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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

Okay. Let's get this started. I'm Laurent Yoon. I am US media and telecom analyst at Bernstein.

It is my great privilege to host this fireside chat with Sampath, Executive Vice President and CEO of Verizon Consumer Group. Thank you for being here today.

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

Very good morning to you.

QUESTIONS AND ANSWERS

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

All right. So we'll get this started. But before we get into the specifics of Verizon, I would like to set the scene. So we've seen in recent maybe quarters the indicators suggesting that the competitive intensity is heating up. The gross adds is up, perhaps some indicators on equipment revenues, the churn, and et cetera.

Could you share with us, from your perspective, what are you seeing in the market? And how do you expect this to kind of play out for the rest of the year in the foreseeable future?

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

Laurent, thanks for having me. But before I get started, let me point all investors to our Safe Harbor statement. It's on the verizon.com investor relations site. We'll talk about something that's a little forward-looking, so it's good for everyone to refer to the Safe Harbor.

Now that I have that out of the way, let's jump into the competitive landscape. 2Q is quite similar in competitive intensity to Q1. Q1, we saw a slightly elevated competitive environment. Typically, in January, once we are done with the holiday promotions, we pull back. We pulled back, but our competitors did not pull back. They doubled down on their promotions and basically carried it through the whole of first quarter.

We are seeing similar trends with a slightly higher competitive environment. But if you look at the arc of the industry, there are always quarters that tend to be more competitive than the other. We pulse in promotions -- we pulse our promotions, so this is no different than that.

What we're seeing is the switcher pool has gone up. Port-ins have gone up. Port-outs have also gone up, but the switcher pool has gone up. We are seeing really good gross add momentum in our business. Last time, at the earnings, we said we are seeing double-digit gross add growth on the postpaid phone side. We continue to see double-digit postpaid growth on the phone side.

I think what we are finding is our value prop is resonating really well. But it's a competitive environment, and we get our fair air of gross adds every single day. And we work very hard on that.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

Got it. Thank you for that. And I'm going to -- like to go back to some of the comments you made around the gross adds, the competitive intensity, and the actions that you've taken when we get to some of the specifics of Verizon.

Another general context I would like to set here is the current market structure, right? So if you look at the past decade, let's say around, let's say, 2010 to 2022, cable companies have done really well over the past recent years, driven by the FWA and fiber and owner's economics and in wireless. Telcos are doing really, really well as well as, of course, you are as well. And given -- obviously, this is to drive convergence.

We see bundling rates going up, and every company is now talking about the trend. Where do you see industry heading, right? Where do you see -- if we roll the table, let's say, about three to five years, where do you see the industry, especially given some of the consolidation that we're seeing in the market today, like everyone is going -- you're going through an acquisition of Frontier, AT&T with Lumen's fiber business. And you got a T-Mobile and Charter and Cox. Like there's a lot of -- it's a very active market right now. Where do you see the market that's in three to five years' timeframe?

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

I think the big piece for us is, we have two engines of growth in our business, the broadband business and the mobility business. And longer term, we want to be number one in both the businesses. On the mobility side, we are number one today across most segments. But overall, as a category, we have the largest network and a large number of subscribers. In broadband, we have a very clear path to get there over a period of time, too.

So the market structure as we see it is we want to be the number one converged player in America today. And for that, you need a couple of things. The first is you need owner economics on both the mobility side and the broadband side. The second thing is you need two good products.

In our case, we have mobility, which is the best network. It's the fastest 5G, the most reliable 5G. And historically, we've had significant head start on just better network quality. We had a little bit of a price premium problem a couple of years ago. We've lowered our price premium. We have between 10% and 15% price premium that is sustainable. It's a great mobility product.

And on the broadband side, we have a clear path to getting to 100 million homes covered with either FWA or fiber. And what's important is, on fiber, we get up to 40 million homes, and then the rest will be covered by FWA. The combination of those two is very, very strong for us.

So that's how we see our play -- playing out over the next couple of years. Folks who have a good mobility product, a really good broadband product, owner's economics, converged price that is clear, transparent, and gives customers control, will win. And we think we're really well set up for that.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

Got it. So speaking of -- so the order of the agenda was actually -- I was thinking we go into wireless. But I think given the comments on broadband, let's go there. I would like to start first with the commentaries on fiber.

You mentioned 40 million -- one of your peers mentioned recently, you talked about getting to 60 million. And the executive was on TV saying we got to 70 million, and there are a lot of big numbers out there today. With your acquisition of Frontier -- and also, you're actively building your Fios network as well -- do you think the current plan to expand your fiber footprint in the coming years, do you feel that's sufficient? Or do we -- should we expect there's more coming beyond that?

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

I think the most important thing is fiber is a superior product. If you see, there are three things about fiber that make it a superior product. I think the first one is just the product is better. It's got symmetrical speeds. You can go up significantly multi-gig speed.

