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PRESENTATION

Sebastiano Petti - *JPMorgan Chase & Co, Research Division - Analyst*

Good morning. I'm Sebastiano Petti, and I cover the cable, telecom and satellite space for JPMorgan. I want to welcome Hans Vestberg, Chairman and CEO of Verizon.

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

Thank you.

Sebastiano Petti - *JPMorgan Chase & Co, Research Division - Analyst*

Hans, thanks for being here.

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

Thank you for having me. Do you hear me? Yes. Okay. Good.

Sebastiano Petti - *JPMorgan Chase & Co, Research Division - Analyst*

Okay.

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

Thank you for having me.

QUESTIONS AND ANSWERS

Sebastiano Petti - *JPMorgan Chase & Co, Research Division - Analyst*

So Hans, when you first started at Verizon, your top priority was to fix the network, then you moved to the next phase of making sure you have the right asset mix for the company, which included some divestitures.

Where are you spending most of your time today? And how do you plan to position Verizon for success over the next decade-plus?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

I spend a lot of time on the safe harbor statement. So I might say things that is forward -- predicting the future. So just be aware. I'm okay now? Okay. Okay.

So I really spend my time -- I think you're right. I've been in a journey in Verizon. Of course, the first couple of years was a lot of focus on the network. Some of you have been following us for a long time. We built the Verizon Intelligent Edge Network. Very simple, from the data center to the edge of the network, harmonized all the transport, all the fiber, fiberized all of it because we knew how much data are going to happen in the future.

And then basically at the edge of the network, we decide what type of access technology depending on customer. I mean, everything to 4G, 5G, PON or fiber or whatever. So that was the majority.

Then we came to the second phase where we sold and bought a lot of companies. I mean, we sold the Verizon Media Group with Yahoo! AOL and all of that. We bought spectrum for [\$53 billion] (corrected by company after the call), and we bought TracFone.

And now we're in the third phase where we basically are looking in to generate returns on those investments and those changes. We're a full team. I would say the majority of my team members has not more than 12 months in their positions.

We have all the spectrum we need, and we sort of are executing on 3 areas. I mean, that's wireless for Consumer and Business, it's broadband for Consumer and Business and then it's private networks. Those are the 3 growth engines we have. So it's a lot of focus.

The team is incentivized on 3 things where we've been that for quite a while. I mean, growth on Wireless service revenue, expansion on EBITDA and cash flow. So that's where I have spent my time.

Of course, right now, I see us coming into the capital allocation moment where we have a very clear capital allocation priority. Number one, invest in the business, so we can come back to that. Our CapEx has come down for obvious reasons because we had a hike when we got the C-Band and a couple of other changes.

Then secondly, continue to put my Board in a position to increase our dividend. We are on the 17th year of dividend growth, 17. There's -- I think there's only 2 other companies in S&P that has longer trajectory of increasing it.

And third, paying down our debt. We want to get down to 2.25x leverage on net debt unsecured-to-EBITDA. We still have a way to go there, but we're constantly reducing it. So we have a little bit to go. And after that, we might consider buybacks.

So that's sort of where we are, and that's also how we incentivize our team to buy -- to generate the cash flow in order to do that. And so my time is now thinking about when we -- where we get to that moment, where do we allocate the money, what are the best areas to increase the TAM. That's sort of a lot of my time right now.

The team is executing really well at the moment. There are some areas we always want to do better, and there are areas that we want to push more, but that's how I spend my time. So you can see it is sort of the planning for the fourth stage of Verizon 2.0 that we call it internally.

Sebastiano Petti - JPMorgan Chase & Co, Research Division - Analyst

And so you touched on it, but you've made a number of senior leadership changes over the last year as well as some changes to the Verizon operating structure and your go-to-market. Can you talk a little bit about why is the new structure, why is this the right direction for Verizon? And are those changes largely complete at this point in terms of your team and how you're thinking about the structure?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

So first of all, I'm the first one to admit, '22, we did not perform in our Consumer Wireless business in postpaid. We were on -- we had the wrong offerings. We -- yes, we threw away a lot of upgrades without offerings, which no traction in the market.

