year. A component of this initiative is the formation of Verizon Global Services. This organization is accelerating efforts to drive cross-functional efficiencies, enabling us to reinvest savings in network superiority and customer growth while contributing to long-term profitability. Additional opportunity exists in sourcing, sales and marketing and corporate system, among others. The heavy lifting is now underway as we execute against our goal to deliver $2 billion to $3 billion of run rate savings by 2025. So our EBITDA strategy is clear: grow profitable volumes in both Consumer and Business based on our increasingly differentiated network and manage our expenses the way you would expect us to do.

By growing service revenue and EBITDA, we believe that we will be able to provide our shareholders with increasingly healthy free cash flow, which will support the strength of our balance sheet and fund our dividend growth. Our current streak of raising the dividend 16 years in a row is unmatched in the industry, and we intend to be able to continue that trend. Because our mobility and fixed wireless access products leverage the same infrastructure, they provide a capital-efficient path to future cash flow growth.

We believe that we will become increasingly efficient with our capital, using less capital to generate every dollar of revenue for years to come. That will enable us to produce expanding cash flow that we can both reinvest in our business and return to our shareholders.

And as you know, we're doing all of this as our capital spending budget is expected to decline from $23.1 billion in 2022 to under $19 billion at the midpoint of our guidance range this year, a reduction of nearly 20% year-over-year. In 2024, we expect our CapEx to be around $17 billion, which we expect to represent the lowest capital intensity in over a decade and among the lowest in the industry. We expect we will deliver a best-in-class network experience while reducing our 2022 CapEx levels by more than $5 billion over the next couple of years.

With that, I turn it over to Matt to discuss guidance.

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

Thank you, Hans, and good morning. I want to spend some time walking you through our 2023 guidance while also commenting on our longer-term outlook.

Our 2023 guidance reflects momentum we have exiting 2022, which we expect to drive wireless service revenue growth. For 2023, we expect total wireless service revenues to grow between 2.5% and 4.5%, driven by increased penetration of premium unlimited plans, scaling of fixed wireless, continued growth in products and services such as content and device protection plans and the full year impact of our pricing actions taken in 2022.

As noted in our earnings materials, our wireless service revenue growth outlook includes an approximately 190 basis point benefit from a larger allocation of our administrative and telco recovery fees, which partially recover network operating costs to wireless service revenue from other revenue. In addition, we expect promo amortization to be approximately $1 billion higher than last year.

We expect adjusted EBITDA to be within a range of $47.0 billion to $48.5 billion. This outlook reflects expected higher wireless service revenue offset by wireline and other revenue declines and higher marketing and network operating expenses.

Full year adjusted earnings per share is expected to be $4.55 to $4.85. As noted on our third quarter earnings call, high interest rates are expected to result in approximately $0.25 to $0.30 of interest expense pressure in 2023 due to higher floating rate debt costs and higher securitization costs for our growing device payment portfolio.

We continue to believe we have the right debt structure for the long term and have managed the balance sheet appropriately by keeping short-term maturities to a minimum in this higher interest rate environment. Higher rates for pension and OPEB, in addition to the lower pension asset base resulting from negative returns in 2022, are also expected to impact our adjusted EPS by approximately $0.12 to $0.15 compared to 2022. This flows through other income and expense in our income statement. Finally, we expect approximately $0.03 to $0.05 of impact from higher depreciation expense, primarily driven by the C-Band equipment being put into service across '22 and into '23.

Our adjusted effective income tax rate is expected to be in the range of 22.5% to 24.0% based on current legislation. Capital spending for the full year is expected to be between $18.25 billion and $19.25 billion, including the final approximately $1.75 billion of the incremental $10 billion of C-Band-related capital spending. And we continue to expect total capital spending to be approximately $17 billion in 2024. The reduction from the $23.1 billion CapEx in 2022 is expected to drive higher free cash flow in 2023 despite increases in cash interest and cash taxes. As previously discussed, we will complete our accelerated $10 billion C-Band program this year, after which all C-Band capital expenditures will be part of our business-as-usual capital program.

