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EDITED TRANSCRIPT

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OVERVIEW:

Company Summary

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Craig Moffett *MoffettNathanson - Analyst*

PRESENTATION

Craig Moffett - *MoffettNathanson - Analyst*

Thank you for joining us for today's session with Verizon and for the MoffettNathanson Annual TMT Conference. Really excited to have you back Sampath. We've got a short time, and I'm going to try to go as fast as I can to get through all these questions, but you're just the person to talk to.

QUESTIONS AND ANSWERS

Craig Moffett - *MoffettNathanson - Analyst*

I want to start, though, because it seems like every time you and I meet, it's right after you've introduced a new revamp of the plans. Last time, it was myPlan. This time, it is your new five year price lock guarantee. Just take me through what was the insight that led you to want to do the five year price lock and the changes you've made to myPlan?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Craig, good morning. Before I get started, I want to point everyone to the Safe Harbor statement. It's on verizon.com the Investor Relations section, so you can read it. So that's with that.

No, I timed my big launches around this conference, Craig, and we don't want to disappoint you, and this is no exception to that. At the top of the house, we started this journey 2, maybe 2.5 years ago, where we started doing deep consumer research.

And consumers came back with us and told us three, four things. One is they really hate promo roll-offs where they buy a certain price and the price goes up and up every couple of years. This is completely destroys their confidence in the company.

The second thing they came back and said they never do like inclusions. You pay for X, you get four things bundled into it, like I may not use that thing and it becomes -- they feel it's extra to do that. So when you take all that research, we figured they wanted predictability. They wanted transparency. They wanted choice, they wanted control.

And every piece of research we do to, there's the four points of feedback we get back every time. So because that we launched myPlan and myHome, myPlan is doing exceedingly well. It's one of the largest repricing in the history of telecom, north of 40%, 50% of our base is already on myPlan.

And it's accretive to us, even though we reduced the price premium significantly to do that. Then we got good comfort with myPlan and myHome, and then we went back to customers and one of the things they wanted was certainty of price.

So we launched the Verizon value guarantee. And the Verizon value guarantee has two big components to it. The first component to it is a price lock on the network portion of the plan. And the second one is a free phone and it's a tiered plan. And what we found is customers that are really resonating very well.

In April, we had double-digit growth in gross adds. I can say in May, we are continuing our double-digit growth in gross adds because customers are really resonating with. But it goes back to transparency and very clear communication on what they should expect.

Craig Moffett - *MoffettNathanson - Analyst*

So there's -- that tees up a whole lot of the things we're going to talk about this morning. I want to go into the narrative that is around your consumer wireless business in particular. And that's that your financial results have been strong, but unit growth metrics have been weaker.

And that growth has been particularly strong financial growth has been particularly because of the price-ups and strong ARPU growth. That led to higher churn. So talk about the churn rate that you saw in Q1, how long that's likely to last. I think you've said that's clearly identified with the cohorts that got the price up, right? So how long is that going to play out?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Look our value proposition long term for service revenue growth is a very good balance between price and volume, and there will be changes within a quarter where we'll have to make moves to it. But overall we want a healthy balance of 80%, 20% between price and volume.

Price includes for me price-ups that we do, but also earned price ups, step ups, customers taking more product, basically driving more ARPA in the business. I include that as well. In Q1, we saw a higher churn. Most of that churn was driven by price up cohorts, and you can identify them down to the cohorts that saw the price ups.

And remember we had a price up in December, price up in January, we've priced up some of our mobile insurance plans recently. So a combination of all of those three drives certain churn in the business. We think by the second half of the year we get back to a BAU environment on churn as we lap those results on the price ups to do that. But gross add momentum is very strong for us.

Craig Moffett - *MoffettNathanson - Analyst*

But it's been interesting to see sort of churn was up a little bit for everybody in Q1. That makes a bigger gross add pool. People are fishing in that pool with more aggressive promotions. So they're effectively giving away more value on the one hand, at the top of the funnel, and then pricing up in the middle of the funnel, losing more people at the bottom of the funnel.

Is that a better equation for you and for the industry coming in? Or is this just a transition to something that is then back to more stability?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Yeah. I don't know what the industry is going to do, but I can tell you what -- how we think about it. For us, there are two ways to do price ups. One is you just price up the base and second is earned price up more -- I think we're relying a lot more on earned price up aspect. We'll talk about that in a little bit.

