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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, and welcome to the Verizon's second-quarter 2024 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 - Senior Vice President, Investor Relations*

Thanks, Brad. Good morning, everyone, and welcome to our second-quarter earnings conference call. I'm Brady Connor, and I'm joined by our Chairman and Chief Executive Officer, Hans Vestberg; as well as our Chief Financial Officer, Tony Skiadas.

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. Discussions of factors that may affect future results is contained in Verizon's filings with the SEC, which are available on our Investor Relations 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 second-quarter results. You'll find additional details in the earnings materials on our website.

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

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

Thank you, Brady. Good morning and welcome to Verizon's second-quarter 2024 earnings call. This quarter marks the beginning of Verizon's next chapter. We have launched a comprehensive brand refresh that goes far beyond the new logo. This transformation embodies our commitment to bringing choice, value, and control to our customers' lives, reflecting our evolution and vision for the future of connectivity. We refreshed our brand as our strategy continues to deliver strong results. The three pillars of our performance: wireless service revenue growth, adjusted EBITDA expansion, and increased free cash flow remain solid, showing both sequentialand year-over-year improvements.

In the second quarter, we saw wireless service revenue climb 3.5% year over year, adjusted EBITDA rise by 2.8%, and free cash flow increase 3% compared to last year. Our improving operations and results build on our first-quarter momentum, keep us on track to meet our 2024 financial guidance and are paving the way for a sustained growth.

Our progress comes from innovations that deeply resonate with customers, including the most personalized offerings in the industry. These initiatives align perfectly with our core strategy: to strengthen and grow customer relationships while delivering the best return on capital.

We launched myPlan in 2023, and it delighted our customers. In just over a year, over 30% of our subscribers are using it. That is an incredible adoption rate, and now, we're bringing these features to home Internet with myHome. We're building and expanding on our strength and successes, and you can expect that to continue.

For businesses, we launched Verizon Business Complete, the industry's only end-to-end smartphone management system. We cover everything from selecting the first phone to upgrades with 24-hour service and same-day equipment placement. These initiatives, combined with our strong network performance and extensive distribution, are reinforcing our leadership position and driving our industry forward.

Turning to second quarter, we had a strong operational performance across mobility, broadband, and our network. Our overall execution in consumer mobility has been improving quarter after quarter since early last year, and our momentum continues.

Consumer postpaid phone gross adds are up 12% year over year, which is amazing. Total postpaid phone net adds of 148,000 is a big improvement year over year and sequentially, and we expect to have positive postpaid phone net adds in consumer for the year.

Choice is at the core of our approach, and we are constantly working on new partnerships that give our customers more options and value. One example is our addition of YouTube Premium and Peacock subscriptions, which makes us the only provider offering our customers savings on 10 of the top streaming services. These content partnerships give our customers compelling reasons to shop with us.

We also had a very strong quarter for postpaid phone net adds in Verizon Business at 156,000. This is a sharp improvement from the first quarter and shows how important we are to small, midsize, and large businesses. Our Business customers continue to invest in mobility, and we offer them the widest range of choices.

In the consumer value market, we're applying the same customer-centric discipline and rigor as we do in the postpaid market and are seeing significant net add improvements excluding SafeLink. We recently relaunched Total by Verizon as Total Wireless and enhanced our offerings with price guarantees, upgrade credits, and other features.

In broadband, we're still taking share with 391,000 net adds in the second quarter. Fixed wireless access remains a key driver with higher net adds in the quarter. We continue to grow our broadband base, ending the quarter with more than 11.5 million broadband subscribers. We're also continuing to add business from large customers like government agencies. We're very proud that we were awarded a new contract from the US Department of the Navy to provide wireless devices and device management building on our previous work together.

For first responders, Verizon Frontline delivers mission-critical connectivity and advanced solutions to more than 40,000 public safety agencies across the United States, serving them with everything from device and network management to digital transformations. Verizon is there when people need us most, from protecting the front lines to natural disaster response. In fact, recent FCC data shows that overall, our network outperformed our peers in areas affected by the Hurricane Beryl. I could not be prouder of that. It's one of the reasons we're so committed to network superiority.

And we're continuing to expand C-band in suburban and rural areas. Our initial C-band markets outperform with better gross add growth, higher uptake of premium services, and lower churn. We now have nearly half of our network traffic running on ultra-wideband, up from 36% a year ago. That number will continue to grow as we expand C-band’s reach.

We're also working to enhance our network coverage by partnering with AST SpaceMobile to provide satellite-to-device connectivity using the 850 megahertz spectrum. This will bring our network to unserved communities as we target 100% coverage from coast-to-coast. Our portfolio of high performance spectrum, the capacity of our fiber, and our ability to deploy and support mobile-edge compute make us as the backbone of the AI economy and the partner of choice for players in the space. We will power the best AI services for our customers. What sets us apart with AI is our network's mobile-edge computing capabilities and deep fiber footprint. By processing data closer to the source, we enable real-time AI application that requires security, ultra-low latency, and high bandwidth. This is where our network shines, opening up possibilities that simply weren't feasible before.

We're already seeing the benefits of AI in our operations. For example, we use AI to route customers support to customer agents best suited to help. We analyze more than 800 data points per call to save our customers time and spare them frustration.

It takes the best network to power these applications. And today, RootMetrics awarded us an outright win for national overall wireless network performance. Verizon also won the most national, state, and metro awards, including outright wins for accessibility, data performance, and streaming video performance. This is the kind of superior network performance that our customers deserve and expect from us.