Second is pricing. We don't have promotions that's rolled off. It starts at a certain price, and it goes up two or three times over the next couple of years. We don't have that. And last is reliability and customer service. We've invested a lot in that. And hence, we have really strong NPS, I would say. Our Fios product is number one in NPS in the category for a very long time.

And we've been building fiber for the last, well, 20 -- this is their 21st birthday. They're an adult. They can drive. So it's a very competitive, well-laid-out product for us. So given that we will continue to build out fiber, we've committed to 1 million-plus new offered for sale post the Frontier acquisition. Frontier is a great asset for us to buy. It was a pure-play player, largely fiberized, incredibly strong operating team.

And then also, if you look at their Q1 results, they were extremely strong to us. So we know fiber very well. We are continuing to deploy it every single time. The second is, we've actually seen a 10% lower cost year on year on a fiber build cost. And that's a little contrary to what the others have seen. And a lot of that has to do with how we are taking labor out of the process in automating things.

The biggest piece is labor. It's splicing of fiber. So we use more pre-connectorized routes, pre-connectorized segments that take cost out. Second is we're using AI to optimize routes. And third is just incredible product project management in rolling out fiber more broadly.

So right now, we have a clean line of sight to up to 40 million homes of fiber. Frontier will help. We will close on that in 1Q 2026. And post that, we'll build at 1 million plus. So we feel quite comfortable where we are because we also have FWA. And FWA is an incredibly good product. It's got very high NPS. Even though it's a young product, it's got NPS in the mid-30s. Customers really like it, and it's hugely accretive to us on margin.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

So speaking of FWA, you guided to 8 million to 9 million subscribers in the coming years. You're clearly on a trajectory to get there, perhaps more. And putting aside spectrum for a moment, which we'll get to, is there any indicators that you're looking for that would give you some confidence around perhaps increasing that number?

Because I think some of the investors are wondering, besides the potential spectrum constraints in the coming years, your trajectory is suggesting that you could potentially surpass that. Is there any indicators? Are you pretty set on the 8 million to 9 million subscribers?

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

Our initial tranche was 4 million to 5 million subscribers. We got that a year earlier. Our next tranche is between 8 million and 9 million. And what we want to do is build a sustained long-term business in FWA. So I think the pace is super important to us. Because at the current pace we are doing, we can take customers. We can set them up well, lower churn, add on more services, and just build a compelling long-term business. So that's the goal we are in.

The second important piece for us is, how well the product is doing in the market? It's got a very strong NPS in the mid-30s, and it's actually an incredibly good product. If you look at our FICO score of customers who take FWA, we trend -- it's north of 700. So it's an incredibly good piece, very strong NPS. And they're also increasing ARPU year on year as we come in.

So I think FWA, together with fiber, makes for a really compelling long-term value proposition on the converged space. When we put fiber together, we see 40% to 50% reduction in churn, both on the mobility side and the fiber side [this percentage reduction in churn only applies to mobility and is approximately 40%] (added by company after the call).

On FWA, we are starting to see good churn benefits as well. So it's a strong product. We have a clear line of sight to 8 million to 9 million. We are focused on accreting both P, which is price, as well as quantity to get there. So we're very comfortable with our 8 million to 9 million target that we have.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

When you say 40 to 50, did you mean percent or basis point reduction?

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

Percent.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

Percent reduction in churn for both products. That's amazing. Could you just add some color on the differences between, let's say, an FWA plus a wireless bundle versus a wireless and a fiber bundle in terms of, let's say, churn profiles and also customer profile? Are they any different? Is it meaningfully different?

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

Some of it is segmentation of the market. And this puts us in a very strong competitive position with cable. Because on one side, we have FWA, which gives really good value for money. It tends to be priced between average $40 and $45, incredibly good speed, very convenient, high NPS, great customer service.

And look, I just said the FICO score who takes the FWA product is north of 700. So it's a premium product to do that with a very strong NPS. And we are starting to see good churn benefits when you merge it with mobility. Almost 75%, 80% of our customers on FWA also have mobility with us. So it's a slightly different mix of customers.

And look, the majority of our customers on FWA actually come from cable because they like (inaudible) they like the price point, but they also like the convenience of it. Fiber on the other side is very high reliability, performance, and very low churn. In fact, in Q1, our churn was [approximately] (corrected by company after the call) 1%. And it was in -- on Fios churn, which is one of our best quarters we've ever seen on churn. So it's an incredibly good product.

So we are segmenting the market really well on FWA and fiber. And it makes it very difficult for cable to compete because if they have to compete with FWA, they have to lower price by $30. If they have to compete with fiber, they have to invest in upgrading their plant and customer service and reliability, which is tough.