The second is service pricing is pretty constant. We've not taken down that overall rack rate on service pricing. That continues to remain the same. There is a little bit of a higher intensity on promotional activity. In Q1, we saw typically, we pull back holiday promotions in January, our competitors did not pull back on that, and that led to a slightly higher competitive environment. But overall, the industry is stable in the sense that service pricing as well as rack rates haven't moved.

Craig Moffett - *MoffettNathanson - Analyst*

And the promotional amortization, which is obviously a headwind to the ARPU growth, that still leaves you room for -- I know you guys prefer to think about ARPA instead of ARPU. But ARPU growth still has a reasonable growth trajectory even with the additional promotional amortization.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Look, we think so because customers are stepping up. One of the interesting things about the Verizon value guarantee is we are seeing a better premium mix than before. Two things. We're seeing a better premium mix. Customers are taking more perks in the sense we were able to say that we're going to get to 15 million perks by the end of this year.

We originally said 14 million. So you see there's a growth in that. So we feel comfortable that promo amortization will abate, some of it is math, it will work its way through. But we feel pretty confident in our long term ability to drive ARPA.

Craig Moffett - *MoffettNathanson - Analyst*

And any expectation of a higher upgrade rate, there was some pull forward, I guess, you were obviously offering very attractive plans at around the same time that the tariffs hit. And that led to some people pulling forward their iPhone purchases to avoid tariffs. Has that run -- did you see that? And there does that run its course?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Yeah, so if you think about upgrades, for the whole year of 2025, we think mid-single-digit growth in volume year-over-year over the whole year. Q1 was soft for us. And some of it goes back to how financially disciplined we are. We didn't see volume in the market.

We didn't go after the volume. We're very financially disciplined. You saw that in Q1. As we come into Q2, there was little -- Verizon value guarantee did pull forward some upgrades because of pent-up demand in our base because for the first time, base and new got the same offer.

So we saw some of our base upgrading that. But some of it we can't predict because a lot of it depends on what hardware form factor changes happens in the third quarter and fourth quarter of this year. We're not privy to that.

So we do think for the whole year, upgrades will be up mid-single digits. There will be volatility quarter-over-quarter because you play when there is volume in the market and there's no volume in the market, you pull back. But I think mid-single-digit growth for the year is where we are holding.

Craig Moffett - *MoffettNathanson - Analyst*

And has that pull-forward effect from tariffs already petered out and back to normal?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

We saw very little because a lot of our upgrade rate was driven by a value guarantee because base didn’t have it. There was some tariff pull, but it was so small, we couldn't isolate it in the overall upgrade number.

Craig Moffett - *MoffettNathanson - Analyst*

Interesting. Okay. So we talked about churn. The other part of the gross add pool besides everyone's churn is industry growth. And so one of the things I always look forward to is when we get on the stage thinking about the industry growth equation.

Take me through that. What's happening with industry growth rate? And again, as you know, I tend to think about the world in prepaid and postpaid together. So let's think about first before we tease those apart, let's first think about the overall growth rate of people using phones.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

I think the most important thing is there is still growth in the category for us. It is so essential for consumers today every single day, people rely on their phones. It's a very resilient category broadly to begin with. You see the market for postpaid, we think between 8 million and 8.5 million for 2025.

It used to be 9.2 million last year, it's come down to 8 million, 8.5 million, but the vast majority, north of 50% of that is pre to post. Now let's break up 8 million to 8.5 million into business and consumer.

Craig Moffett - *MoffettNathanson - Analyst*

And let me just clarify for a second. When you say pre to post, you include the cable operators' gains as part of the pre to post part of the market.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

That's part of -- they take part in the postpaid business. So some of their volumes do come from pre to post, where I suspect.

Craig Moffett - *MoffettNathanson - Analyst*

I mean, that's -- when you say half of it is, half of that 8 million to 8.5 million is pre to post, you're putting all of cable in that.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Not all of cable.

Craig Moffett - *MoffettNathanson - Analyst*

Not all of cable. Okay. Sorry. I just want just want to make sure I understand.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Yeah, and you break 8.5 million -- 1.5 million is B2B, that leaves us with 7 million on the consumer side. Of that, a little more than half of that is what I call pre-to-post migration, customers who had a prepaid plan now want to go for a postpaid plan.