So we did a lot of changing in '22. I myself ran the Consumer division for 9 months. It was really good for me because ultimately I knew what type of person I wanted to get in there. I also knew what needed to be done. So I was happy that Sampath signed up for that. We have a really good alignment on what's needed to be done.

At the same time then, we also made changes to our Verizon Business Group, the CTO function, both of them long timers in Verizon.

And then I also felt that we were in the next step on our brand. We have a very strong brand that is sort of known for trust and innovation. But it's also the next step. We have done a lot of inspection on the Consumer segment when it comes to new offerings. So that's why we -- in the beginning of the year, I hired a new CMO and a new Chief Communication Officer that has been in there for a couple of months.

I feel really good about the team. They executed really good. We have much more to do, never being sort of satisfied or complacent. There's a lot of great competition out there. My job is to continue to see that we are #1.

I have the team. I have the assets. After a journey of 6, 7 years in Verizon, we have done a lot of changes, but I feel that we are sitting on a way better position than when I started.

Sebastiano Petti - JPMorgan Chase & Co, Research Division - Analyst

You talked about Sampath becoming Head of the Consumer and he's instituted several go-to-market changes and helped accelerate the growth path on the subscriber side. What inning or period he may be?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Inning doesn't work because baseball is not my sport. I'm a hockey guy. I'm a Rangers fan, as you know.

Sebastiano Petti - JPMorgan Chase & Co, Research Division - Analyst

Hopefully, not many Bruins fans.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

No. Lots of Bruins fans.

Sebastiano Petti - JPMorgan Chase & Co, Research Division - Analyst

Definitely no Panthers fans in the crowd. What inning are we in, in the Consumer turnaround would you say?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

I think we're in the beginning. I mean, since May last year when we came up -- now we can talk of Consumer Wireless postpaid because the company is so big. So sometimes you tend to forget and talk about others.

But in the Consumer Wireless postpaid, we started with myPlan somewhere in May last year, which is the most flexible and customer-friendly offerings in the market. And that was just a start. I mean, we started with the 3 plans you can choose, the perks you can have. We are adding all insurance and additions like the credit cards. We also have the access where you can get access to tickets.

So you see we're building a journey on the consumer insights that we launched last year. But that -- as I said, when we launched it, it was just the beginning. That was the beginning of a new platform we have. So I'm not assuming, I know that the team has way more to get to continue both vertically do better in the Consumer, but also horizontally and see that we have other areas we are covering as well that we need to develop over time.

So I think we're in the beginning, at the same time, we changed all the incentives in our -- for our sales reps. We changed the go-to-market with the regions. We regionalized it, we moved our marketing, all because of the trends where we're seeing in the consumer market being more local.

So a lot of those changes were done actually at the end of last year. And we have actually seen the sequential improvement in the wireless Consumer postpaid business every quarter since then.

So I have high expectation that, that team has continued to improve and continue. The growth and the profit has always been great there, but we want to do more.

Sebastiano Petti - JPMorgan Chase & Co, Research Division - Analyst

And so you talked about entering the second quarter with some strong momentum on the Consumer Wireless side.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Did I?

Sebastiano Petti - JPMorgan Chase & Co, Research Division - Analyst

That's what it says on the sheet. So what are you seeing in terms of the gross add environment? Maybe asked differently, should we see a -- I mean, is the gross add momentum on the Consumer Wireless side sustainable if we should see a further acceleration in the normalization in the ecosystem or slowdown in sub growth?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

I think, I mean there are different dimensions there. I mean, the switcher pool and the upgrade volumes are lower in the market. We are performing better than that, and that's what you have seen so far.

What I said when I came out for the first quarter was basically saying that, hey, January was really slow. We didn't put any money to the market either, but it was an industry slow. February and March picked up really well for us.