Looking beyond 2023, given our exit rate from 2022, we don't expect to hit the long-range outlook as we projected at the Investor Day last year. However, due to the way we have positioned our network and service offerings coming into 2023, we do expect increasing growth in revenue and cash flow in subsequent years.

I will now turn it back over to Hans.

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

Thank you, Matt. Let me summarize the Verizon opportunity in a few key points. We are making the necessary improvements to drive better performance. We have the best network, and it's only getting better even as capital intensity improves. We have the largest EBITDA base in the industry and a clear path to free cash flow expansion. And finally, we have one of the most attractive dividends in the market, and we intend to be able to continue the trend of growing the dividend each year.

By that, I hand it over to Brady to start the Q&A.

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 Simon Flannery of Morgan Stanley.

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

I had a couple of questions on the guidance. The first one is, how are you thinking about your confidence and the visibility of this guide as compared to a year ago? Obviously, we'd had the war and stuff like that. But I think the reductions in guidance, obviously, were a concern for investors. So as you went through this process, was it deliberate conservatism that you were trying to bake in to make sure that you could hit, and I think, Hans, you might have mentioned, exceed the guidance with additional steps? So that kind of setup would be great.

And then I guess for Matt, you called out some of the pressures on the bottom line. But you had a $0.30 range on your EPS guide. I think it was $0.15 a year ago. And it sounded like on the items you gave, the range wasn't that wide. So perhaps you can just give us some color on what caused you to be as wide this year on the EPS.

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

Thank you, Simon. I can start. I mean, when it comes to the guidance, I mean, we -- of course, it's a little bit uncertain, as we said, coming into the year. But we are laser focused on the service growth and on the EBITDA expansion and hence, also the cash flow expansion. That's how we are running our business, and that's how we take decisions. And as I said, I mean, our job is, of course, to see that we are meeting or exceeding the guidance we have given out. And that's how we're going to work all the year. And our teams are set up to work like that. We are in the beginning of the year, so we're going to see how it turns out.

But clearly, we are super laser-focused in the whole company, how we're executing right now and how it hangs together. And as I said before, we have now all the assets, all the way from the network to our -- to the prepaid, to the postpaid, all that. And from us, it's a lot of execution in a competitive market. But we definitely believe we can compete very well in that market. Matt?

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

Thanks, Simon. So look, as you think about the guide for the year, obviously, there's a number of items in there. As I think about the range, we can get to the top end of the range there with strong execution, the activity around the cost program scaling, that flywheel moving faster than our base assumption and just if we see more volumes come through the business there. Obviously, the low end will reflect the promo environment, the overall competitive environment. And then we'll see items like inflation and so on.

So the range of the EPS guide, I think very similar to the EBITDA guide that we've given. And I think it reflects, as we come into this year, when you think about some of the unknowns that will play out here in the macro environment and the competitive environment, we feel it's the right range to have for 2023. As Hans said, there's a lot of things for us to stay focused on and make sure we produce the best result possible.

Operator

The next question comes from John Hodulik of UBS.

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

Can we talk about consumer margins within the guidance? They were down about almost 400 basis points in '22. And Matt and Hans, you guys gave some good color on some puts and takes around promotions, around Verizon Global Services and I think, I guess, higher marketing and network operation cost. But I guess any other puts and takes to call out?

And as we look into '23, as part of the guidance, should we expect the consumer margins to sort of flatten here? And do you guys have visibility that as you guys -- a lot of these initiatives take hold that we can start to see some improving margins on the consumer side?