So that leaves us with around 3.5 million of pure growth, which is kind of 1% of the overall population growth, which aligns with overall demographics as well that we see. But there is a shift from pre to post. I do think the pre to post migration will slow down over a period of time, partly because carriers have done that for a long time.

The pool is shrinking. And second is if there is some softness in the economy, that cohort tends to get impacted more than the other cohorts that tends to have credit issues. That's why we don't play in the pre to post very aggressively.

Craig Moffett - *MoffettNathanson - Analyst*

Yeah, I want to come back to that in a second, but I just want to add the top line. Is immigration having any impact on the size of the market, not so much in the pre to post but just overall, if there's less immigration there's lower population growth. Is that showing up in the numbers yet?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

I think it shows up in two places. And both those places, right?

Craig Moffett - *MoffettNathanson - Analyst*

Because, by the way, absent immigration, population growth in the US is below zero.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

I think there are two places where that shows up, new to America customers. The first is on the lower end of prepaid. We don't have a very strong. We have a presence, but not a very strong presence in that.

And the second is pre to post where we don't have a very strong presence there as well. So there could be some contraction as immigration wanes, but we haven't seen it. In fact, we've had the best prepaid results in the last three quarters despite how immigration looks.

Craig Moffett - *MoffettNathanson - Analyst*

And the prepaid strength, I want to go back to that for a second. You were saying before, you don't play a lot in the pre to post migration anyway. So -- but the -- I think it's fair to say that the prepaid category overall did better in the first quarter for the whole industry and the postpaid category did worse. Is that because fewer people are leaving prepaid for postpaid? Or is it because prepaid is actually organically growing?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

I think it's two things. One is prepaid is growing as well. The value props have become really strong, mostly because of all our brands, we've refreshed the value prop, and that's had a huge impact on the industry.

Second is pre-to-post is slowing down. You saw that. So on the postpaid side, you saw 10% to 15% lower net adds in Q1, but you saw the prepaid market grow. So the overall market kind of is still in line with what we expected at the beginning of the year.

Craig Moffett - *MoffettNathanson - Analyst*

And are you seeing -- you haven't specifically tried to induce people to migrate. But are you seeing changes in the kinds of offers that are out there from your competitors that are trying to get prepaid subscribers into postpaid, lowering credit standards, things like that, that are -- that you would typically see in order to move that cohort into the postpaid category.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

We see that in the market. A lot of our competitors, if a customer has paid his or her bill for X months, they automatically get qualified for a postpaid plan without a credit check. We don't play in that space. For us, on postpaid, we need to have a credit check, our average FICO score on the phone is north of 720. So it's a very robust score, you need to have a social security number. So it's a very tight set of requirements before we give someone a postpaid plan.

So it's not a space we play in, but we do see our competitors pay in this space. We do get our fair share of folks moving from other people's prepaid onto our plans, but we still go through a credit check and the same standard that we have for everyone.

Craig Moffett - *MoffettNathanson - Analyst*

So you and I have talked in the past, you and I both have some history of dealing with lower-end customers and dealing with recessions. Is it your guess that if we go into a recession, that the prepaid category, there's not that many executives left in the industry who've actually lived through a real recession where the Fed didn't step in and just sort of flood the market with liquidity. But prepaid presumably will have to suck up a lot of the growth from people that no longer qualify for postpaid, right?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Yeah, I think you're the first one to say that I'm old by positioning it that way. So thank you for saying that. But look, if there is softness in the economy, there will be pressure on the postpaid, especially for carriers and cohorts that have lower credit score on the lower end of the credit score, they will have a lot of pressure.

So you'll see that. We've seen that in the past pretty consistently when that happens, when there's a recession, the softness in the space, the postpaid -- the lower end of the postpaid does. But for us, what we're also finding is the higher end of prepaid and the lower end of postpaid kind of look similar.

In fact, I would say the margin profile may be even higher on the prepaid side, given that it's got a lower cost of acquisition. And for Verizon, our biggest strategy is growth for our segmentation. So we have eight brands that cut across our overall portfolio. And every single price point, every single segment, we want to have the number one brand and number one share position in that.