And then when I reported my first quarter, which was at the end of April, I said we continued to see good momentum coming out from the quarter, both for Wireless Consumer but also for the Business Wireless that would sometimes tend to forget that they are the clear #1 in their -- in all segments and continued to grow.

So we saw that continue into April. So yes, we have -- again, it's all about that you have the right offerings, but also much more focused and much more disciplined in our promos, where we do it, which segments we do it, when we do it. So I definitely told the new way how we allocate money in the customer investment or the consumer investment.

Sebastiano Petti - *JPMorgan Chase & Co, Research Division - Analyst*

And so thinking about just the overall strategy, Verizon recently rolled through some price increases. And what was the consumer reception to that? And how are you thinking about the ability to maybe use some consumer insights or data analytics to probably help inform some of your rate decisions?

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

I think, first of all, I think that the industry is sort of underestimated. This is -- wireless and broadband are two of the most essential and critical services for people, for organizations, for companies. And we are coming into a stage where it's so given that it has to work and you need to have it if you're going to work, if you're going to have health care, education and have some joy in life whatever it might be, you need to have it.

And I think that's what we have seen in the last couple of years since COVID, it's just gone up as an importance and we see that in all our consumer service, the importance of it. So if you have that -- but I think that, yes, we have done some price adjustments for customers, but now we try to do even more value enhancements for customers. So they get more value, but it's a win-win for both of us.

All these perks that we have today, for example, exclusively \$10 for all of them, that's good business for me. It's accretive for me. It's good for my partners because they use my distribution. It's good for my customer because they save money, and I can expand my TAM. And I said that, that's just the beginning of it.

So I think that we see a little bit slower activity in the market, less upgrades because, I mean, people carry their phone way longer than we did before. Some of you, you don't seem that old. But 20 years ago, people change their phone every year. Now we're up to 3, 4 years before people change their phone because the phones are working so well and they don't see the need of doing it.

Not necessarily bad for us because we're a recurring service revenue, and that's really what is driving my leverage. That's what's driving my cash flow and my EBITDA. So -- but that's what we see.

And then [immigration] has, of course, been severely reduced the last couple of years. So the switcher pool, the customers that is out looking for a new deal is way smaller. Again, don't necessarily being bad because ultimately then you work with churn management and you saw the -- your initial question was more about what did we see on this price adjustment. We adjusted 32 million lines. Churn was kept down.

That tells you 2 things: the first thing, the importance of the product; number two, how great my team is on churn management. But again, the agreement I have with Sampath running the Consumer division is that we're probably going to go a little bit more for volume right now. We have gone for value for a long time. So it's a mix of it.

On the Business side, they have done both all the time. They both have volume and value all the time, value expansion. So it's a little bit different strategies in different cohort or segmentation of the market. So that's how we work.

Sebastiano Petti - *JPMorgan Chase & Co, Research Division - Analyst*

Shifting to the prepaid business. Any update in terms of what you're seeing thus far in May as the ACP funding has stepped down and what are you thinking?

And then zooming out for a second, I mean, the overall prepaid strategy, it seems like a -- or business...

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Seems like good, that -- yes.

Sebastiano Petti - JPMorgan Chase & Co, Research Division - Analyst

Seems a great -- yes, a great priority, opportunity for the company and maybe think about some of the efforts that Sampath's working on.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

First of all, I mean, ACP is very important for the U.S. economy. That low-income family should have a -- possibility to have broadband wireless, I think, is essential. In today's world, if you are not connected, you have a hard time to work, live, et cetera.

So -- but that's nothing I can control, that ACP goes away. For Verizon, that's a smaller piece where I think we have 1.1 million customers on ACP. Our CFO has said if all of them goes away, I mean, it could be 50 basis points on our [service] (added by company after the call) revenue impact this year, but basically no impact on bottom line.

I see it more as an opportunity. It's 21 million people that have had the ACP. Our offerings, both on broadband with the Fios Forward, with our fixed wireless access on the broadband. And then on our value segment, where we have great offerings, I see it's an opportunity more than that.