I'm pleased with our first half-year performance and how well our team is executing on our strategy. I always say there's more work to do, and there always is. We're seeing improving postpaid phone net adds in consumer, performing extremely well in business, and taking share in broadband. We're achieving growth in a disciplined, balanced way and have built great momentum heading into the second half of the year and into 2025.

Now, I will hand over the call to Tony for a deeper dive into our performance.

Anthony Skiadas - *Verizon Communications Inc - Chief Financial Officer*

Thanks, Hans, and good morning. Our second-quarter results reflected accelerated growth in wireless service revenue and adjusted EBITDA, as we continue to generate strong free cash flow. These results were driven by strong operational execution in both consumer and business, which led to sequential net add improvements in postpaid phones, fixed wireless access, and prepaid, excluding SafeLink.

With Consumer, postpaid phone gross adds were approximately 1.8 million in the second quarter, a 12% year-over-year increase. This marks the sixth consecutive quarter with year-over-year growth. Excluding our second-number offering, consumer postpaid phone gross adds grew 5% year over year. Consumer postpaid phone churn was 0.79% in the second quarter, up slightly from the prior-year period. This was in line with our expectations as we recently implemented several price increases that are expected to generate well over $1 billion in annualized wireless service revenue. We believe the majority of the pricing churn is now behind us, and we continue to expect full-year consumer postpaid phone churn to be flat or slightly better than last year.

Consumer postpaid phone net losses were 8,000 for the second quarter, which marks a significant improvement, both sequentially and year over year. For the full year, we expect to deliver positive consumer postpaid phone net adds without the contribution from our second-number offering.

Moving to prepaid, we continue to make progress with our core brands while navigating the conclusion of the ACP program. Overall prepaid net losses were 624,000, including 410,000 losses related to the ACP shutdown, the vast majority of which are in our SafeLink brand. Excluding SafeLink, prepaid net losses were 12,000, a substantial improvement compared to the prior-year period. Visible and Total Wireless continue to expand and perform well, while our operational execution with Straight Talk continues to improve. We exited the quarter with good momentum in prepaid, setting the stage for a stronger performance in the second half of 2024 and positioning us well for 2025.

On the business side, postpaid phone net adds were 156,000 in the second quarter, the best performance in the last six quarters. We saw a strong sequential improvement of phone net adds across small and medium businesses as well as enterprise and public sector customers.

Turning to broadband, our total broadband net additions were 391,000 for the quarter, representing the eighth consecutive quarter with over 375,000 broadband net adds. In fixed wireless access, we continue to focus on building a long-term sustainable business. Total fixed wireless net adds were 378,000 in the quarter, up sequentially. This brings our base above 3.8 million subscribers, up nearly 69% year over year.

Consumer fixed wireless net adds were 218,000, a 15,000 sequential increase as we continue to see healthy demand for reliable broadband even in a seasonally softer quarter. Verizon Business continued strong execution with 160,000 fixed wireless access net adds, a quarterly record. Demand for the service is strengthening as small businesses and enterprises continue to trust the reliability of the product and speed and ease of deployment. Overall Fios Internet net adds totaled 28,000 for the quarter. We are pleased with the continuous growth of Fios, even with the effects of the ACP shutdown and lower move activity.

We ended the quarter with over 11.5 million broadband subscribers, a 17% increase from a year ago. Our broadband growth continues to significantly outpace that of the broader market given our superior network experience and strong execution.

Moving to the financials, we delivered another solid quarter and remain on track to meet our full-year financial guidance. Consolidated revenue for the second quarter totaled $32.8 billion, a 0.6% increase year over year. That growth was driven by service and other revenue, which grew 1.8% year over year, partially offset by declines in wireless equipment revenue as total upgrades were down nearly 13% year over year.

Wireless service revenue totaled $19.8 billion, a sequential increase of more than $250 million and year-over-year growth of 3.5% or $660 million. The increase was primarily driven by consumer wireless service revenue, which grew 3.7% year over year to $16.3 billion.

Consumer postpaid ARPA grew 5% year over year, reflecting the benefits of pricing actions and fixed wireless growth. In addition, myPlan helps drive ARPA growth through premium mix adoption and perk revenue. As Hans said, we now have over 30% of our consumer phone lines on myPlan and expect this to expand meaningfully going forward.

FWA revenue, which is included in wireless service revenue, was $514 million for the quarter, up more than $200 million versus the prior-year period. Launched at scale in 2021, our FWA business is expected to generate more than $2 billion in revenue this year with prospects for continued healthy growth.

Prepaid revenue for the quarter declined $162 million versus the prior-year period. The headwind to wireless service revenue growth from the ACP shutdown was approximately 30 basis points, within the range we provided last quarter, and the margin impact was insignificant. With the majority of ACP disconnects now behind us and the momentum growing in our core prepaid brands, we are better positioned for the remainder of the year and heading into 2025.

Consolidated adjusted EBITDA for the second quarter totaled $12.3 billion, an increase of 2.8% year over year. The improved operating leverage reflects the lower upgrade activity and our disciplined approach to growth. We are making progress in our ongoing cost efficiency program and recently introduced new measures to improve our operating efficiency, including a voluntary separation program announced in June.

Adjusted EPS in the quarter was about $1.15, down 5% compared to the prior-year period. Growth in adjusted EBITDA was offset by below the line items, higher interest expense, predominantly due to lower capitalized interest as we put more C-band spectrum into service.

Cash flow from operating activities totaled $16.6 billion for the first half of the year compared to $18 billion in the prior-year period. The result reflects higher cash taxes of approximately $1.7 billion, predominantly due to the unwind of bonus depreciation as well as higher interest expense, primarily driven by the decrease in capitalized interest. Capital spending for the first half of the year totaled $8.1 billion. This was $2 billion less than the same period last year as we have returned to historical levels of capital intensity. The network build remains ahead of schedule, with C-band deployed on nearly 60% of our planned sites.