So we are really resilient and we are ready for any type of economy. If the economy does really well on the postpaid side, we are really set up with a strong value prop. If there's some softness on prepaid, we've had three quarters of market share gain in the prepaid space, multiple brands, really strong distribution. So we just play to our strength, which is growth is segmentation.

Craig Moffett - *MoffettNathanson - Analyst*

Since you opened the door to it, what is your base case assumption for you said, if the economy does really well or if it doesn't, what's the going on assumption?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

As right now, we are not seeing any pressure from our cohorts. From our lens, whether it's delinquencies, people paying their bills on time, people taking smaller packages, we are not seeing anything like that. All it has just gone back to pre-COVID levels of bad debt and delinquency, which is kind of normal BAU thing.

We're not seeing anything special or above that. But second is our category is also a very resilient category, given how important the phone and Internet and home connectivities to people's lives, it's kind of moved up in the hierarchy of payment pretty substantially. So, we are not seeing any changes; and two, is we are a really resilient category.

Craig Moffett - *MoffettNathanson - Analyst*

And outside of consumer, are you seeing anything in small, medium business in terms of the growth or creation of small businesses or the resilience of small businesses.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

We still see similar trends that we see in consumer in the small business space as well. Good small business creation, people paying their bills on time, people paying larger packages. But more importantly, we are seeing customers put their telecommunication, Internet needs higher up in the hierarchy. And that's super important for the industry. It shows how resilient the category we are, in respect to what type of economy we see.

Craig Moffett - *MoffettNathanson - Analyst*

So I want to go back to the topic that we talked about before with the price ups that you've taken. Is the price lock promise a signal that you're going to now pivot away from price -- the price ups that you've taken on old plans and moved to more of a unit growth strategy. So it's another way of saying, is that the end of the price ups? Or is it that you'll move the price ups to other parts of the mix that aren't covered by the guarantee.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Look, when you run a large subscription business, we are the world's largest subscription business per se. You always have to have a good balance of price and unit growth. We think 80%, 20% is the right mix, given the maturity of the market and where we are.

80% of our growth will come from some form of price, and 20% will come from some form of unit growth. Let's take those two separately. On price, it's a combination of two things. The first is just the raw price up. Something costs X, it now costs X plus Y. The second is earned price-ups. This is things like step-ups, adding more features and functionality, stepping up customers into higher plans, in our case, taking more perks.

Craig Moffett - *MoffettNathanson - Analyst*

And the perks that are part of the myPlan.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Exactly, taking perks. So we still have a lot of runway on price, if you will, to take care. The first one for us is perks, we're going to have at the end of this year, 15 million perks. You can do the math. It's almost a $2 billion run rate business that didn't exist two years ago, with mid-30s margin. So it's a very healthy margin profile that we have.

The second is our premium mix. Our premium mix continues to grow really well for us. And then on the unit side, we are seeing growth in prepaid, postpaid and broadband FWA. So all those help with unit growth as well.

So a combination of this leaves us with a lot of levers to drive wireless service revenue growth. All we've taken off the table is for 50% of our base, which is roughly what myPlan is on. We won't change the network portion of their price. But all other levers are on the table. And we feel very comfortable, which is why we had contemplated this in our '25 guidance when we did the value add.

Craig Moffett - *MoffettNathanson - Analyst*

Do you expect over time though myPlan is going to get to be close to 100% of the base, I would think. I mean, you're sort of -- you're almost intentionally pricing people out of the old plans into myPlan, right?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Yes, because one, customers love myPlan because it lets them get these perks that you can't get anywhere else. It also is a very transparent thing. You don't get bundles, you don't get inclusions. Customers like that every single time.

The second thing we see is, once someone -- when there's a migration from legacy to myPlan, we see an accretion in ARPU because they end up taking a perk or two that ends up adding to their ARPU and then further over a period of time, they take more services and more adjacency services. So our vision is we move more and more customers to myPlan because they're happier customers when they get there.

Craig Moffett - *MoffettNathanson - Analyst*

And has the churn that you saw in response to the price ups on the old plans, has that been in line with your expectations? And does it tell you anything about the elasticity of or at least the cross-elasticity, they're willing to switch carriers over price that you didn't already know.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

We are seeing -- in Q1, we saw a higher elasticity than we had forecasted. And I can be comfortable saying that a lot of it was limited to those cohorts because those are the cohorts where we saw higher churn. So definitely, we saw more elasticity slightly outside our planning horizon when it comes to that.