What we saw in the beginning, of course, that we had a fair amount of calls coming in from ACP customers asking what's happening. That is normal right now. We stopped enrolling according to the rules in February, March. And now the last quarter is rolling out.

But we have offerings for it. So we're going to continue to see that we do right for our low-income families with offerings we have. But we're going to see how it pans out in the next 6 months. But again, I feel we're sitting in a good position.

Sebastiano Petti - JPMorgan Chase & Co, Research Division - Analyst

Okay. And so yes, zooming back out on the prepaid, you call -- you talked about addressing some of the challenges in the market. Obviously, ACP, but there's also some new leadership hires in that prepaid business as well.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. We have changed the whole management team there as well.

Sebastiano Petti - JPMorgan Chase & Co, Research Division - Analyst

Yes. So where are we in that turnaround? And how are you thinking about the ramp and the contribution as you think about Visible and Total by Verizon?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

So there are several brands in the prepaid market or the value market. Two are performing well and more than according to plan. That's Visible and Total by Verizon. Both of those are performing well. Total by Verizon is the high end of prepaid, basically leaning into the postpaid Verizon. We have almost opened 900 stores in 1.5 years. So we see that as really good.

Then we have the mid -- I would say, the mid- to low market, which was the TracFone acquisition. We knew that we would lose a fair -- not a fair amount, an amount of customers because they were running on other carriers' network. As soon as that was played out, I think we're positioning ourselves way better. The majority of that distribution is going through Walmart. We work with Walmart to see that we're approving it.

What we have now done, we have moved in the playbook that we used for the postpaid: new management, new plans, new incentives and all of that. And we're just in the beginning of that, I would say. There, I would say, if we are in the second inning on postpaid wireless, we're probably on the -- we're just going into the first inning on value.

Sebastiano Petti - JPMorgan Chase & Co, Research Division - Analyst

You're in the parking lot on the way into the stadium?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. We're definitely not in the playoffs in hockey. So -- but again, I feel really good what the team is doing. We work very close with the consumer investment.

The consumer investment is a flexible way of thinking about how we invest in customers. Number one, the media spend; number two, the promotions; and number three, the retention money. That's, for us, one budget. And then we allocate basically weekly to see that we're putting the money in the right segment, the right cohorts from promotion, media and retention money.

That we have been doing for a year right now, and we see visible improvements on basically everything when we do the right things here. So that's important. With a new team, new model, how we allocate it, very close to what -- how we do with the capital expenditures, CapEx.

Sebastiano Petti - JPMorgan Chase & Co, Research Division - Analyst

So shifting to convergence. As we think about the long-term opportunity for convergence, I mean, what may Verizon's fixed wireless and fiber strategy have to look like going forward? How do you see that evolving perhaps?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

So the strategy has always been to give our customers optionality. That's why we have -- we already started with Fios Mix and Match. You can take the channels or you cannot take the channels. We have Mix & Match on the mobile network, you can have different -- the same goes for convergence.

If the customer wants to go to convergence, we have, I think, the best position in the market. I have owner's economics on every product I sell. I have the whole network, I own the network. So for me, that's an incremental opportunity.

I don't believe we're going to see a Europe on that high convergence. We are, I think, around 15% converged customer today. But it's a great opportunity. But I don't believe in that, hey, I put together 2 great products and I need to sell them for way less. That's not it. But there are benefits for me and for the customers. I'm ready to share them, one bill and all of that.

So it's a lot of those type of things, but I don't believe in that, hey, you just throw together 2 fantastic products and then they should be cheaper. That's not really our strategy.

But if the customer wants to go to convergence, I feel we are in a really good position given that we have the owner's economics on all of it, and we can do it easily.

So we're going to follow the customers. Again, customer insights, consumer insights, number one for me. If we do it the right for the customers, it's going to be right for the shareholders ultimately.

Sebastiano Petti - *JPMorgan Chase & Co, Research Division - Analyst*

Great. We started the conversation talking a little bit about getting some of the right assets in place, and part of that is getting the network correct as well. And the network has come a long way.

