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PRESENTATION

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

All right. Good morning, everybody. Great pleasure to welcome Tony Skiadas from Verizon. Welcome, Tony. I think you have a safe harbor for us.

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Sure. Thanks, Simon, and good to be here. So before we get started, I need to draw your attention to our safe harbor statement and our SEC filings, which are -- can be found on Verizon's Investor Relations website and some statements that may make today might be forward-looking in nature and are subject to risks and uncertainties.

So with that, we can get started.

QUESTIONS AND ANSWERS

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

Great. Thank you. And for Morgan Stanley disclosures, please see morganstanley.com/disclosures, or talk to your Morgan Stanley sales representative. So we're coming off a surprisingly strong fourth quarter where you really showed some good momentum in the consumer business. I want to get into all of that, but perhaps just remind us of both the priorities for '24 and sort of the key elements of your guidance?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Sure, Simon. So the team is very focused and aligned on growing wireless service revenue, adjusted EBITDA and free cash flow. And within that framework, we see 3 key growth areas: Mobility, broadband and private networks. On the mobility side, you've seen the improvements we made in the consumer business in the last few quarters as well as the steady growth that we've had in the business part of the B2B space. And then on broadband, steady growth, both in Fios and in fixed wireless access. We have over 3 million fixed wireless access subs in our base right now. So we're very pleased with the progress there.

And then the early adoption and early leadership on private 5G networks. We've signed some deals, as we've talked about previously with the NFL Cleveland Clinic and BlackRock and see good adoption there. And then in turns in diving down into my priorities, I have 3 of them. First, support the leaders in the business and continue to narrow the focus and make sure we're focused on operational performance and execution. I think you've seen the results here in the last few quarters of 2023. The second priority is to deliver on our 2024 guidance and ensuring that we set the company up for growth ahead. And then my third priority is to execute on our capital allocation priorities and those four capital allocation priorities remain unchanged. So that's how we think about the priority setting up for '24.

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

Great. Great. And just on the guidance, how are you thinking about the macro environment as a backdrop here?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Sure. So in terms of the macro environment, we see very steady payment trends in both consumer and business. Our accounts receivable aging continue to be strong. I would say the payment activity is very much back to pre-pandemic levels. As you know, our customer base is very strong as evidenced by our ABS filings and FICO scores averaging 724. We're not immune to any sector pressures that we might see in the B2B space. So we always keep an eye on that. But overall, very stable payment activity across the base here and something we continue to watch.

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

Great. So let's dig into the consumer group, if we could. I think this time last year when you were all here, you've just gone through the recent management reshuffle. So there was a lot of -- this is what we think we can do. And consumer has been a drag for a few years, but it looks like things are turning a corner and you guided to positive consumer adds on the wireless side for 2024. So could you just help us unpack what's different this time?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Sure. So Sampath and I are very aligned on operational performance and execution and we made 3 big changes last year. Sampath and the team executed 3 changes. One of them being the introduction of myPlan pricing, and that was a complete refresh of our go-to-market, gives customers choice that gives them flexibility to choose the network experience that they want and the perks as well and the perks give great value. And it also gives us flexibility to evolve the platform as well. And I think you saw that with the Netflix and the Max bundle that we put out in the fourth quarter. So that was the first the big change.

The second one was, back in the summer, we moved to a market structure in terms of operating the business, and this is how we historically have run Verizon Wireless for many, many years. So it's a model we know how to execute. So it's something we're very familiar with, and we made those changes. There are a lot -- it allows us to be a lot closer to the customer, which is extremely important, and it allows us to do local offers and local activations. So something that we're very pleased with.

And then the third big change that we made, and this was in the fourth quarter, was moving our sales compensation to individualized sales comp and this is historically how we paid for sales performance. So we did that just in time for the holiday season, and that's moving along as well. So those are 3 big changes that were put in place in the last 9 months or so, and they're all up and running right now.

And it gives us a lot of flexibility to run the business where we can be more agile, make decisions much quicker, and also pivot as well if we see market conditions change, for example, whether we decide to pursue either gross adds or retention, we have the ability and the flexibility to do that. So it's a model that we know how to run and very pleased with the progress thus far.