Our full-year guidance for CapEx spending remains unchanged at a range of $17 billion to $17.5 billion. The net result of cash flow operations and capital spending is free cash flow of $8.5 billion for the first half of 2024. This represents an increase of nearly 7% or approximately $550 million from the prior-year period despite higher cash taxes and interest expense.

We expect to generate strong cash flow in the back half of the year that will support paying down debt. Net unsecured debt at the end of the quarter was $122.8 billion, an improvement of $3.2 billion compared to the previous quarter and $3.7 billion lower year over year.

Our net unsecured debt to consolidated adjusted EBITDA ratio was 2.5 times, an improvement from 2.6 times last quarter. The strength of our results and momentum in our business put us in a great position to execute on our capital allocation priorities. In particular, we remain on track to further reduce the leverage on our balance sheet in the second half of the year.

In summary, with 2024 reaching its midpoint, the team's strong execution and operating momentum is translating into results. We have good momentum in mobility as reflected by the strong gross add growth and continue to take share in broadband through fixed wireless access and Fios. Importantly, we are accomplishing this with a disciplined approach, balancing growth, and profitability, providing the confidence to deliver on our 2024 financial guidance.

With that, I will turn it back to Hans for his final remarks before opening the call to your questions.

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

Thank you, Tony. Our focus for the second half remains clear; to drive growth in wireless service revenue, expand adjusted EBITDA, and generate strong free cash flow. We're evolving our broadband strategy as we approach 4 million to 5 million fixed wireless access subscribers and will continue to scale the business along with private networks while driving mobility growth.

Our ongoing C-band expansion will be crucial in supporting these efforts, enhancing our network performance, and opening new opportunities across markets. Our commitment to a differentiated customer experience and operational excellence remains firm. The success of myPlan and our brand refresh are proof of our ability to meet evolving customer needs. We will build on these successes in the quarters ahead as we work to deliver value to all of our stakeholders.

We will continue to execute on our capital allocation priorities by investing in the business, supporting our dividend, and paying down debt. As AI continues to reshape our industry, Verizon is well-positioned to enable and benefit from it. Our reliable, secured, and powerful network will be at the forefront of AI and mobile-edge compute applications.

This is an exciting time for us at Verizon. Mobility, broadband, and the cloud are essential services, and their value has never been higher. We power and empower how people live, work, and play. We are in a great business, and there is so much more to come. We have the right assets and strategy in place for success this year and beyond. I am more excited than ever about what lies ahead of us. Now, Brady, we're ready for the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) John Hodulik, UBS.

John Hodulik - *UBS Investment Bank - Analyst*

Great. Thanks and good morning, guys. Two questions, if I can. First on ACP. First, was there any impact on the broadband side in the quarter, and do you expect any lingering impact from ACP, either in prepaid or postpaid or broadband as we look out into the second half?

And then second, on upgrades, obviously another strong quarter with record, I think, record-low upgrades. Given the AI phones coming out, in the second/third quarter, how do you expect that to trend, and what do you expect the impact to be on the financials of the wireless business as we look out into the second half?

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

Thank you, John. On the ACP, Tony will give you the details. But yes, we had some impact on the prepaid brand as was expected and also a little bit on Fios. Looking forward, I see this is a great opportunity, and 21 million people having ACP. The importance of mobility and broadband today is so important, and our offerings all the way from broadband with Verizon Forward, fixed wireless access, both very efficient.

And then on the prepaid brands, I see that as an opportunity going forward, but some slight impact on volumes this quarter.

On the upgrades, as you have seen, the upgrades has been little bit low for a while. It's two things. First of all, the quality of the phones has continued to go up. But secondly, I think, even more importantly, is the discipline that we have shown over the years, right. Now, I think for the last 1.5 years, how we do the promotions, how we look at the customer investment bucket and see that we're actually distributing our money. We're going to see what's going to happen in this cycle. I don't feel very worried about it. I feel that we are in a great position to handle it, and it's all in our guide what we are expecting. So I don't see any major things happening here. Tony?

Anthony Skiadas - *Verizon Communications Inc - Chief Financial Officer*

Yeah, thanks. Good morning, John. In terms of ACP updates, let me give you a couple of things here. So as we said previously, the majority of the ACP exposure is in our prepaid business. And as we said last time, we had about 1.1 million prepaid subs that benefited from the ACP program. In the second quarter, we saw about 400,000 prepaid disconnects. There's minimal impact on the postpaid side, I think was part of your question. We saw some pressure in Fios in terms of gross add opportunity.

If we look ahead in the third quarter, we expect some disconnects in prepaid and a small number across other products. In terms of revenue, we also said that any impact that we would see, we'd see on service revenue up to 50 basis points of headwind and we're tracking inside of that number right now. And even with the disconnects, the margin exposure from ACP was insignificant in the second quarter, so we'll continue to keep everyone updated as we progress here.

John Hodulik - *UBS Investment Bank - Analyst*

Perfect. Thanks, guys.

Operator

Simon Flannery, Morgan Stanley.

Simon Flannery - *Morgan Stanley - Analyst*

Great, thank you very much. On fixed wireless, you talked about the strong momentum. You obviously have a lot of C-band still to build out, will expand your addressable market. I guess you're going to hit the 4 million, the low end of your guide probably in the August timeframe. So help us think about what's the potential beyond the 4 million to 5 million, and when you can give us more clarity on your opportunity there? I think you've talked before about plenty of excess capacity.