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

Thank you. I mean, I can start. I mean, of course, we're doing quite a lot in the consumer segment right now, all the way from addressing areas where we have softness in our portfolio with Welcome, for example, in order to create growth. But also, we are regionalizing our business, both on the network side and the consumer side in order to take quicker decision. But also, the network is so strong in local markets where we're building out the C-Band, we want to take advantage of that. And as we said before, we have the chance to -- or we don't have the chance. We see the correlation between C-Band deployment and step-ups and, of course, fixed wireless access and the majority of our fixed wireless access customers coming on C-Band right now. So that's why.

And finally, we have also worked with the spending, the consumer investment, I call it, all the way what we're doing above the line on promo, what we're doing below the line on retention and how much we do in media. We're doing that much more agile. I think that will help us to manage and continue our clear path and a clear target of growing our top line and expanding our EBITDA. That's our job. Then there are some headwinds that Matt has talked about. But obviously, the underlying should be improving with the cost cuts and the way we're working in the consumer group. Matt?

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

Yes. Thanks, Hans. John, so as you think about the year-over-year reduction in '22, remember at the start of the year, we said that we expected about a 200 basis point impact because of the inclusion of TracFone in the business for the year, obviously, accretive in absolute terms. But from a margin standpoint, we did expect to see that. So then obviously, there's some other items in there. We talked a little bit about the inflation impact last year, obviously, the competitive environment and the promo piece in there as well.

So there will be some things that we have the opportunity to improve on this year. Synergies from within TracFone as we move more customers over to our own network will be an upside. But then as we mentioned in the prepared remarks, obviously, the promo amortization is expected to be up on a year-over-year basis as the delay between being at these higher levels from a cash basis and then that flowing through on an accounting basis. So when you net those things out, expect something initially on a -- probably a similar type of level in '23 to '22 with some opportunities to push that as we go forward into subsequent years.

Operator

The next question comes from Brett Feldman of Goldman Sachs.

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

I'm actually going to stick with consumer. And I was hoping we can get a little more insight into 2 different tools you're using to go to market. The first is Welcome Unlimited. You've been advertising it quite a bit, and you've mentioned it a couple of times during your prepared remarks. I'm wondering to what extent are you finding that Welcome Unlimited is indeed a popular plan with new consumers versus the extent to which it's driving wireless shoppers into your channels where you're actually more frequently converting them into a higher-tiered plan? So that's the first question.

And then it seems like you have been reluctant to make greater use of device promos. Obviously, you were using them to some extent last year. How are you thinking about the role of device promos as you go to market this year and you look to sort of sustain these positive consumer phone net adds?

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

Thanks. The Welcome Unlimited is working exactly as we wanted. I mean, it creates store traffic. We bring our customers in, and we see that the customer gets the plans they want. We have not seen any step-downs that is coming from that. We are more seeing an opportunity for our customers to have a conversation with them. And of course, remember, that's a bring your own device. It's for 4 lines, and that's the way we have been dealing.

And we learned a lot from the first Welcome we started with somewhere in the third quarter, I remember or beginning of -- end of the second when we saw a little bit -- and that was an area where we were soft. And that's where we clearly saw that customers were going to others. These, we now have diverted, and they come to us. And if you then add that, you see our premium unlimited continue to do well. We went up now to 45% actually from 41% in the third quarter, I think. So we added 4% more on unlimited premium. So that is working for us. We just need to be agile, stay close to see which segment and then be aggressive in the segment we need. And the segment we're performing well in, we let them continue to perform well.

And when it comes to device promos, yes, we understand that's part of the competition -- I mean, part of the market. We will be a part in that as well. But we will continue to be cautious and see that we actually are using device promos in the right moment for the right customers. And you saw us last year coming in and out. Sometimes we're a little bit more aggressive. And others, we were actually the least aggressive. And I think that's how we will continue this year, depending on where the market is going.

But what you can expect from us in the consumer unit is to be agile, take quick decisions and see if they're working, then we'll continue. If they're not working, we're pulling them. That's why I'm into this basically every day myself nowadays. And I think this has proven that we get the momentum with the team, and the team is actually executing well. We have more to do. I mean, I always say that. I mean, it's going to take a long time before I feel that I'm 100% satisfied or happy. But definitely, it's work to do here, but I've seen the good momentum.