And as we think about 5G use cases, we could probably agree that maybe FWA has been a faster or larger success than anticipated. But some of these other use cases are still developing. We talked about mobile edge compute. We also -- Intelligent Edge Network, mobile edge compute as well as private network opportunities. I mean, are these as attractive to you as you maybe thought a couple of years ago? Or is it just maybe take a little bit longer to evolve?

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

I'm the first to confess, I was a little bit too early at mobile edge compute. I talked about that 2018. I built the network together with the 3 hyperscalers 2018. Now I think it looks brilliant because ultimately we already built a mobile edge compute network.

And think about AI now as one of the main solution for edge compute. It was, ultimately, we don't believe and I don't think that the hyperscalers believe that you're going to send all the data to the data centers because of cost, because of latency, because of security.

You're going to run much more in the local edge. We have already built a mobile edge compute network together with the 3 hyperscalers because apparently our customers want different, once they don't want one. And historically, I thought that, that would sort of lead into private networks. It was the opposite.

So private networks, we sell in volumes today, WiFi replacement for logistics centers, retails to banks, whatever it might be. And now we see them start adding up computed storage in the edge of the network instead of having it either in the device or way back in the data center. If you think where AI is going and that you need to process so much locally, the mobile edge compute is definitely there.

So that's still a case to be sort of monetized for us. But the good thing, we have already done it. We already have all the design of the network that we did in 2018, 2019.

Private network is happening as we speak. And it's -- for us, it's a totally new TAM. We have never been into enterprise WiFi. So for us, to have managed spectrum for large enterprises and then adding up services on top of it with our solutions team, really good.

And then, of course, fixed wireless access was the big 5G application. And then you're topping that with now slices coming out all the way from the device to the networks to applications that, again, starts slicing.

I see slicing, 5G slicing, started firstly with enterprises make a slice of the private network. I can spin a private network probably 10x faster than I do it today because today I need to break out part of the radio network and part of the core network. In the future, I can just do a slice and I can probably do it in hours.

So a lot of things happening in this area, and this should help in my business area where I have a secular decline in my wireline business as we all have. And then I can offset that with both wireless with private networks, with mobile edge compute and fixed wireless access.

Sebastiano Petti - *JPMorgan Chase & Co, Research Division - Analyst*

Now obviously, you talked about C-Band before, but you spent a lot of money buying C-Band to position...

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

\$53 billion.

Sebastiano Petti - JPMorgan Chase & Co, Research Division - Analyst

Not a small number. But how are you thinking about the spectrum pipeline over the next 3 to 5 years?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. How I think about it? I think that the government have a challenge. Today, FCC doesn't have the authority to auction out any spectrum. There is no spectrum in the pipeline. We are well consolidated, not only Verizon, I think, the whole industry.

But over time, spectrum is the fuel for this industry and seeing that people and industries and companies are connected and the whole society. So it is a challenge over time. And we know from the day that the FCC has spectrum to auction out is 3 to 5 years before it's actually out in the market.

So -- and I think it's for being competitive in the U.S. with other markets, especially in the Asian markets, we need to continue to have spectrum coming out to the market. And also with investment levels because you need predictability, you need ownership, you need spectrum to invest the amount of money we're doing.

I mean, this year, between \$17 billion and \$17.5 billion, but we have been on \$20 billion, \$23 billion in CapEx a year. You can only do that if you have spectrum that you can invest it on.

So I think it's a common interest to see that generations [after me] also have spectrum they can deploy. I sit really good on the 161 megahertz of C-Band that we bought, don't use -- I use a fraction of it today -- or not a fraction, but it's a lot left on that tank before I'm using it. I'm probably using, in average, 80 megahertz of the 160 mainly in big cities, now going to suburban and rural.

And as I said before, where we deployed our C-Band, churn is lower, premium mix is better and I can sell fixed wireless access. So all good.