And then there were media reports the other day about you looking potentially to monetize towers. Could you just talk about how you're thinking about tower sales or other real estate, other asset monetization? Thank you.

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

Thank you, Simon. On fixed wireless access, you're right to say that we have good momentum came into this quarter to 378,000 net adds on fixed wireless access, doing strong both on consumer as well as on business. And we are now expanding our C-band to suburban and rural, which is another type of opportunity, less penetrated but also more vastly distributed. So we are close to getting to our target between 4 million and 5 million fixed wireless access broadband customers. And as soon as we get there, as I said before, I will come back and see how we see the opportunity going forward. But clearly, we have great network that can ingest more customers over time. But let me come back on the exact details of that when we reach the target.

On the towers, I mean, or any rumor, I wouldn't comment on any rumor. What you should know is that Tony and I are very committed to improve our cash flow. Whenever we can see that we optimize our assets, we will do that. But I have no comments on rumors in the market. But the focus on cash flow is extremely important because it goes straight into our capital priorities that we've been so focused on for the last couple of years, and we did, yet again, in this quarter good progress on them.

Simon Flannery - *Morgan Stanley - Analyst*

Thanks, Hans.

Brady Connor - *Verizon Communications Inc - Senior Vice President, Investor Relations*

Yeah, great. Thanks, Simon. Brad, we're ready for next question.

Operator

Jim Schneider, Goldman Sachs.

Jim Schneider - *Goldman Sachs & Company, Inc. - Analyst*

Good morning. Thanks for taking my questions. Two, if I may. First on broadband, could you comment on sort of the overall health of the broadband market that you're seeing? And then maybe any more quantitative guidance you give us on the amount of headroom you see in your overall network capacity relative to fixed wireless subscribers?

And then secondly on the wireless side, in terms of the service revenue growth, what's your level of confidence that you can drive more volume growth and still maintain the same level of pricing power over the next 12 months or so? And how do you expect that volume price split to work out for you over the next year or so?

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

So on the broadband health, I think, again, we are between 375,000 to 400,000 net adds in broadband this quarter, been for quite a while, so we see it as very healthy. I think also we have a really good offering. And now, with myHome that we just announced, I think we're going to be even stronger on it, so we see it healthy. Of course, Fios is by far the best fiber product in the market. And then fixed wireless access, the differentiation of the product, how we deploy it, how the customer provision it is so different. And with all the streaming agreements we have right now, we can scale that horizontally to all our customers, so I see it is a very healthy business for us today.

When it comes to our capacity on fixed wireless access, yet again, I mean, as we said, less than around 50% of all the traffic is now on C-band. So we have way to go, and we have deployed only a portion. So as we deploy more, we, of course, open up more opportunities.

Finally, and maybe Tony has some addition, on the volume growth, I'm excited on what we've done in the consumer side with the myPlan and all the new innovations we've done with our customers and we see it resonate with the market. And clearly, quarter by quarter, we have improved both our revenue but also operating volumes on postpaid.

Prepaid, you saw it yourself; big step forward on prepaid this quarter. And then our business side, Kyle and the team has been now for, I'm not sure how many quarters, have been around 125 [thousand] up to 150 [thousand] (added by company after the call) net adds on wireless. So all in all, I see that -- with the offerings, so I put into the market the refresh of the brand that is supporting that. We are in a good position going into the second half of this year. Tony, any additions to that?

Anthony Skiadas - *Verizon Communications Inc - Chief Financial Officer*

Yeah. Thanks, Hans. So very comfortable with the revenue guide for the year. As Hans said, the performance and execution is very much on track, and we continue to find a better balance of P&Q. And you see the progress on volumes, as Hans said, B2B mobility and FWA.

And maybe just a few additional points to consider. First, we expect to see sequential growth in service revenue in the second half of the year. Also, I would say the year-over-year comps are a little more challenging in the second half as we lapped the pricing changes from 2023. The wild card obviously is the promotional environment and the level of upgrades. We'll have to see where that goes. But having said all that, the assumptions that we have in the service revenue guide have not changed.

So overall, we feel good about our revenue performance and the momentum in the business. And we're not going to get on '25 at this time, but I would tell you that those assumptions will carry forward as well.

Jim Schneider - *Goldman Sachs & Company, Inc. - Analyst*

Thank you.

Brady Connor - *Verizon Communications Inc - Senior Vice President, Investor Relations*

Yeah. Thanks, Jim. Brad, we're ready for the next question.

Operator

Sebastiano Petti, JPMorgan.

Sebastiano Petti - *JPMorgan - Analyst*

Hi, thanks for taking the question. Just wanted to follow up on the 2024 consumer postpaid phone expectations to report positive net adds for the year excluding the second line. If you could perhaps maybe help us think about the pace or expectations for the second-line contribution in the back half of the year? Obviously, pretty healthy run rate here in the second quarter on a full quarterly basis relative to the first quarter. So just how should we think about that and in terms of trying to unpack the underlying benefit relative to the second-line benefit?

And then Tony, another quick question, helpful color there on service revenue expectations, quarterly growth over the balance of the year, but can you perhaps help us think about margins, obviously, decent -- nice growth here in the second quarter in business. How should we think about the contribution for perhaps from the HCL Tech managed services savings coming through?

And I think you also mentioned there was a voluntary separation program in the market. I think we had seen headlines of that into the quarter. How should we think about maybe the contributions from those two items impacting margin and maybe EBITDA growth expectations, or how you're thinking about phasing of those in the back half? Thank you.