So we're having a clear run. We are basically taking share every single quarter on broadband. Over a period of time, we are committed to 350,000 to 400,000 broadband customers every single quarter. You'll see that trajectory. We see a long runway for that. But we are taking share every single quarter on broadband. I think that's the most important thing for us right now.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

One clarification I would like to ask is, when you say lower than 1% churn for broadband, for the Fios customers, are you talking about the blended? Or are you talking about the cohort of customers who are bundled with wireless?

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

No, the blended.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

Blended. Wow, that's a pretty good number. Okay.

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

It's a better product. It goes back to that. It's a significantly better product. And over the years, we've taken our dispatch rates down very low as well. And people -- more and more people want symmetrical speeds, where they want uplink and downlink same because a lot of time people work from home. My kids game a lot. I suspect that requires symmetrical speed as well.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

Got it. Okay. So that's -- thank you for that additional color. Let's turn to -- I'd like to come back to broadband on the convergence point. But I would like to turn the discussion to wireless for a moment. And rather than starting the discussion on postpaid, I would like to start with prepaid. We've noticed that you are -- you've made a lot of progress, especially we saw the numbers in the last quarter.

It was a really good quarter for prepaid. We also noticed -- realized that you were spending a lot more time talking about prepaid. There's a good traction. It doesn't really come up a lot in our conversations with clients because it's typically viewed as lower value, right, typically viewed as a pool for postpaid conversion, right? Apparently, this is a growth area for you. Could you help us understand why should investors care more about your prepaid business?

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

As the market gets more and more saturated, if you look at pure volume growth in the market, it's only 1% when you take pre and postpaid together. And the growth for us is going to come through growth via segmentation, which is why we have eight brands that we spread across our portfolio.

And every brand has a place. The value prop is different, the pricing is different, the distribution channel is different, classic segmentation. So it's growth via segmentation, which is why the prepaid space for us is super important. Over the last three quarters, we've taken share every single quarter on the prepaid market.

And let's first talk about how we have gone about doing that. The first is, I've bought the same execution focus that we got on postpaid a couple of years ago into the prepaid space. We took one of our best leaders, Nancy Clark, and put her on the prepaid side to run the prepaid business. So very good sales execution.

The second is we've gone and, I would say, tweaked value prop on every brand to make it a category killer. You saw that on Total Wireless. You saw that on Visible. You've seen that on Straight Talk as well. We have done extremely well to change value prop to make it extremely successful.

The third thing is distribution. We have a very enviable position on distribution. We have the largest share at Walmart. We have Straight Talk, which is a brand exclusive to Walmart. And 120 million people walk into Walmart every single week. We are in a very good position there.

And two is, we're also scaling our own distribution. Every single day, we are adding three new exclusive Total Wireless doors as we go along. So this week, we'll add 15 new doors as we scale the Total Wireless. So all of those factors put together are working really well for us.

And I'll talk a little bit about our segmentation. Let's take Visible. It's doing very well. It's a digital-only brand, low churn, reasonably good ARPU, very high customer satisfaction. NPS is north of 60 on that brand, that does very well. But it's all online. You can't pick it up in a store at all.

Then you have Straight Talk, which is rural, suburban family-oriented Walmart customers who go there. Then you have Total Wireless, which is urban center-corridor folks, who want family plans, who want good budget, good price. And then we have some really low-end plans like TracFone and SafeLink that offer as well.

So deep segmentation, execution focus, but we think this is an opportunity for long-term growth. We've always played a little silent or soft on pre to post migration because our credit standards are so high. On the postpaid side, our average phone customer has a FICO score of 720. So we have a really high credit standard that we have.

So we've not played in the pre to post migration. We feel it leads to long-term bad debt issues, and the credit profile is not great. But we want to serve those customers with prepaid really well. Last is about profitability.

Prepaid is a very profitable business for us. In fact, the mid-end to high-end of prepaid is actually more profitable than the low end or as profitable as the low end of postpaid for us. So it's a very profitable customer. At end of the day, it's just choice.

Some want to pay in advance; some want to pay a month in arrears. We are very comfortable with that. But in terms of profitability, a prepaid customer is very strongly positive because cost of acquisition is lower. The subsidies we give upfront is lower. Churn is a little higher. So when you net it out, it's a very profitable customer that, in some cases, is as profitable as a lower-end postpaid customer.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

I'd like to push you on that point. If we were to get a blended view, if you could describe what the blended profitability is for prepaid, how would it compare to, let's say, postpaid overall or at least the lower end of the postpaid?

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

I think if you think about prepaid, our ARPUs are in the mid-30s. So we have a mid-30s ARPU, extremely strong EBITDA, but lower cost of acquisition [core prepaid ARPU is in the low-30s] (added by company after the call). If you look at the postpaid, our ARPU is $62, very strong EBITDA margins, but slightly higher cost of acquisition [approximately $60 for consumer smartphones only, on a billed basis] (added by company after the call).