Operator

The next question comes from Phil Cusick of JPMorgan.

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

Sticking with wireless. On service revenue, when I pull out the definition change from other to service revenue, you're guiding to roughly 1% to 2% wireless service revenue growth in '23, which is a big deceleration from almost 6% this quarter. How should we think about this in regards to phone adds and ARPU and the impact of promotions on service revenue? Can you just put the pieces together for us? And do you expect that service revenue will stay positive each quarter this year or actually flips to negative at some point?

And just on top of that, typically, we see things much slower in terms of subscribers from 4Q to 1Q. While I don't expect you to guide on subscribers, do you think we'll see sort of typical seasonality this quarter? Or do you anticipate sort of better performance?

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

I can start, and then Matt can break down the numbers you're talking about. I mean, yes, we -- on the premium segment, there is seasonality in the first quarter, and I don't think that's going to be different this year. However, our work is to keep up the momentum that we had from the fourth quarter into this year, where we had good store traffic year, quarter-over-quarter and also high conversion rate. But it also means that we need to be agile and see what's happening in the market. And it's a little bit early to do any guidance or something like that, which we're not doing on net adds. But clearly, there is going to be seasonality. But we have good momentum. And we're going to continue to execute and be very close to the market. Matt?

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

Yes. Phil, so kind of unpacking some of the piece parts of your question there. So seasonality, absolutely, we expect that to look reasonably as you would expect throughout the year from an overall standpoint.

In terms of the service revenue guide, your math there is correct. When you think about the fourth quarter, you said close to 6%, remember that included a full quarter of owning Trac in 4Q this year versus only part of 4Q last year. So as we get into '23, finally on a year-over-year basis to talk about stuff on an apples-to-apples basis and not with and without M&A items, which is nice. So once you remove that, very similar.

In terms of the piece parts within wireless service revenue guide, think about you got the positive impacts of the price ups. Obviously, we had 6 months' impact last year, approximately. You get a full year impact this year, also the benefit of the FWA momentum we had and having 1.4 million subscribers in the base at the start of this year that we're billing throughout the year. But that's offset by the promo amortization, which, as I mentioned in the up-front comments, will be higher in the income statement year-over-year with the timing of the recognition of that and then also the impact of the volumes last year offsetting some of the ARPA benefit we had.

So the task for the team going forward is to continue the momentum that we started to see in the second half of last year, as Hans mentioned. And that will put us in a position to continue to push service revenue in a positive direction going forward.

Operator

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

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

The first one, maybe, Matt, could we refresh the free cash flow outlook for 2023? I think the midpoint was $21 billion for 2023 from last year's Analyst Day. I think if we look at the EBITDA guidance, which is roughly flat, interest expense guidance, which is up $1 billion, the CapEx, which is down $4 billion, it feels like it should be roughly $17 billion, unless there's other things in taxes and working capital related to some of these promotions. So if you could kind of refresh that a little bit, that would be awesome.

And then Hans, you called out 3 things as it relates to the C-Band deployment. And this has been a big success for Verizon is getting this build done. I think that some people have been asking themselves like where the return is from all the money that's been spent. And you highlighted higher retention, better gross adds and higher premium take rate. Are there numbers that you can put around that, that we could grab on to and say, "When, in 2024, Verizon doubles their footprint in C-Band with the new spectrum getting cleared, we can put a number on that and say, 'This is going to be the return that Verizon gets from this build?'"

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

Why don't you start, Matt, and I take the second question on the C-Band.

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

Yes. So on the free cash flow, David, obviously, last year, we said that we expect -- you had the right number, the expectation of where we said free cash flow might be for '23. As I think about where we see the business today versus where it was a year ago, a couple of factors that are different. You have CapEx very much in line with where we thought it would be at this point. The team did a great job last year deploying C-Band. And obviously, we spent most of the $10 billion. So you get a nice year-over-year benefit.