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

Thank you, and Tony will give you the details. As we said before, I mean, the second-line offering is straight into our strategy. The strategy is to build the network once and have as many profitable connections on top of it in order to get the best return on invested capital. And you can see that it's really happening, and that's been a very big focus for us. Tony will give you some more details on how it looks in the second-half year.

On the programs of cost, we put in last year a couple of really large programs all the way from agreement with HCL together with large customer care changes. Many of those are now coming into the base, and that's why you see the leverage. But we also have quite a lot of new things coming up. And as you rightfully mentioned, we have a voluntary separation program that is ongoing right now. We also have all the efficiencies with the AI that is coming through. And of course, we continue with our disciplined approach on investments. So all in all, there's more things to come, but we have gotten leverage from some of the things we did last year. Tony?

Anthony Skiadas - *Verizon Communications Inc - Chief Financial Officer*

Thanks. Hi, Sebastiano. On the second number, just a few points. Hans touched on this upfront, but this is great business for providing customers options and flexibility. It is a very profitable connection, and we would do it every day of the week. In terms of the market for this, we'll see how the TAM evolves. We share the gross add impact and you can assume some level of churn in the quarter.

Looking ahead, we expect less of a contribution from second number in the back half of the year. It's high-margin business comparable to add-a-line offerings. The ARPU is very good and very comparable to add-a-line without the device subsidy. And as we said in the prepared remarks, we expect to have positive phone net adds in consumer for the year without the contribution from second number, and the results in the quarter reflect the strength of our core business.

And then on your question on EBITDA and cost transformation, now, we're very comfortable with the EBITDA guidance. We made a lot of progress. You saw the 80 basis points of margin expansion in the quarter. And the program, in terms of delivering cost transformation, is on track. Hans talked about some of the work we're doing, and we did last year with the customer care and with managed services. We have a lot of work going on right now between IT and real estate and network decommissioning. In addition, Hans mentioned the voluntary separation program, and some of that savings will start manifesting in the back end of this year and into 2025.

And then lastly, AI is an enabler of efficiencies. You can think about customer care. You can think about the personalization with myPlan, and we see efficiencies coming from there as well, but we're very much on track. We're operating differently, and we feel good about the progress on cost actions that are driving the improvements in EBITDA that you see in the first half of the year.

Sebastiano Petti - *JPMorgan - Analyst*

Great. Thank you for the question.

Brady Connor - *Verizon Communications Inc - Senior Vice President, Investor Relations*

Yeah, thanks, Sebastiano. Brad, ready for the next question, please.

Operator

Michael Rollins, Citi.

Michael Rollins - *Citi - Analyst*

Thanks and good morning. Curious on the pricing front, where does, in wireless postpaid, the back book sit on average relative to your front book offers? And do you think that pricing environment in the postpaid wireless category can start to look more like fixed broadband or the video product categories where those products have tended to see some kind of pricing action on a somewhat annual basis?

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

Thank you, Mike. I think in general, when we see the value accretion we've done recently, very much about new offerings to see that our customers are getting more value from the offerings we have. We have done some price adjustments historically. I think that Sampath, in the consumer side, have said that he would get better balance between volume and value increases, so that's what you see right now.

And then on the business side, we have constantly done a great job. I mean, Kyle and his team has constantly continue, with a really high market share, continue to gain in every area like government, large enterprises, and SMBs. So in the quarter, you saw that the offerings we're doing with myHome and additions on myPlan, and of course, with also the new offering in business, Business Complete, which is a new way to serve our SMBs. All of them are accretive in value, but also giving our customer better services. So that's how we continue to work when we are in sort of the third phase of wireless, where wireless is so important for our customers, and we see it also as an opportunity with the largest direct-to-consumer business in the country to actually add support to them with new services and layering on. Tony?

Anthony Skiadas - *Verizon Communications Inc - Chief Financial Officer*

Yeah, just a couple of other things to add. I mean, as we said up front, we said we need to find a better balance of P&Q in 2024, and we're doing that. We're very confident, Mike, in our back book. We've been very consistent, as Hans said, about evaluating pricing opportunities, aligning the price with the value proposition for customers. We did take pricing actions in the first half of the year that provided good tailwind to service revenues, and those pricing actions were contemplated in the guide. But it wouldn't be appropriate to comment on what we might do in the future.

Michael Rollins - *Citi - Analyst*

Yeah, thanks.

Brady Connor - *Verizon Communications Inc - Senior Vice President, Investor Relations*

Thanks, Mike. Brad, we're ready for the next question.

Operator

David Barden, Bank of America.

David Barden - *BofA Global Research - Analyst*

Hey, guys. Thanks so much. So, Tony, you guys have had, real demonstrable success on the P side of the equation, and it helped lead the industry upward. Can we talk a little bit more about the Q, the accounts, the number that you reported this quarter. I think it's the lowest that we've seen since the data I have going back to like 2016. And so the way that the Q is growing is by kind of a shrinking number of accounts, but putting more and more into those accounts. I'm guessing the second-line strategy is one of those strategies, but can you talk a little bit about what kind of duration durability this approach to growth has, or do we need to see accounts grow in order to believe that Verizon is really on the right growth path? Thanks.

Anthony Skiadas - *Verizon Communications Inc - Chief Financial Officer*

Hi, Dave. Good morning. So look, as we said before, finding the right balance of P&Q, and I think you've heard Sampath and I talked about something like 80 to 20 price to volume mix. Last year was more like 100. So clearly making progress on that. And keep in mind we have a very high-quality customer base. And we see it in the results quarter after quarter. And I think you see the momentum in both gross adds and in net adds in the quarter, and it's very high-quality growth, both on the consumer and the business side. Business had a very strong quarter as well on volumes. And you also see the growth in fixed wireless access. We did 378,000 fixed wireless access net adds that continue to provide a tailwind for the service revenue. So we're trying to find that right balance of P&Q, and I think the results reflect that.