So it's a very different starting point. But if you take the low end of postpaid for us, which is a welcome plan, and you take the high end of prepaid, which is either a Straight Talk customer or a Total customer, there's not much difference between the profitability of those two segments.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

Thank you for that color. Let's switch to postpaid. The prior quarter, the losses were higher than expected. But you gave us some color on the last month as you were exiting Q1. I think you mentioned mid-single-digit growth in gross adds, and you also talked about, in April, double-digit growth in gross adds.

What -- can you share with us what are you seeing the rest of the Q2? Do we -- are you expecting -- or are you seeing the same kind of trajectory that you saw in the early part of Q2? And I'll just ask this question now. What do you expect in the second half of the year, given your reiteration of the guidance for the year on postpaid net adds?

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

Yeah, look, we'll reiterate what we said in the earnings call. We expect postpaid phone consumer net adds to be better [for the full year] (corrected by company after the call). And it's a long-term journey that we are on. Step one for us was to get -- to get to zero net adds. Seconds was get to positive net adds and now grow on that base. So we are very comfortable with that statement there.

As we are at the end of May, we continue to see double-digit gross add growth in our business. And a lot of that has to go back with a strong value prop that we have. We launched the Verizon Best Value Guarantee early in April, and that has resonated really well with customers. It's a three-year price lock on all our plans on the network portion of it. It's a free phone, and then we included satellite with our core plans as well.

I think customers today are looking for value for money. They're looking for reliability, but they're also looking for transparency and full control. Our value prop gives them that every single time. So what we are seeing is good strong gross add momentum.

On churn, look, Q1, we saw higher-than-expected churn. A lot of that can go back to higher elasticity than what we have seen in past cohorts because of our price ups. We did two price ups in December and January back to back. And we saw slightly higher elasticity and more churn from those price ups that we had seen.

But it was the right thing to do. We locked in more than $1 billion plus of wireless service revenue early in the year, which was the right plan for us going forward. On churn, we see -- you're going to start seeing that get back to a BAU posture second half of the year.

We've got a little more work to do on churn, and I'm sure we'll talk about that. But we expect to get back to a BAU posture in the second half. But on gross add, we are seeing really good momentum, double-digit growth right now.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

One more follow-up on the gross adds. What gives you confidence that the current trend will continue in the second half? The reason for my asking this question is, if I were to have the conversation with your peers, I think they may also talk about their growth in the second half as well. What gives you confidence that the current momentum will continue in the second half of the year?

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

Momentum is a combination of a few things. First is value proposition. Our value prop is the clearest it's ever been. When we go and talk to customers, they are very clear. They say we want flexibility, we want transparency, and we want full control over what we buy and not buy.

They don't like inclusions. They like clean bundles, and they want to pay for what they actually use. Our myHome and myPlan structure gives them exactly that piece. So value prop is doing well. The second is sales. Over the last two, three years, we've done a lot of work in reinvigorating our sales -- overall sales engine, if you will.

The first thing started off with going to a market structure. The second thing was sales incentives. Third is a lot more local marketing than we've done before. Those are doing really well, and I see continued progress on that. We are seeing good productivity in our stores as well.

We track productivity every month, and we're seeing good, strong productivity from our fields to that. The third is brand. Leslie relaunched our brand, and that's gone very well. It's given us more traction in social. We are getting picked up in social a lot more.

And we are part of everyday life. At the end of the day, we empower how people work, live, and play. So I think we're doing extremely well on that as well. So a combination of all of those three things gives us comfort that we can continue the momentum.

The last is, look, we are a very financially disciplined operator. We have promotions -- our promotions are unique. We'll continue to have unique promotions. Every year, we come up with a few interesting things. Second half year is no different than that. We'll have some pretty unique things as well.

So a combination of that gives me comfort that we will have gross add momentum in our business going forward. And a combination of that and churn coming back to a slightly more BAU posture, the combinations gives me comfort that we'll be better year on year as well.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

Got it. So assuming the gross adds, obviously, you're working on the drivers to continue to drive the current momentum that you have. I think what we also noticed in the marketplace today is, as we talked about in the opening, the intensifying competition. And perhaps many of the -- well, maybe all players are going after different -- maybe all segments of the market.

And I'm wondering for Verizon, in particular, given your high-quality consumer base, if you're going after all segments, does it also imply that potentially there could be some pressure on your ARPU growth as you go after the lower end of the segment that you typically have not really focused on in the past?

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

We don't play in -- very aggressively in the pre to post migration space. That's what the lower end of the postpaid is. And it's partly because we want to serve them really well in prepaid. We have great distribution, great brand, great value prop. We want to serve them there. So we typically don't play in this space.

What we are finding is we are writing really good quality business. Our premium mix is headed in the right direction. Customers are taking more perks. So for us, we are writing good business. People view us as a premium player. They view us as a better player.