But look, we've done so many price ups over such a long period of time. We are quite comfortable with how we manage price ups but we did see a higher churn than we had anticipated. That's why over a period of time, you'll see that abate. In the second half of the year, we should get back to BAU.

Craig Moffett - *MoffettNathanson - Analyst*

And I just want to close the book on the promotions issue -- you saw consumer wireless service revenue growth of 2.6% in the first quarter. That's towards the high end of your guidance for the full year of 2% to 2.8%.

And you also said that guidance for 2025 would have been almost double absent promotion and amortization. How confident are you or should we be that 2025 is the peak year for promo amortization. Why doesn't it just keep rising?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Look, some of it has to do with the way the math works because most of our customers are coming off. We moved from two year to three year, that anniversary happens this year for the vast majority of them. So this is kind of peak amortization year for us because we have multiple cohorts that are coming in and very few coming out. We'll see that lapping its results next year where it starts coming down.

And look, we've always been a very financially disciplined operator. When there's no volume in the market, we won't take that volume. So we feel quite comfortable that promo amortization should peak in 2025 and you should start seeing it stabilize and come down over the next couple of years.

Craig Moffett - *MoffettNathanson - Analyst*

And Hans said on the call that if the price of the iPhone or Galaxy is to, I guess, rises because of tariffs that the customer would pay that and that you wouldn't. I think all of your peers said the same thing. But how is that a decision you get to make in advance versus what the consumer demands and what the marketplace sort of expects when the time comes, right? I mean if there's a promo, promos have been rising even without that. Why wouldn't promos rise to absorb that if it has -- if they come.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

I think it's a little premature to talk about tariffs on smartphones. We've been through a bit, and we haven't seen tariffs on smartphones work the way people thought it would. So we'll have to wait and see what's the real tariff on smartphones.

The second is, look, we've said on stage that we're not going to carry the burden of the tariffs into our consumer plans. So we'll have to wait and watch. But at the end of the day, we are very financially disciplined operators. We're not going to chase volume, because it doesn't make sense.

Craig Moffett - *MoffettNathanson - Analyst*

Let's talk about the MVNO relationship with the cable operator specifically. Hans talked about the importance of leveraging the network, which says all traffic is good traffic, right? You've cited the fact that when you lose a retail customer to cable, you only lose the spread versus wholesale. And then when you -- and when you gain a customer somewhere else, you get the wholesale revenue -- when it comes from someone else, you also get the wholesale revenue. I think we all understand that.

But there is still this broad perception that -- but the MVNO relationship is damaging to you and to the industry, it sort of enables a powerful competitor. Is that wrong? How should we be thinking about the cable operators? Are they competitors or are they customers? And which one is really the win that you think of first.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Look, first, they're a very important strategic partner of us. We work very hard and will continue to work very hard to ensure that we are their first choice and the only choice for mobile connectivity. So it's a very deep strategic relationship that we have with our cable partners to do that. The second thing for us is it is truly complementary to us, because they go after certain segments.

They have certain distribution. They play in segments of the market, we may not have a presence in. So net-net, it's actually a gain for us because it's complementary to our overall distribution. The third is based on third-party results. We see that we tend to lose significantly less than our fair share to them, which means that the complementary strategy I spoke about is working really well. And last is on the retail side, we compete with them.

Craig Moffett - *MoffettNathanson - Analyst*

Let me just go back to that. When you lose less than your fair share to them, is that because, as you said, they're primarily taking from the prepaid market? Or is it just it's a more value-oriented customer, so it's more likely to be a T-Mobile customer or what's behind you losing less share to cable than your peers to.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

I think it's a combination. They have a much more value orientation. Second is they are able to bundle in places where I don't have fiber or FWA, that's another opportunity. And then they have a little more pre to post migration, which they're able to play in very effectively. So those are certain segments where they tend to do very well and hence it's complementary for us.

On the retail side, we compete very effectively with them. The first is we have a very different network philosophy than they do. For us, unlimited data on the best C-band network, ultra-wideband network is super important. We don't want to offload people to Wi-Fi, CBRS because we just don't think it's a great experience.

Even if you go to any large stadium at the peak, the Verizon network will always hold and we want to offload people even to our own Wi-Fi in many cases to do that. They have a slightly different orientation to that. We compete with that quite effectively on the retail space.