Brady Connor - *Verizon Communications Inc - Senior Vice President, Investor Relations*

Brad, ready for the next question.

Operator

Peter Supino, Wolfe Research.

Peter Supino - *Wolfe Research - Analyst*

Morning. Thanks. A question about capital allocation. As we approach 2025 and your leverage target, I'm wondering how you would encourage us to think or how you do think about the possibility of building more fiber, an opportunity costing that against share repurchases. I wonder how you think about the returns on each of those projects. And separately, to the extent that capital is scarce, is there an argument for maintaining the leverage at a constant level and doing more of both? Thank you.

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

Hey, Peter. When it comes to capital allocation, priorities haven't changed. I mean, first of all, we put them in the business. And this year, we have the guide between $17 billion and $17.5 billion. So of course, if we see opportunities to gain more revenue and grow business, we will always look into the business side.

Secondly, the dividend is very important, and we have now been growing our dividend for 17 consecutive quarters. And Tony and my job. for years, not quarters. And Tony and I are committed to continue to put the Board in a position to do that. Then you see on our payout ratio, we're well inside that ratio are doing well, and then we're paying down our debt. We've paid down this quarter. Second half will only continue with that. We will not consider any conversation about buybacks until we get the 2.25. And often that, there's a lot of factors in the market, the priorities, but also where is the interest rates, what is the share price, and all of that. So let us focus on the priorities that we have said, and that's how we want to continue for the next foreseeable future.

Brady Connor - *Verizon Communications Inc - Senior Vice President, Investor Relations*

Thanks, Peter. Brad, ready for the next question.

Operator

Craig Moffett, MoffettNathanson.

Craig Moffett - *MoffettNathanson LLC - Analyst*

Hi. I want to return to the upgrade cycle. Apple is obviously betting that they can drive a significant upgrade cycle with AI. I wonder if you could just talk about the percentage of phones in your base that I believe Apple's requirement will be 8 gigabytes of RAM. And meaning, it's going to be the iPhone 15 Pro or Pro Max. What percentage of your phones are already of that level, and how many would presumably require upgrades? And then how you think about how quickly that upgrade cycle comes and what that might mean in terms of the costs and margins for your wireless business?

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

Thank you, Craig. I don't have the exact number, but I know that we have a fair amount of new phones, of course, in the base because with our high-quality customer base on postpaid, many of our customers are already on later versions of the phones.

Again, looking into this cycle, I mean, of course, we're going to see some excitement around AI. I don't think that it's going to be in particular at this time; it will be over timing maybe. We have a very disciplined model to approach segmentation for promotion, et cetera, and we will stick to that. We believe that we have such a great network, great offerings, so we can actually manage that, and we will continue to do so.

And then talking about AI, I mean, I think where I'm most excited is, of course, that we have built out the Verizon Intelligent Edge network, which will be the backbone for the gen AI economy because you're going to have a lot of more compute storage at the edge of the network, and that's how we built the network already from 2018, with fiber to all our main hubs and between our main SAP centers. And then on top of that, we have cooling and power at those edges. And I think as we go from the LLMs, we go into sort of doing commercial products for enterprises. Our network is set up for that, and so I'm very excited for that opportunity going forward together with private networks. So there's a lot of things coming into gen AI devices for efficiencies, but also business opportunity for us when it comes to AI.

Brady Connor - *Verizon Communications Inc - Senior Vice President, Investor Relations*

Great. Thanks, Craig. Brad, ready for the next question.

Operator

Frank Louthan, Raymond James.

Frank Louthan Louthan - *Raymond James & Associates, Inc. - Analyst*

Great, thank you. To what extent do you think that fixed mobile conversion will be more of the norm in the US? And given your smaller wireline footprint, do you think you need to expand your fiber to the home assets or how would you address that? And then, want to clarify the target leverage you're looking for, is that 2.2 times total leverage or 2.2 times unsecured? Thanks.

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

On the mobile convergence, fixed mobile convergence, we see some uptick on that. As I said before, we will follow the customers. We have always economics on wireless and on broadband, and we will see that. If our customer wants to have a converged product, we will do that.

I don't believe in sort of discounting products to get there. But, of course, our efficiency, if one customer have both mobility and broadband from us, we will see that we share that with our customers as an opportunity. So I don't think we're going to see the European levels here because of the nature of the market. But as we move further into convergence, we will be very well-positioned with the products we have. Tony, on the leverage?

Anthony Skiadas - *Verizon Communications Inc - Chief Financial Officer*

Yeah. Frank, on the leverage metric, the long-term goal is 1.75 to 2 times on the unsecured. And then we said we would consider buybacks when we got to [2.25] (corrected by company after the call) in the quarter, again, unsecured.

Frank Louthan Louthan - *Raymond James & Associates, Inc. - Analyst*

Okay, great. Thank you.

Brady Connor - *Verizon Communications Inc - Senior Vice President, Investor Relations*

Yeah. Thanks, Frank. Brad, ready for the next question.

Operator

Tim Horan, Oppenheimer.

Tim Horan - *Oppenheimer & Co., Inc - Analyst*

Hey, guys. Focusing back on the network, I know the C-band initial deployments were just for a portion of the spectrum and they weren't used in the full range of technologies, and I know you've said 60%. Can you talk about where are you with kind of upgrading to the entire C-band level spectrum into massive MIMO and also the standalone?