And we think a business is more a combination of ARPU and ARPA. ARPA is super important for us. Because, look, we have between pre, postpaid, and broadband a billing relationship with almost every second household in America. And our ability to succeed is going to be how we sell more to those existing households that we have.

So ARPA is a very important criteria for us. It's an important metric we internally work on. Of course, connectivity products are key. But the huge stack of adjacent products that we have, we probably have [approximately] (added by company after the call) 15% of our revenue come from adjacent products, more than anyone has in the industry. And it's incredibly profitable for us. So ARPA growth is long term the right metric for us, and we'll continue to see good traction on that.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

Okay. I would like to talk about the ARPA and the adjacencies. But before we get there, I'd like to touch on churn one more time and then move over to the other topics.

So on churn, you mentioned, due to the recent price hikes and competitive environment, the churn was elevated more than expected in Q1. What are the drivers? Or could you add some color on the drivers of lowering churn in the second half of the year? And what are your expectations in terms of -- if you could share some of the metrics on those drivers?

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

Look, I think the first thing, longer term, when you want to take churn down, it starts with a very strong value proposition. If customers in the base feel very comfortable, they tend to leave less. So if you look at our Verizon value guarantee, one of the big core components of that was similar offers for base and new.

Historically, we've never done that. Finally, we are in a posture to do base and new, especially in terms of phone promotion, phone subsidies. That's a huge driver of churn. It's going to take a while to work its way through the base. But customers feel comfortable that any time they're out of contract, they'll get the same deal as a new customer to do that. So I think that's the first element.

The second element of churn reduction is cross-sell. As we discussed earlier, when you combine fiber with mobility, you see a 40%, 50% reduction in churn. So we've got to combine more wireless and broadband customers [this percentage reduction in churn only applies to mobility and is approximately 40%] (added by company after the call).

So it's cross-sell, but also in adjacent services as well. Customers who tend to take more parks tend to be [lower] with us. People take our credit card tend to have lower churn. People who take a high-yield savings account starting to see lower churn as well. So second is more cross-sell opportunities that we have.

The third big element for us is myAccess. myAccess is a very cool loyalty program, but it's not an earn-and-burn program. It's a program that gives customers really cool deals on day-to-day things that they want. For example, we had a deal with Topgolf, where we give them 25% off. And we have other deals that good.

Second is once-in-a-lifetime events, whether it's presale tickets to Beyoncé -- whether she was at MetLife Stadium last night -- presale tickets to Beyoncé, access to NFL games, NBA games. And that builds really long-term value.

We had the Verizon Fanfest late last year, where we had north of 100,000 customers sign up to come and party with us for the Super Bowl, north of 100,000 tickets for Beyoncé presale as well. So these are pretty meaningful numbers.

And then we're doing a lot of work leveraging AI to make it right. In the unlikely event we don't take care of our customers right the first time, how quickly can we recover in the situation. So we're deploying AI both in our contact centers and in our sales to proactively find trouble and fix it early in this space.

And the last is we have a very strong, what we call, reactive program, high-risk customers, high-risk cohorts. We go and inoculate them. So managing churn is a combination of all of these different metrics. We do see that by the second half of the year, we should get back to BAU.

But longer term, Laurent, I don't think there's anything structurally that prevents Verizon from getting back to its churn leadership that we've historically had. With our strong broadband convergence and just getting really good in execution.

There's nothing that prevents us from getting back to number one in churn. It's going to take a while to get there. But I'm very confident that the work we are doing and the levers we have deployed gets us in a very good position there.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

Thank you for that, color. I would like to double-click on the adjacencies and the perks that you've mentioned. Your adjacencies and the perks, your insurance products, you have like Netflix and Max and other subscriptions that are available, discounts to special events, and et cetera.

What kind of -- can you share with us some additional color details on what kind of financial impact does it drive? And if you could ask -- also add more color on the profitability. So it's not just adding to ARPA, but what does it do to your profits?

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

Let's talk about how we structure our adjacent businesses. The first piece for us is perks. Perks tend to be priced between $10 and $15. These are exclusive deals to Verizon. They offer huge customer savings, and customers love them.

You can imagine every day, I have people trying to get on the Verizon perk program, different partners that we have. We are quite selective. We choose them very carefully. The latest partner we add was Google Gemini. We were the first carrier in the world to add Gemini. It's a great product, by the way, to our perk system.

If you look at Perks, we're going to have 15 million perks by the end of this year. When you take that, that's almost a $2 billion run rate business that we've developed basically in the last 18 months on that. So really strong growth and value prop for that. The margins on that tend to be in the mid-30s. So it's an extremely profitable product for us, and we see that growing long time.

I still think there's huge upside for our own perks because [approximately] two-thirds of our customers still don't take perks from us. So there's a lot of headroom. There's a lot of runway to grow that number as well. But it's a [nearly] (added by company after the call) $2 billion run rate business at the end of this year that we are very comfortable about.