Sebastiano Petti - JPMorgan Chase & Co, Research Division - Analyst

And if we were to see an administration change at the end of the year, you think that might accelerate some of the availability of spectrum or...

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Speculation on changes on government is not my specialty. Now I don't know, I cannot speculate what's going to happen. I think that, hopefully, the regulator does regulate the spectrum regardless of bias or if they are Democrats or Republicans, it shouldn't matter.

Spectrum is extremely important for the U.S. nation to be competitive to other countries and also for the investment level and the growth in the country. So that shouldn't matter, I hope. And that's my -- that's also my way of speaking to the people in Washington.

Sebastiano Petti - JPMorgan Chase & Co, Research Division - Analyst

So you talked about lighting up a lot of additional C-Band spectrum. And so as that pertains to FWA, obviously, there's been this narrative that the FWA is eventually going to run out of capacity, but it seems as though you have a nice long runway there, especially in -- as we move to the Tier 2, Tier 3 cities that we've talked about.

So how are you engineering the network to make sure that this is -- you have enough sustainable capacity for fixed wireless over time?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. So our C-Band initially was -- because that's how it was allocated out, was allocated out in big cities. That's where we so far have taken the majority of our fixed wireless access consumers, residential consumers.

And now, of course, now we start going suburban and rural. I would say it's even a greater opportunity there. Of course, it's a little bit more spread out, but the opportunity is even greater there. As I said from the beginning, our target has been to get to 4 million to 5 million.

I know that Joe and his team, Joe is our Head of Networks, have built way more capacity than 4 million to 5 million. But I also said I'm going to deliver on my commitment to the financial market of 4 million to 5 million. And then I'm ready to sit down and talk about what we're going to do next and how much more we can do and how we expand the TAM from where we are today.

And then we need to add on the Business side, which has surprised us all how great fixed wireless access is working. Majority is actually the main broadband for our customers. There are, of course, some backup. But again, every new revenue stream on the fixed cost is great for leverage. So I'm happy to take them.

But there, we have seen retail stores substituting cable, et cetera, and putting in fixed wireless access, banks, branches, things that we didn't think from the beginning would be use cases for fixed wireless access, but clearly, we see way more than it.

So as soon as we open up more open-for-sale fixed wireless access, our teams are there. We are proactive. We have people in line that has already signed up, when it comes to my ZIP code, please call me. So we are actually proactive in working the funnel compared to usually you work reactive when you're waiting for customers to come into the store. We can work proactively with the whole funnel of fixed wireless access on SMBs and on consumers.

So the team has designed the network fantastic. Remember, one of the biggest bottleneck is, of course, from the edge of the network to bring it back to the data center. That's where we have fiberized everything, started 2017 with the One Fiber, which was one of the first projects I did, basically fiberized all the radios that we need to have fiberized.

All the transport is our own fiber. We have owner's economics on all the data coming out. That's very important because if you get the bottleneck or you buy it from a PE, that's not a fun story, I can tell you.

Sebastiano Petti - JPMorgan Chase & Co, Research Division - Analyst

As you were thinking about the opportunity above and beyond the 4 million to 5 million, does that think -- does that -- is there an opportunity to build dedicated capacity for FWA? Is that on the potential list of...

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

I've been extremely disciplined on multipurpose network. So the radio base stations that we have out there today, they serve wireless for Business, for Consumers, fixed wireless access for Business and Consumers. We build the network once and have multiple opportunities.

Over time, I will have the optionality if I want to split cells to getting more customers or I might -- I have fiber to the stations, I can also decide to do fiber. That's not in the cards yet. But that's what I'm working on right now, thinking how I can expand the TAM and the guys need to execute on where we are today and deliver on the targets we have. And then after that, we move forward.

But clearly, I spent time on thinking how we can expand the TAM. I think we have designed a flexible network that can really take on the next step after this. I feel good about it and actually, personally, I mean, I have the time right now because the guys are executing well.

I mean, Kyle, Sampath executing very well and Joe. So we have time, certain of us in the leadership team, to think about what are we putting in front of Verizon in the next 5 years when we are coming out of this, when we have come down, delevered, when we have hit our targets.