But let me leave this topic saying we're a very important strategic partner of our -- we like the business, and it goes back to our thesis of network as a platform. The more profitable connections you put on the platform, the better it is.

And every single month, their revenue to us is accretive on revenue and accretive on EBITDA so it makes for a really strong business case for us, and we'll continue to work hard to win their business every day.

Craig Moffett - *MoffettNathanson - Analyst*

So the theme is you mentioned convergence a second ago. And the theme of the track this morning is convergence. For a long time, everybody sort of dismissed convergence is irrelevant, at least in the United States. But now it's all anybody talks about.

How has your own view of the value of convergence changed? You don't lead your presentations with here's our uplift in wireless in places where we have fiber. But you've said that you're seeing it. Talk about that a little bit and how it shapes your thinking about the converged offer?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Look, let me lead this topic by me saying we see an uplift in wireless when we have fiber. So look, we have very strong performance on convergence, 16% of our base is converged. Over the next couple of years, we see that number doubling. So really strong value that we see. At the end of the day, our convergence relies on two fundamental pieces.

One is a very strong broadband value proposition. We're going to get to 35 million to 40 million fiber homes in the country over a period of time, as Frontier coming and closing. That will be one. And second is with FWA, a path to getting to 100 million homes covered in America.

There's no other carrier who can comfortably say that they can cover up to 100 million homes of broadband over a period of time. So that's our first piece. And we've segmented broadband really well between FWA and fiber, and we see strong performance in that.

The second is on the mobility side, when we bundle them, we tend to see between 40% and 50% reduction in churn on the fiber side, but also on the mobility side, we're seeing very strong results. Second is where we have fiber, we tend to see between 400 and 500 basis points higher wireless share in that space. So all the metrics that are important for convergence is going in the right direction for us, and we are leaning in really strong in that space every single day.

Craig Moffett - *MoffettNathanson - Analyst*

What's the difference in the places where you do have fiber in the places where your converged offer is FWA instead?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Look, FWA is a more broadly spread thing. If a typical share is around 10% of the homes that we offer, whereas on the fiber side, it tends to be well north of 40% as we work through penetration. So it's a little different product, but we do see some churn benefit from FWA as well.

Craig Moffett - *MoffettNathanson - Analyst*

Because I mean the obvious pushback is, but you're -- even with Frontier, your wired footprint is still relatively small relative to a national wireless footprint. If the world moves in convert -- in the direction of convergence strongly, and there's you in what will be about 18% of the country, I guess, with Frontier having a fiber offer. And AT&T would, at that point, have 20%-something. T-Mobile would still be in the mid-single digits. Is that a better future for you or than a world where people choose wireless as a standalone product?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Look, I think convergence is good for us. We are leaning in hard. I mean think about it, we'll have 40 million homes of fiber. And fiber is such a strong product. I mean in Q1, we had our lowest churn in Fios. We exclude the COVID years in our history.

And we've been in the fiber business for north of 20 years, unlike others who have learning this business new. So extremely strong churn. We'll get to 40 million homes of fiber right now in our current plan. But second is FWA.

I mean we'll have -- when you come by fiber with our FWA offering, we'll have 100 million homes of broadband. That is a very large portion of the country that will be converged within our build. So we feel very good about convergence.

But there's an important point is the Verizon model of convergence is something I want to talk about. The Verizon model of convergence is it's demand led. It is demand led, customers want it, we'll make it convenient for them, but it is accretive to revenue and EBITDA.

Because we don't believe in giving one product away free to sell the other. There are easier ways to lose money, and that's definitely not the game we want to play. So we feel very good about the Verizon model of convergence.

And that's what gives us comfort when we made a bid for Frontier and won it is because we'll be very good with it, and we will drive accretive EBITDA and revenue at the same time even in a converged world.

Craig Moffett - *MoffettNathanson - Analyst*

Let's just dig into fixed wireless for a second. You set a target of 8 million to 9 million by 2028. T-Mobile set a target of 12 million by 2028. Why the difference? Is that a function of market -- addressable market size? Or is it a function of penetration assumption?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Look, I think it's how conservative we are. we said we'll get to 4 million to 5 million. We got to 4 million to 5 million subscriber target a year before we had planned. Our next target is 8 million to 9 million. We are on our way. We are doing really well.