And kind of related to this, I know you saw some major network improvements with the initial upgrades or build out to C-band. Can you talk about what you're seeing when you go back with the second upgrade? And I have a follow-up on what you do with AI. Thank you.

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

Thank you. On the C-band, you're right. We're almost have now 50% of our traffic on the C-band, but we still have some deployment to be done in suburban and rural. Many of those sites are prepared for it, so we're just rolling out as we speak right now. So we're going to see that continue.

Joe and his team in network and technology, very much focused on customer satisfaction when it comes to the rollout and revenue generation right now; that's the main focus. The same trend as we saw in the beginning where we have better upgrades, lower churn, where we have C-band. And of course also, getting fixed wireless access opportunity. And same goes for when we are enhancing or continuing to new areas.

Secondly, you asked about all the new features coming in five-year, advanced massive MiMo. All of that is just expanding our capacity and bringing even more opportunities for us, for revenue, and seeing that we create customer expectations on the best network in the nation. And we're just in the beginning of that, so I'm very pleased with I see. The team is running as fast as we can, and we get good feedback on C-band. Tony?

Anthony Skiadas - *Verizon Communications Inc - Chief Financial Officer*

Yeah, thanks, Hans. So just a couple of other points. On C-band, we're seeing good improvements in churn, 3 basis points. On gross adds, we see about 9 basis points gross adds strengthen. As we deploy suburban and rural, gross adds are up threefold in those markets. And then premium mix continues to be stronger as well of about 10%. And we do have, now at this point, nearly 60% of our plant sites are now deployed with C-band. So we've been making really good progress.

Tim Horan - *Oppenheimer & Co., Inc - Analyst*

And I'm assuming you need standalone to enable some of these AI/MEC applications you're talking about. And I could be wrong about that, but any update on the timing of when standalone gets deployed nationwide? And do you have any of these AI/MEC applications that are up and running now? Thanks.

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

We can do mobile-edge compute without the SA. We have done that for five years. Then there are some efficiencies on especially private networks and deployment with SA. But again, you need the full ecosystem all the way from the devices and the network features and the core in order to do that. So it's a little bit of a holistic thinking. Again, when we work it, but we can already deliver that right now.

When it comes to gen AI in non-mobile-edge compute, that we don't have that to our customers right now. But the conversation with many of both the cloud players as well as enterprises of doing that when they have commercial products and not only training large language modules. And that's how we designed our network. So that's why I'm excited of it.

At the same time, we already have four gen AI products in the market that is deployed on 40,000 agents, solar stores, et cetera, personalization, more efficiency for customers and the employee experience. And we see a great opportunity for that. So there are multiple opportunities with AI for us, and we have been on to it for a long time.

Tim Horan - *Oppenheimer & Co., Inc - Analyst*

Great. Thank you.

Brady Connor - *Verizon Communications Inc - Senior Vice President, Investor Relations*

Thanks, Tim. Brad, ready for the next question.

Operator

Walter Piecyk, LightShed.

Walter Piecyk - *LightShed Ventures - Analyst*

Thanks. Tony, I think in the prepared remarks, you referenced voluntary separation program in June. I wonder if you can give us a sense of, I mean, I know you've done these in the past, potential EBITDA benefit. And just remind us, does this result like in, I guess, one-time charges relative to the severance or the separation payments that are made and just kind of quantify that a bit, if you can?

Anthony Skiadas - *Verizon Communications Inc - Chief Financial Officer*

Sure. Hi, Walt. So a couple of things. We announced the program in early June for a portion of our workforce. The process is not going to be fully completed until the back end of August. So I don't have numbers at this point. It was contemplated in the full-year guide, and we do expect to see savings towards the back end of 2024 and into 2025. And we'll come back with disclosures on the program once it's finalized. We'll file an 8-K similar to how we did it last time.

Walter Piecyk - *LightShed Ventures - Analyst*

Okay. And then, Hans, wholesale revenue looks like, and we know who the principal driver of that is. It seemed like that was kind of strong this quarter sequentially. I don't know if there's some seasonality there. I'm looking last year and the year before, it doesn't seem like that. So is this a good thing or a bad thing? Obviously, because it could imply stronger growth at a wholesale customer at the expense of your retail business.

And just, can you give us a sense in general of your outlook for that line? There's been some discussion and debate about other offloading activities can occur for that customer. So just, if you can comment on the quarter and just generally your outlook for wholesale in terms of a component of your sectors of growth, like how important is wholesale in terms of meeting the growth targets that you've promised the Board?

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

I don't have any comments on the quarter or the numbers. You know, we try to have our Chinese walls here, so I don't have it. But in general, we see this partnership as important enterprise customers and it goes back to the strategy we have. Meaning, we build the networks once, and we want to have as many profitable connections on top of the network in order to get the best return on invested capital. So that's where we are, and we have a good relationship with them, customers and were many of them, and it will continue. Tony?

Anthony Skiadas - *Verizon Communications Inc - Chief Financial Officer*

Yeah. Look, I mean, it's very profitable business, as Hans said, and it is a great contribution to revenue and EBITDA and consistent with the strategy to monetize the network. And we're very comfortable with the arrangements we have, but that's as far as we can go.

Walter Piecyk - *LightShed Ventures - Analyst*

Then just ask one related, but kind of high-level question. There's been some reports of T-Mobile doing some additional fiber asset joint partnerships. If the administration changes, maybe there's opportunities for some additional vertical integration. But I guess the big question is, at least from me, how important is it in the long term for you to have a vertical solution for customers, meaning that the consumer can buy their home broadband and their wireless service from you, and/or -- and if you're not doing that, obviously, outside of the Fios markets, is that a risk if others put together that vertical solution?