We have a mobile insurance product that does very well. We have strong attach rates, the highest in the industry. The NPS for that product is north of 70. In the unlikely event customers do lose their phone, break their phone, we're able to turn that around really well.

So our adjacent business is an integral part of our overall value prop. It gets involved in ARPA. And we are spending a lot of time building really good value propositions for our team. It's not a side project. It's not a side thing, but it's core to our value prop longer term as we do that.

We think, over a period of time, we'll continue to expand on the mid-30s margin. And it's, as I said, almost 15% of our overall service revenue. So it's a pretty big business base for us right now.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

That seems -- that is a pretty significant chunk of your business, $2 billion run rate, mid-30% margin. When you say mid-30% margin, I'd like to clarify, is that a direct margin? Or are you also considering the benefits of the perks? Let's say, like a churn benefit, that's a direct margin --

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

That's a direct margin. If you take in the churn benefits, it will be significantly higher than that. But mid-30s is a really good starting point for us. But what's important is we have zero capital intensity in that business. So we are using third parties, but we're using best-in-class third parties. I mean, we have an exclusive deal with Disney. You can't beat Disney and their franchise that they have there. We have Netflix and Max at $10 that we offer, and now recently Gemini as well.

So I think mid-30s margin, large scale, many customers want to work with us. Because they see benefit in the terms of quick distribution. They see lowering of churn as well. So it's kind of a win-win for us, win for us, win for our customers, and win for our partners as well. So you'll continue to see good innovation on that pace down the line.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

Got it. Thank you for that. That's pretty good margin, much higher than we had anticipated. Thank you for the color. I would like to go back to convergence. Obviously, that's a very important topic. Your peer, as mentioned, talked about how the bundle rate -- so AT&T in particular has mentioned that the bundle rate, say, over 40% -- roughly 40% of their broadband base or fiber base has taken wireless.

I think in prior earnings call, you've also mentioned that you're seeing positive results. And I think there's an expectation in the industry that that trend is going to continue. If we roll this tape, let's say, a few years down the line, three, five years down the line, do you expect sort of the current trend that we're seeing, let's say, around 40%, maybe 50% of the market bundling products? Or do you expect this to be higher?

And the second question I'd like to just ask now is, what is the driver of that bundle, right? So other than the price benefits, the price value proposition for the consumer, why should the consumer get a broadband and wireless and perks and other things from one place? Why not mix and match for the best deal that they could potentially get?

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

Let me start with your first question. We see [low-40s] (corrected by company after the call), 45%-ish of our fiber base takes mobility from us. And we see that growing every single quarter as we do that. The second is on FWA, 75% to 80% of our FWA base takes mobility from us. It's a more natural bundling since it's a wireless product to do that.

So overall, you see 16% of our base is converged, if you will. I see that number doubling over the next three years. So that's -- you're not going to see European levels of convergence. In Europe, what we saw was a very supply-led. Because of the local loop unbundling that was offered up there as well as wholesale arrangements, everyone had access to both mobilities product as well as a broadband product. In the US, that's not the case.

Second is, US is a very demand-led bundling convergence strategy. The Verizon model of convergence is demand-led. In other words, customers want it; we give it to them. It has to be revenue and margin accretive to us, which we see that along the way.

We give very little discount if you see in the scheme of things to drive that bundle, and we're seeing really good results. A lot has to do with how well we create the right product framework for us. So for example, if you take mobility and broadband like Fios from us, we could give you a perk free and then we give you a discount of $15 on one of the products.

So it's a very compelling value prop for us longer term. But I don't see our overall converged base at European levels. But I do see some 16%. I do expect it to double over the next three years there. That gives you a sense for how far we think convergence will go. Because at the end of the day, it's a demand-led convergence, not a supply-led convergence that we see.

Why do customers take it? One is convenience. Convenience is a really big factor. Look, our price discounts are not significant. They're still single-digit percentages in the overall thing. But customers love the convenience of it. But at the end of the day, two things are important to make convergence work. First is, you've got to have a best-in-class mobility product and a best-in-class broadband product.

If you don't have that, you're going to have to give more and more discounts to make up for the fact that one of your products is not great. In us, we have the best mobility product for a very long time. And now with FWA and fiber, we have, in both those categories, number one NPS products there.

So two very good products put together with convenience and a little bit of a price break makes it very attractive for customers. But it has to be a world-class product. You cannot sell non-world-class products as a bundle without giving discounts.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

Thank you for that. Okay. So I'd like to ask another question related to convergence. You are -- so you have the O&O assets, the best-in-class products in both fixed and wireless. If you look at your competitors on the cable side, they have the broadband product. They don't have the wireless owner's economics. You're enabling it.