Offsetting that, cash taxes will be higher this year as we have less benefit from a higher CapEx number and also bonus depreciation dropping down. That was in our expectation last year. Interest rates were obviously very different than we expected last year, you touched on those. And then the jump-off point from the EBITDA in the business at the end of '22 to '23, lower than we hoped to be at the Investor Day a year ago. So you've got the right moving parts there.

We're not guiding specifically to a cash flow number. We historically haven't, but you've got the right moving pieces in there. So net-net, the CapEx reduction year-over-year gives us a good tailwind to think about cash flow for this year. So with that, I'll hand you to the C-Band question.

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

Yes. And it's, of course, a focus for us to continue to grow the cash flow, as we have said so many times. So we will continue on that work.

When it comes to the C-Band, first of all, we have said from the beginning, the C-Band acquisition we did is a multi-decade spectrum. It's going to -- in so much and in so many years. And of course, that was a deliberate decision because we believe we're going to be in wireless business for the eternity of Verizon's history. So that's very important.

However, when it comes to the impacts, and I think I mentioned some of them, if you think about fixed wireless access, the majority of all new customers are coming on the C-Band right now. That's a clear indication. Without the C-Band, we couldn't grow the broadband right now. We did a history high of 1.4 billion net adds in the year of broadband subscribers. So of course, a lot have contributed to C-Band, and that's a clear metric to have.

The other metrics you have is, of course, the unlimited premium, where we say that actually, we are performing very well, where we have deployed the C-Band in order to get customers to step up. And the step-up is very important. We are in a multi-subscription business or we are in a subscription business. And the more you can see that you're upgrading the price, the P on that quantity, it's enormously important for the long-term value for our customers.

Other -- the third one that is coming and I mentioned also when I opened is, of course, private 5G networks, mobile edge compute. All that is, of course, going to be very much supported by the C-Band as well. There, we will come back and start reporting on that when we feel that, that is coming into the play from a more significant portion. But mobility -- and remember also that we have the wireless business side, the business side actually growing because of the reliability of our network and the resilience of our network, which is how our enterprise customers are buying from us when it comes to wireless business. So I think there are many metrics that you can see already now that is really connected to the C-Band.

Then I just want to remind you, it's almost less -- I think it's 1 year since we got -- since we launched the C-Band. It's only 1 year, and we're going to cross 200 million POPs. We have never built so fast in the entire history of the company, and we're well ahead of the plan to hit the 250 million POPs that we said at the Investor Day by end of '24. So I think that this is really a game changer in the market. And we see performance-wise, we're outperforming. We have the most resilient 5G network in the nation, and we're just starting.

You're starting with 60 and 100 megahertz. And as you heard me talking, we have 160 in average. It's going to be 200 later on. It is a game changer, and we can already see it right now. And we see already metrics right now that is proving it.

Operator

The next question comes from Craig Moffett of MoffettNathanson -- I'm sorry, Michael Rollins of Citibank.

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

Two questions, if I could. The first one, as you mentioned earlier in the discussion that you pulled back from some of those longer-term targets that you had, previously, you added the 3-plus percent service revenue and other growth for this year and 4-plus percent for next year, can you unpack the categories that are at or above the plan from a few years ago? And then the areas of shortfall and if those areas, do you view those as temporary or more permanent changes in the opportunity for Verizon?

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

Okay. I can start. I mean, first of all, we're more confident than ever that we have the right strategy and we have the 5 vectors of growth. All of them are going along. Some are actually exceeding our expectations. Some are a little bit slower, and some have a little bit different jump-off points. That's where we are. But there's no difference how we see the market and how we believe we can compete in all the 5 vectors of growth that we outlined the last time. It's more a push in time than something else because of this year or this year, '22, I guess, I should say, had some jump-off that is not really helping us.