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

We are well-positioned in that area. And again, if the market goes convergence between mobility and broadband, we will be there to serve our customers either with Fios or fixed wireless access. And right now, that's working really good for us. So we're happy with our assets we have and how we're deploying them right now. We're looking into how we continue to meet our customer demands. And now, we also launched, as you saw in the quarter on the consumer side, myHome, where we have all the benefits we have from myPlan moving over to myHome. So I feel good about what our consumer division is doing on broadband and mobility at the moment with the product. We are number one in the market, so we just need to continue to keep the lead and continue to keep innovating. And I feel good about the consumer team doing that.

Walter Piecyk - *LightShed Ventures - Analyst*

Thank you.

Brady Connor - *Verizon Communications Inc - Senior Vice President, Investor Relations*

Yes. Thanks, Walt. Brad, we're ready for the next question.

Operator

Sam McHugh, BNP Paribas.

Sam McHugh - *BNP Paribas - Analyst*

Yeah. Good morning, guys. Two quick questions. In the last few years, you've gone through quite a big reinvestment phase, I guess, in the consumer division with the launch of myPlan, the refresh of the plan this quarter. As we lookout kind of the next two or three years and take a big step back, should we think you're now at a place where EBITDA can sustainably grow ahead of service revenues? Yes, that's question one.

And the second part, just a clarification. Tony, you mentioned something about 2H wireless service revenue trends versus the first half?

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

When it comes to continue to have leverage on our EBITDA together with our service revenue, I think it's clear for us that the KPIs that we are measured on as a management team and me, myself, is on the growth on the service revenue, wireless service revenue expansion, as well EBITDA and cash flow, and that's how we work it holistically. So yes, our goal is to see that we have the leverage on our service revenue growth right now. We have great product. We work with efficiency. That, of course -- there, of course, pressures in our business as any business, but that's what we strive for. But we don't guide for '25 or something like that at this moment; we'll come back on that. But our work and our KPIs are set up for that. Tony?

Anthony Skiadas - *Verizon Communications Inc - Chief Financial Officer*

Thanks. Hi, Sam. So on the service revenue for the second half, what we said is we expect to see sequential growth in service revenue second half. And what we talked about the assumptions that we had in the guide, we said, look, we had pricing actions that we've already taken, and you see that well over $1 billion. We also said we have an improving volume profile in consumer, and you see that progress.

Fixed wireless access continues to scale, and we have over $500 million now in fixed wireless access revenue on a run rate of over $2 billion, and that base of business continues to grow. We also said we had headwinds in prepaid and that's improving, and we'll see that improving as time goes on and then amortization. And the problem with discipline continues to be encouraging. And we say we see similar level year over year. So those assumptions haven't changed, and we feel really good about the performance on service revenue and the momentum we have in the business heading into the second half.

Sam McHugh - *BNP Paribas - Analyst*

Awesome. Thanks, Tony.

Brady Connor - *Verizon Communications Inc - Senior Vice President, Investor Relations*

Great. Thanks, Sam. Brad, we have time for one last question, please.

Operator

Bryan Kraft, Deutsche Bank.

Bryan Kraft - *Deutsche Bank AG - Analyst*

Thanks. Good morning. I have one for Tony and one for Hans. Tony, regarding free cash flow, it's up, I think, about 12% year over year in the first half. Do you anticipate being able to grow free cash flow this year or is the year-to-date growth we've seen more function of favorable timing in the first half with higher CapEx and working capital usage coming in the second half?

And then Hans, you had talked quite a bit about Verizon's strong position for AI and enterprise. Is there anything you can share on what you're seeing in 5G enterprise adoption? And also, in the sales pipeline activity that you're seeing? Thank you.

Hans Vestberg - *Verizon Communications Inc - Chairman of the Board, Chief Executive Officer*

I thought with the first one, and then I can hand it over to Tony on the cash flow. Yes, what we see is private networks continue to grow in volume, which is a prelude. You start with the private network, then you start adding on applications on it. And of course, ultimately, you put in mobile-edge compute. We have all that set up since 2018/2019, and we start seeing more and more business case for logistics centers for factories, et cetera, where we can do it. And then gen AI will only sort of capitalize on that and do it even faster. That's going to take some time because right now, many corporation enterprises are in the learning process, meaning the training, the datasets, so it's going to take some time. But I don't think that anyone is even close to being as well-positioned as we are in gen AI and the gen AI economy, both for taking advantage of the efficiency internally, but definitely from a revenue point of view all the time.

Anthony Skiadas - *Verizon Communications Inc - Chief Financial Officer*

Thanks. Hi, Bryan. So on free cash flow, overall, the cash generation of the business continues to be very strong, and the first half of the year free cash flow was $8.5 billion, up 7%. And we were able to grow cash flow in the second quarter even with an incremental $1.7 billion in cash taxes. And as we said in April, we expect free cash flow to have a similar shape to last year and built throughout the year. And we still see the same puts and takes on free cash flow for the full year as we described back in January within that framework. We see slightly more incremental pressure from cash taxes and offsetting that as the lower upgrades, and we'll have to see where that goes. But overall, the strong position and cash flow puts us in a position to pay down debt in the second half of 2024, and we're on track to do so.

Bryan Kraft - *Deutsche Bank AG - Analyst*

Okay. Thanks very much.

Brady Connor - *Verizon Communications Inc - Senior Vice President, Investor Relations*

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

Operator

This concludes the conference call for today. Thank you for your participation and for using Verizon Conference Services. You may now disconnect.