We put 339,000 broadband net adds in Q1. You'll see that pace growing over the next couple of quarters. 350,000 to 400,000 is our range for broadband. But what's interesting is we are taking share every single quarter in broadband. And I see that trend continuing for a very long time between fiber and FWA.

So our FWA aspirations are to get to 8 million to 9 million. We are well along our way. We will never jeopardize our mobility network. That's the important part for us. And the second piece is we have not allocated any incremental capital for our FWA product.

It is purely using fallow capacity or excess capacity that we have in the network there. So we feel good about [8 to 9 million subscribers](corrected by company after the call). We are right now focused on driving more ARPU, driving more step-ups and then getting churn closer to our Fios' churn over a period of time. We want to build a long-term sustainable business in FWA.

Craig Moffett - *MoffettNathanson - Analyst*

T-Mobile has said they have a waiting list of 1 million customers for FWA. On the one hand, that speaks to robust demand for the product, but it also presumably like they got capacity constraints whereas they won't have a wait list. Do you have a waitlist?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

We have a waitlist, but I'd rather talk about actual subscribers than waitlist, and we've done extremely well in this space. Look, we have strong demand for our products. There are certain markets where once we open up capacity, within weeks, the capacity is sold out in those markets.

So very strong demand for the product, good NPS. It's one of our highest NPS products we have in our portfolio, and we see that continuing growing over a period of time. But demand has been extremely strong for us.

Craig Moffett - *MoffettNathanson - Analyst*

Where are you seeing the growth when you -- as you start to release the final C band markets, does the subscriber growth from FWA come in more rural areas or is it -- is the propagation characteristics of C band sort of inherently make it more attractive for suburban and even urban.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Over the last couple of years, we've done really well in Tier 1 markets because that's where C band has rolled out more broadly. We've done very well. Joe has said he's going to get to almost 90% of the macro C band enabled by the end of this year, which means he's going to open up Tier 2, Tier 3 markets.

We are already seeing that right now. Tier 2, Tier 3 markets take a little longer in penetration just because you get fewer pops covered as a function of time. So over a period of time it'll catch up very well. So we think over the next set of quarters, Tier 2, Tier 3 markets will do very well, but we still have a lot of headroom in Tier 1 markets.

In big large Tier 1 markets we have headroom, and it goes back to a Tier 1 market strategy as well. With FWA, with fiber and our Frontier coming in, we're going to start picking up mobility share in Tier 1 markets. In Q1 and Q4 last year, in some of our really large Tier 1 markets, we gained share.

So it's super important for us longer term that we continue to gain share in Tier 1 markets in mobility, and largely on the backs of FWA and fiber penetration. But FWA opportunity is in Tier 2, Tier 3 markets. The network is very resilient and it works very well. Also competition is lower in these Tier 2, Tier 3 markets and also cable has priced up.

Craig Moffett - *MoffettNathanson - Analyst*

And capacity constraints presumably are much less of a concern.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

And cable has also because there's been no competition in these markets, so cable has priced up 10, 12, 14 times, annually price increases in these markets. So the price is really high. NPS is really low for the incumbent there. So when we come in with a very strong value prop, priced in the mid-40s with NPS in the 35, they're like, where do I sign?

Craig Moffett - *MoffettNathanson - Analyst*

And so bottom line, what's the market share if you think again about it sort of an industry picture? What's the market share that FWA in aggregate, so you and T-Mobile and even AT&T combined, let's leave the wisps out of it, but what -- how much of the market is ultimately going to be long term and FWA segment.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Right now, around 10% of the overall market tends to be in the FWA space. I think you'll see that doubling over the next period.

Craig Moffett - *MoffettNathanson - Analyst*

Really?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Yes. So I think 20% of our overall market could be an FWA.

Craig Moffett - *MoffettNathanson - Analyst*

Interesting. For the fiber markets, so you've guided to an incremental 650,000 homes this year. That's obviously a big step up from the 400,000 you've been or the 500,000 that you have kept at in the-- 464,000 I think, in 2024.

You talked about the acceleration and how attractive the returns has been? Is the acceleration though a function of once you get Frontier, it just sort of opens all these attractive markets that have really been underbuilt, if you will.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Yeah. Look, we -- this year, we are planning to get to 650,000 new OFS.