But all in all, the whole strategy, where we're going, I have a lot of confidence in our team. The team has a lot of confidence, and we're executing. We're eliminating the things that have been distracting us all the way from Verizon Media Group, et cetera.

Then we have some headwinds that we constantly work with as well that we don't talk so much about. On the wireline side, I talked about that today. I mean, everything from the cost out, but not only that. We're going to be even more prudent what type of business we're taking, which will reduce our top line probably. But it will improve our profitability and cash flow. So you're going to see us taking many actions to see that we are delivering on the plans -- the long-term plans, but there are some shifts in it. Matt?

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

Yes. Thanks, Hans. So Mike, as you think about the conversation we had last year, and we talked about the long-term outlook, we provided the piece parts, maybe if I go through some of those and where we are. Some of them were absolutely where we expected to be, think about nationwide broadband with the year we had on FWA, but also Fios and the expectation to continue to see very good progress there. That's very much in line with the expectations we outlined a year ago. Also, our business segment mobility results with 6 consecutive quarters above 150,000 net adds, very much in line with the expectations that we had at the Investor Day.

A couple of areas where we are behind versus our expectation at that point in time. Firstly, you take one of them, the mobile edge compute and 5G private networks, you're talking about the technology adoption there on a new technology, that adoption curve, a little slower than maybe we would have liked. But as you heard from Hans in the prepared remarks, heating up, we're starting to see some momentum there. So still feel good about the opportunity there. But the pace of the adoption curve, a little different than we hoped it might be. But the upside there still looks very good.

And then, of course, the other one, consumer mobility. At this time a year ago, we had higher expectations for '22 than where we ended up. Obviously, a lot of that variance occurred in the first part of the year, and you saw the actions taken. But as you think about the piece parts of the long-term outlook that we described a year ago and then how those have played out in the past 12 months, hopefully, that gives you a little more color in terms of where things are moving along very much in line and where we also saw some areas where we've had to -- we have opportunity to see further improvement as we go forward.

Operator

The next question comes from Craig Moffett of MoffettNathanson.

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

Sorry, I hope you can hear me. So Hans, I wonder if you could just talk a bit about your bundling strategy, particularly on the consumer side. With both the strength now in fixed wireless but also Fios, is it your view that going forward, the consumer is going to buy wireless and wireline or fixed access together? Or is that more of a sort of a financial bundling strategy rather than a real product bundling strategy?

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

Craig, no, I think it's a really good question. Of course, we have seen this as a very strong consumer movement in Europe that is, to a high degree, have convergence in the U.S., where, I would say, much lower. But clearly, it is something that our customers are asking for. So it's actually a consumer feedback. And I spent a lot of time in the stores, meeting a lot of our consumers. And they see a clear advantage to have the same provider on the broadband as on the wireless. I don't think we will get into any European levels. But clearly, this is a movement, and Verizon has a super good position here.

We have owners' economics on our broadband and on our wireless nationwide, both of them. And that's, of course -- we're going to meet the customers here. If the customer thinks that is what they need, we're going to offer it, and that's why we have these bundles in the market. If they want to have them separate, we can do that as well. We have owners' economics on both of them. But I think that trend will continue, given the consumer research we are doing and the consumers we are talking to. That's something that is actually -- and it's not only consumers. You need to think about small and medium business as well, make it convenient for them, both having the wireless and the broadband, because any SMB today, and we spend -- we probably serve half of the SMBs in the country, any SMB today need a digital front door and then being mobile first. So this is really good for us.

And if you look at our numbers this year on both on fixed wireless access and mobility in the business segment, SMB has been very important for us. So yes, I think there's something in there definitely, and it's a consumer desire. And we're going to meet that desire as we continue.

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

And are there big differences between the way you think about it in Fios versus non-Fios markets?

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

No. It's not different. We see it in the same way if the customer -- of course, we're much more mature historically in the Fios footprint. On the other side, when we do fixed wireless access, it's a much more natural discussion with the customer as we have it from the beginning. So I would say that we probably have a big opportunity on the Fios segment to have customers both on the fixed and the mobile.