I understand that there's the renewal terms with the cable companies are ongoing at the moment. If we -- obviously, they have really good traction. They've had really good traction. It's an important business relationship that you have with them as well.

If we roll this tape again a few years down the line and assuming there's a renewal in place starting whenever the next cycle starts, what does that relationship look like, right? Assuming they're going to continue to grow at some rate, what does that relationship look like, let's say, in three, five years?

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

Yeah. I'm not going to comment on commercial discussions between us and the cable. But what I'll talk about is, they are a very important strategic partner to us. I work very hard every single day to ensure that we are their first choice and their only choice as a wireless partner. So it's an important strategic relationship for us.

Secondly, it goes back to a fundamental strategy, which is, you build a network once. You load as many customers as you can on it, and they do that. The third is, it is revenue and margin accretive to us. Because based on third-party data, we've seen that we lose significantly less than our fair share to cable. So the arbitrage that we make between retail loss and a wholesale gain is accretive to us both on the revenue side and on the EBITDA side. So it's a very good relationship for them. And it gives them optionality.

It puts a world-class product in their hands to create a bundle for them longer term to do that. But what we do see on the retail side, we compete fiercely. They have a slightly different network philosophy than we do. For me, I want all our customers to be on the ultra wideband network. I never want them to offload to Wi-Fi. I just want to create network experience for them.

They take a different approach. They want to do Wi-Fi bundling. They want to do CBRS offload. We don't think those things work very well. Customers like to get a good product there. The second thing for us is, they are actually complementary to us in segments that we don't technically do well in longer term.

Pre to post migration, they're very strong in that. Also places where we don't have a broadband product, they can bundle it, and that becomes incremental distribution to us. So it's a strategic relationship. It creates more routes to market for us. It's complementary to our overall segmentation play. But we compete fiercely in the retail space, and our network philosophy is different than this.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

Are you concerned at all about their pace of growth?

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

It's good margin and revenue for us. It's -- as I said, it's an accretive relationship on EBITDA and its own revenue. And as I said, it's a complementary relationship for them. So you want your partner to do well. This is no exception to the rule. You want your partner to do well as well -- as long as the underlying commercial structure is solid and accretive, which it is for us, we want them to do well.

But look, we compete fiercely in the retail space with them, where we have a very different value prop. Our distribution is wider. We have [approximately] (added by company after the call) 8,000 stores between our prepaid and postpaid side. We offer more promotions, more subsidies for our customers.

We have significantly higher ARPU than them. So it's a very different segment of the market we are selling into. But that makes it complementary to us, and hence, I'm really happy that they're doing well.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

Got it. We'll move on to the next topic here. Earlier, you mentioned you're leveraging AI in many different ways. You talked about this in prior talks as well. And you're using AI to reduce cost in your fiber build-out. And you also talked about AI in your customer care.

We do see the trends in all the companies adopting AI to improve customer care. Is that -- do you think that's more of a table stakes for everyone since everyone is doing it? Or do you think that could become a differentiator for you?

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

When new technologies come, it -- there's a pendulum swing between its table stake and it's the ultimate differentiator, depending on what day you ask people. We think it's a massive differentiator in the medium term to do that. We work very closely with Google. We are one of their larger customers. We codevelop a lot of our products together.

We were one of the first -- probably their first big customer to take their conversational AI product longer term. So we think it's a source of differentiation for us in the customer care space to do that. I have a goal that I want to be the world's best AI applied company, work with partners, take technology, embed it deep in our business. But let's talk about the customer care piece.

A lot of the work we've done to space has been around cognitive offload. Our frontline teams carry a lot of data in the head; what type of price plans, how to get things done, different data points, how to troubleshoot. Our first goal has been to take that cognitive workload off them.

We have something called a personal research assistant, which may take the whole knowledge base of Verizon, put in a generative AI framework, where they can very quickly intuitively, using voice or text, query that and get results back. We are seeing huge improvements in average handle time as well as resolution and customer satisfaction because of that. So I think that's one.

But everywhere along the customer care journey, we've introduced AI. It starts with routing. Every time -- for example, when you call since -- I hope you are a Verizon customer -- if you call into Verizon, we route your call differently. We know who you are. We know where you're calling from; most likely, we even know why you're calling. So we write you to the right agent who's most likely to solve your problem.

The second thing we do is, as soon as you call in, based on your tone, based on the language, we pop up offers in real time for the agents to take care of that. And they get a single dashboard that we've collected your full profile in a single place using agentic AI. They can see that, and they can respond to that.

Third is sentiment. We pick your sentiment up in a call. If you don't have the right sentiment, we bring in the supervisor to help. Or we have different offers that work its way through the piece. The fourth is guided sales flow. As a rep walks through it based on real-time interaction, the guided sales flow is very different. The guided troubleshooting sales flow is very different.