Craig Moffett - *MoffettNathanson - Analyst*

And that's before Frontier?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Pre-Frontier. We are slightly ahead of schedule as we do that. What we are finding is fiber economics is getting even better. We've been in this business 20 years, and we are seeing better economics than we saw. Year-over-year, we are seeing a 10% reduction in cost per passing which is really helpful.

And a lot of that goes to some of the technology work, using AI for route optimization and things like that, that are helping us do that. The second is penetration is faster, our year one penetration. Every -- almost every cohort, new cohort we add tends to have faster year one penetration than the prior year cohort. You would not expect that if the product is so mature in 20 years end. So we're continuing to see that.

And third is we also are getting good mobility benefits. So the business case for fiber is really, really strong. Without convergence, it's very strong and now with convergence really stronger. So that gives us real comfort that we'll continue to expand. Hans has said, post Frontier will get to 1 million plus, and that's the plan that we are working on.

Craig Moffett - *MoffettNathanson - Analyst*

The Fiber Broadband Association with -- in a study with Cartesian found price inflation in lots of parts of the fiber value chain. Talk about that. Are you seeing cost inflation either in labor cost or in equipment cost. What is -- what are the cost per mile before it's cost per home passed? Just what does the cost per mile look like?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Look, we are not seeing any overall cost increases. Our actual cost went down by 10% year-on-year. And a lot of that has to do with technology. 50% of the cost of fiber is labor. So the more you can do pre-supply, pre plug-and-play type components, it lowers the overall cost.

Craig Moffett - *MoffettNathanson - Analyst*

So snappable?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Snappable, and that's a huge portion. Second is how you do route planning. Third is how you manage your vendors, what type of SLAs you send. And also given our size and scale, we tend to get really good rates and long-term deals with partners to do that.

The fourth is a lot of our building our footprint is done by our own teams, our own internal teams that have been with us for a very long time and know how to do this well. So our cost is not going up and tariffs has very little impact. Almost 100% of our fiber is built and manufactured in the US. The rest of it is labor that's in the US. So a very, very negligible small part is exposed to tariffs.

Craig Moffett - *MoffettNathanson - Analyst*

Do you think immigration policies will affect the labor costs.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

We don't see so because large majority of our construction is done by our own teams, who are Verizon badged employees. So we don't see that supply constraint that some of our partners see.

Craig Moffett - *MoffettNathanson - Analyst*

We're coming to the end of the time. So I want to just end with the question that I always think is the most important for you guys. And that's just what's the consumer value proposition for Verizon today? It used to be so simple. It used to be best network. Can you hear me now? Was so deeply embedded. What is it today? Is it still the same? Or has it shifted a little bit?

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Our value prop is -- there are two big pillars of our value prop. The first one is the best network. We have the largest network. On 5G, we are the most reliable network. We have the fastest network at home and on the go. And in a country as large as America as geographically dispersed as America, there will always be a better operator than someone else.

Historically, Verizon has always been the better operator, our engineering standards, the way we do. And now with all the extra spectrum that we have in C band, it gives us even more headroom to create a lead from a competitor in network operation.

Second is satellite messaging. We've included satellite messaging in all our plans. It further goes back to reinforce that network is a true differentiator for us, and we want to lead in that. The second big piece is value. We want to give customers more value. myHome, myPlan was the first start of that clear transfer.

Craig Moffett - *MoffettNathanson - Analyst*

But value is not price.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Value is not price. It's not the lowest price, but it's the most value, and we are very confident we do that. Transparent pricing, clear pricing, flexible pricing, with myHome and myPlan with perks at savings, they can't get anywhere else.

And now with the value guarantee, where we comfortably say we'll price lock your network portion of your plan, and we'll give you savings you can't get anywhere else. So value and network continues to be our best calling card on value proposition.

And if you see us, we are playing on two secular trends, mobility and broadband. We have two engines of growth. On both those engines, we are doing extremely well.

Craig Moffett - *MoffettNathanson - Analyst*

That's a great place to end it. I always look forward to these and I'm looking forward to next year already. All right, thank you.

Sowmyanarayan Sampath - *Verizon Communications Inc - Executive Vice President and CEO of Verizon Consumer Group (VCG)*

Good to see you again.