On the fixed wireless access, I think that there, you start actually on a strong position when you start offering fixed wireless access with many of the customers sort of coming in either on a cable provider and have our wireless. And that's how they move over to us.

Operator

The next question comes from Kannan Venkateshwar of Barclays.

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

Hans, when we think about the balance between unit growth versus pricing, and obviously, you have made the deliberate choice not to chase unit growth near term, but could you help us think through how you think about this longer term? Because once you cede market share, obviously, it can be pretty expensive to get it back. And so when we think about this balance between pricing and unit growth, how important is unit growth not just for short term as you look at 2023, but also longer term, especially when it comes to postpaid phone growth?

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

Thank you. No, good question. I think that as you heard us at least, I mean, we think that the profitable growth is the most important, both to have the right customers retained with us and the ones we're getting. So that's an overarching measurement we need to have. Then, of course, it's always going to be new customers that are important for our base.

But remember also, this market right now, if you talk about the premium segment, there are, of course, a certain amount of switchers in the market, and then there are a certain amount of people going from pre to postpaid. There is no infusion of new customers in the system. So they're coming from 2 sources, and you need to think about how you do that. And I think we have great opportunities right now with the TracFone brands we have to see -- and Total wireless to see that we are taking care of that pre to post migration, which we've not been part of before. We still have some work with the IT stacks and all of that. But clearly, today, we are running on both sides.

And on the switcher pool, yes, there, we're going to be seeing that we're prudent and disciplined, but we will go for the units we think are the right. So -- but it's a subscription model long term that is even more important to increase the P sometimes than increasing the Q because this is long term that you stay with the customers to get the long-term value from them. But it's a balance of it all the time and that we will continue to have.

Operator

The next question comes from Doug Mitchelson of Credit Suisse.

Douglas Mitchelson - *Crédit Suisse AG, Research Division - MD*

You talked about amortization being up $1 billion for phone subsidies to catch up with cash spending. Embedded in all your guidance is cash spending at peak levels. Is there a scope for it still to go higher? I know it depends on the competitive environment that it could eventually improve. But are we at peak levels and it's just a question of amortization catching up?

And I'm curious, when you think about the service revenue guide for wireless, are there any price increases anticipated in that guide and kind of what level of price increase? I know it's a sensitive topic, but just curious how we should think about that revenue growth.

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

Thank you. Now if we talk about the price increases, I just want to come back to what I said before. I mean, we will be surgical and segmented in our approach. There are certain segments we need to be more aggressive on. There might be areas where we see opportunities for price increases. There are no major price increases included at this moment. We need to see where the market is going and also where cost levels are going, but we will always look at that. But there's nothing right now that we have in our plans. Matt?

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

Yes. On the promotion piece, you've got the understanding of the accounting treatment versus the cash there, Doug. And certainly, our assumption is that the marketplace will continue to be competitive, but we're not going to go into 100% details of what's in the guide there. But we do assume that we'll continue to see competitive level in line with the past couple of years. And then as Hans said, we'll continue to look for ways to put plans in the marketplace that reduce the level of subsidy out there as well, and we'll continue to push for those opportunities.

Operator

The next question comes from Tim Horan of Oppenheimer.

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

Matt, can you talk about your goals for free cash flow? And specifically, how much do you think you can reduce the debt by -- per year kind of going forward at this point?

And then secondly, can you talk about the gating factor for fixed wireless growth? It seems like you're implying with your '25 guidance that this is kind of a good run rate, but yet your speeds are going to be increasing threefold and coverage, you're going to basically get a massive amount of capacity kind of going out there. But do you think this is a good run rate for fixed wireless or can it accelerate?

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

I can start with fixed wireless access. First of all, we just reiterated what we said in Investor Day, 4 million to 5 million subscribers on fixed wireless access. Our job is always to try to beat that, but that was -- we just reiterated that, and we are well ahead on that plan.