Last is summarization. Customers love calls summarized. We like to keep summarized calls so that the next agent can pick up where this agent left off. So we use AI for that. So every single step in the care journey is AI influenced and generative AI influenced for us.

Right now, we are taking cost out. But we are reinvesting that back in sales, sales, customer experience, giving a better piece. Over a period of time, my CFO is going to come to me and ask me to give those costs back.

So when it's there, we'll be ready to do that. But I do see '25 and '26 of massive scaling. More than 44,000 of our agents today use AI -- our generative AI every single day. So it's probably one of the larger GenAI deployments in the world. I'm really happy with the pace that we have.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

Got it. Could you also share with us some metrics? Maybe it's too early to share, but is there any indicators that gives you confidence that this is working out really well.

Like what are you -- if you can't share the specific metrics or the degree of impact, can you at least let us know, share with us, what are you looking into to make sure that there is positive impact on revenue, there is positive impact on customer care costs?

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

Let's start with customer care. The first thing we do is satisfaction of customers. At the end of the day, customers call us because somewhere along the journey, we've let them down. So how quickly can we recover from that situation is important. So customer satisfaction post call is the primary metric that we look for. We want to be in the north of 80% -- 80%, 85% north of that, and we are seeing that. And that's a big metric that we track.

Second is average handle time. Are the calls getting shorter? Are they getting more succinct. Are we getting work there? The third is cost per call as well; that's another metric. But the fourth important metric that we started tracking is sales.

Historically, our customer care channel has been a service mode. But when you solve a problem for a customer, they're more likely to buy something from you as well. In fact, what we find is customers we sell something to during a service call tends to have higher satisfaction than something when we haven't sold to them. Because the experience was so good, they buy from it.

So those are three or four metrics we track very closely, but I like the pace of AI deployment we have. We have agentic AI. We have outbound AI. We're bringing new technology to bear every single day. I like the pace. '25, '26 is about massive scaling in that space. And then look, if we need to give back cost, we'll do that. But right now, I'm reinvesting every dollar that I save there.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

Got it. Just two remaining topics. The second to last question is on satellite. So it has come up quite a bit. And if I -- if we go back to, let's say, 2022, which was just a couple of years a few years ago, many companies, especially the competitors you've had, were quite dismissive of FWA and look where we are given the capabilities of that.

And of course, the capabilities of satellite today, they are no way close to FWA. There are limitations to it. But if we roll the tape again a few years later and where the capacity latency of the technologies will become probably better than where they are, do you think that it will -- could potentially become a threat, probably not the fiber, but for any other product other than fiber, do you see that as a potential threat to the industry?

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

Look, our competitors got it wrong on FWA. They keep getting it wrong on FWA. They talk about it as a low-end product. They talk about -- and almost all of those characteristics are wrong about FWA. It's a very high base, very high NPS.

Let me shift to satellite. I see satellite in three different buckets. The first is satellite to device, which you can use on your cell phone, satellite to device for texting, for emergency. And then you have satellite to device for voice and low-speed data. And third I see is high-speed broadband.

So there're three different discrete use cases for satellite. The first one is satellite for device for texting emergency. That works very well today. At Verizon, people use it less than other carriers because we just have more areas covered than others. I mean, between us and AT&T, there's almost 0.5 million square miles of more coverage we have than -- than -- sorry, than T-Mobile and 0.5 million more square miles than them.

So they use it less, but when they use it, it works very well. It's a good use case. We have three different solutions. Of course, we offer the Globalstar, Apple solution as well. We have an AST solution, and then we have a Skylo solution. We have three different solutions. So there's a lot of redundancy in our framework. It will work very well.

We still have a couple of more quarters before voice and low-speed data get set up. It's going to take a couple of quarters there. My sense is in '26, you'll start seeing some early proof of that. But it's going to be low-speed data and voice with some level of latency built into it.

Then the third piece is high-speed broadband. It's a high speed as well as it consumes a lot of data. So there's a little bit of a limitation on the scale of that product. So I think satellite is three different things as opposed to one thing.

I think the first two are very complementary to us. We will offer it. We work with three different partners to do that. High-speed data, there is a use case for it. It does work well in rural areas and in really far out to suburban areas as well. But it's got a limited TAM primarily because density is important to that.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

It seems like as the capabilities of satellite gets better over the years, it's going to be an ongoing topic we'll probably discuss for years to come. I would like to close off the session with the word association game.

So basically, the process is, I will say a word. And please don't think too much and just kind of blurt out the first word that comes up in your mind.

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

I will not think too much.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

Okay. First one, consolidation.

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

Verizon winner.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

Frontier.

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

Great asset.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

Tariffs.

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

Uncertain.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

Satellite.

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

Complementary.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

Lastly, cable MVNO.

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

Great partner.

Laurent Yoon - *Bernstein Institutional Services LLC - Analyst*

That was two words, but that was pretty good. Thank you very much.

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

Thank you.