That's what I'm spending a big portion of my time, which I should do. But to be honest, in '22, I didn't spend much time on it. I was running the Consumer division and I'm not sure I was capable or good at it, but I did.

Sebastiano Petti - *JPMorgan Chase & Co, Research Division - Analyst*

So you touched on, obviously, EBITDA and free cash flow generation is very critical to how you're thinking about the overall value creation of the business. I mean, part of that is potential cost savings unlocks or other things from AI.

So if you can maybe tell us a little bit about Verizon's AI strategy? You outlined a little bit of it on the call, but what are your main priorities and what are the biggest opportunities in the business?

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

So our AI strategy, I mean, my team is almost getting upset when I start talking about AI because they have been on to AI for 10 years. For them, it's just a natural progression we're doing right now.

I think about a 3-pronged strategy for AI, generative AI: one, processes, customer and employee; and then secondly, new products; and thirdly, which I've already mentioned is, of course, new revenue streams, AI at the edge. I will not go back to that right now, I talked to you about it.

I think the mobile edge compute with AI, generative AI, is a great opportunity for us. We are in conversation with many of the most advanced companies in that.

On the generative AI side, we -- this quarter, we actually launched 4 products in commercial use already. Some of them are simple things like search on all our plans for our 40,000 customer care employees. Others are fast recognition of calls when the call comes in, so we know exactly what type of problems that customer have. Given how many data points we have on every phone number, we can put generative AI when the call comes in, and we have milliseconds to decide it's going to the billing department, it's going to the technology department, it goes to the whatever department it is, you have the first-time resolution.

You cut minutes away from calls with customers. That's important for our customers. Even more important for our customer care employees because they know that the call coming to me with a high degree is actually related to my competence.

All that just makes a better environment and relationship with my employees and the customers. Those type of things we're already putting in for 40,000 customer care employees today.

So yes, no, we have a long string of application on generative AI that we put in, in an organized fashion, thinking about privacy for our customers. We don't expose it to any third parties. We only use it to improve how we serve our customers in that segment.

Then we have, on the customer side, much more, I would say, segmentation and also offerings that are more tailored for individual lines, individual accounts that generative AI is helping with Copilots for our sales reps. So there's a lot of things there.

All in all, a lot focused on doing it better for our customers and for our employees, to having a much more smooth interaction and being much more customized. And then new products, and then finally, generative AI at the edge.

Sebastiano Petti - JPMorgan Chase & Co, Research Division - Analyst

So wrapping up here, with leverage, obviously, leverage peaked as we talked about the C-Band spectrum purchases. Do you expect to accelerate delevering here in the second half of the year following some one-off kind of items in the first half -- first quarter rather?

So as leverage comes down, what is -- can you help us think about the timeline to get back to a leverage target? And then how do your capital returns potentially...

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

As soon as possible is a good answer. I think the whole team and I are focused on the 3 KPIs: that's growing our Wireless service revenue and then getting leverage on EBITDA and continue to expand our cash flow.

All that is going back to our capital allocation. So we see that we are paying down our debt. And then after that, I have optionality. I can do it because the #1 and #2 of my priority is, number one, invest in the business. That I will continue to do. We now are down to BAU of USD 17 billion to USD 17.5 billion in CapEx.

Second, I'm going to continue to see that the Board is in a position to continue to grow our dividend. Our shareholder base really likes that and I think is important.

Thirdly, all excess money from that goes straight into paying down the debt.

And after that, if -- when I come down to '25, I'm going to sit down and consider what I should do. Ultimately, our target will come down to leverage of 2. But given where the share price is, where the interest rates are, other areas I can allocate the money to, I'm going to decide together with the Board what to do. I'm not there yet. Hopefully soon.

Sebastiano Petti - JPMorgan Chase & Co, Research Division - Analyst

Well, I think that's a great place to end it. Hans, thank you very much for joining us, and thanks, everybody.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thank you so much.

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