Then the second is, of course, when it comes to our capacity, we have definitely capacity for that and much more. And again, we have a multi-usage of our network. That has been sort of the basis for this, meaning the same radio base stations are serving mobility, fixed wireless access and mobile edge compute. And we are not doing separate.

In the distant future, way above the 4 million and 5 million, we can always come into sort of decisions of splitting cells in order to get more fixed wireless access. But that's very far away from now. We have ample capacity for the guide and much more than that. So -- and of course, our team is doing everything to see that we can continue to exceed our targets.

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

Tim, on the free cash flow question, so absolutely, one of our goals is to continue to grow cash flow. Hans mentioned that you should measure us on revenue growth, EBITDA growth and cash flow growth, and that cash flow growth is something we expect to be able to continue to generate going forward. Obviously, the capital reduction from the high point in '22 to the guide we gave for this year and then an even lower amount next year will be a positive towards that as we continue to obviously make progress on the income statement as well. You should see that contribute there as well. So that puts us in a position where we can start to see accelerated levels of debt reduction versus what you've seen in the past year or so. So that's the targets we have ahead of us and look forward to discussing progress against that as we go forward here.

Operator

The final question for today will come from Bryan Kraft of Deutsche Bank.

Bryan Kraft - *Deutsche Bank AG, Research Division - Senior Analyst*

I wanted to ask you about business postpaid phone net adds. They seem to be a bit lighter this quarter than they've been in the past 4 or 5 quarters. And I'm just wondering if you're seeing trends there soften due to macroeconomic factors such as corporate staff reductions or if it's competitive reasons. Or is it any slowdown in the secular trend toward company-issued devices? And then related to that, can you talk about what you're assuming in the guidance at a high level for the macroeconomic environment? For example, are you assuming a soft landing scenario with small macro impacts? Or are you baking in a more protracted downturn in the guidance?

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

Thank you. Yes. So it's a multifaceted question on the fourth quarter. Of course, on the business-to-business side, SMBs continue to be very strong. And as I said, they need a digital storefront and a mobile-first strategy in today's world after COVID. So I think that's where we have been performing very well. On the enterprise side, it's a little bit different, but we see that bring your own device is going down. And we see more companies saying that they want the company phone, which is of course, helping us here. So -- and that we -- that trend we have seen for a couple of quarters. So I think both of them are pretty solid.

On the consumer side, as I said, we had positive net adds. We had also, as I said before, a little bit spill over from the churn from the price increase at the beginning of the quarter. And then there was actually fewer days of sales in the fourth quarter than in a normal quarter. So I don't think there are any new things more than what I said. Customers were a little bit later in the holiday season to do. They had higher intent when it comes to consumers, but it was nothing macroeconomical different than I talked about. Matt and I talked about the bad debt and the delinquency being like pre-COVID or equal or better than pre-COVID. So no, there's nothing there. We are, of course, watching it. But so far, we continue to progress well.

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

Yes. Just to add on a couple of points. So as you think about the VBG net adds, you're always going to see a little bit of volatility up and down from 1 quarter to the next just because of the size of some of the transactions there. So all in all, though, jobs numbers continue to be good. Business numbers, good. Obviously, there's been some high-profile layoff announcements, but overall job numbers are good. And you see that show up in the overall numbers that we produced throughout the year and look forward to continuing to have best-in-class market share within the Verizon Business Group space as we go forward.

In terms of the macroeconomic assumptions in the guide, I wouldn't say we have anything too dissimilar to what you've heard from a number of other people during earnings season. But one of the things I come back to is the resiliency of our customer base. We've been through different types of economic environments in the past. We know customers pay their phone bills before they pay other bills and other outgoings. We fully expect that to continue. And so we're obviously watching the macroeconomic environment. But as Hans said, the payment patterns continue to be very strong, and we'll stay close to that. But so far, so good.

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

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

Operator

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