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

Great. And I think in the fourth quarter, was gross adds up 17-plus percent. Can you sort of disaggregate that? Or what do you think where -- you talked about higher close rates, but of these items, what were the most -- the biggest contributors?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes, obviously, we're seeing -- with some of the changes we've made in the operating model. We're seeing better execution in the stores and better execution overall, a lot more local focus, which is extremely important. As you mentioned, we saw 17% gross add growth in the fourth quarter, 10% for the full year. Obviously, these changes had a lot to do with it. We said in the fourth quarter that our offers resonated in the market and you saw that in the performance as well. So it's a combination of the offers that we had in the market and also the execution muscle that we continue to build in the business. And we were very pleased with the performance in the fourth quarter.

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

Great. So you talked about changing the market structure. Perhaps you could just unpack that for us a little bit. What does that mean in practice you're going to a certain number of regions and the ability to move away from a one-size-fits-all and just give us -- because I think people think of Verizon as being the market leader, but as we were talking about last night, there's a lot of areas where you see share gain potential.

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes. So some of this started with the network organization actually and Kyle who was running the network team moved that organization into a market-based structure. Again, regionalized local in the field. And then when Sampath came in and took over the consumer business, he kind of mirrored the market structure. So the sales team and the network teams are together in the field and what might be happening in one geography in terms of execution, in terms of where we see demand and market share and whatnot, might be different than what happens in a different geography in the country.

So it allows us to be more tailored to what's going on locally as opposed to running the business from the mothership in Basking Ridge and doing kind of a one-size-fits-all view of offers, which really didn't work for us. So this is a lot closer to the customer. And like I said before, it's a model that we've known how to execute for many, many years.

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

Great. And on myPlan, with -- I think it was May of last year was that it came out. So with 3 quarters under your belt, how has the plan resonated? What's the adoption? Like has it kind of addressed some of those premium pricing concerns that you identified?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes. So myPlan, we're very happy with the progress. As you mentioned, we launched it in May. We have over 13 million subs now on myPlan. That's roughly 18% of the base. So we're seeing really good progress there. The premium mix of customers coming in, myPlan is still very strong. The majority of customers are taking a premium plan with myPlan. So that's really good. We also see improved ARPA year-over-year. The incoming ARPA has also improved with myPlan. So all that's moving in the right direction.

And as I said, it gives the customer a lot of flexibility to choose their network experience and then to choose their perks. And like I said, we were able to swap perks in and out. You saw that with Netflix and Max bundle. And it also has given us a lot of flexibility to evolve the platform. Last summer, we launched the ultimate unlimited tier in there as well. And that was something that we were able to do because the plant has a lot of flexibility in it.

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

Great. So overall, you had a good fourth quarter, but the industry had another strong quarter, sort of defined the predictions that things would slow down. How would you characterize the competitive environment in the marketplace right now versus expectations and the ability to continue for the industry to grow at these robust rates?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Sure. So in the first quarter, we see not a lot of change in the competitive dynamic. For us, the shape of the first quarter volumes will be similar to how we have historically performed in the first quarter, seasonally weaker for us. But we think about that from 2 dimensions. First, on the consumer side, we look at the improvement in execution, which, obviously, is something that we're very pleased with, but we also have to work our way through a number of pricing changes that we put in, both in consumer and in business and we said those would put pressure on disconnects in Q1.

So we have to work our way through that. Those items were fully contemplated when we gave the guidance on consumer phone net add positive for the year. So that was something we thought about when we gave the guidance. And the strategy is really clear here. We said that the volumes are important to the business, but we are going to be very disciplined and focused on service revenue, EBITDA and free cash flow targets as we do that.

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

Great. And the industry has been taking some price here for a couple of years now and you've got some proof points here. So do you think there's this ability to continue to take some modest price increases without sort of disturbing the base too much?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Let me talk about it from our standpoint, what we've done over the last few weeks here. So we've done a few pricing changes both in consumer and in business that will provide a tailwind to free cash flow. I'll start on the consumer side. So back in January, we announced changes to our legacy mix and match pricing. It was $4 a line, and it touches roughly 32 million lines or 40% of our consumer base. And that went effective last week in the 1st of March. So that's out there.

And then on the business side, also, we've made changes in our legacy pricing and those changes were announced back in the -- and went affected back in January. So either $3 or $5 a line and also an adjustment to the economic adjustment charge as well. So those are all in the market right now. We're not going to talk about what we might do down the road. And as we've demonstrated, we evaluate pricing opportunities, aligning the pricing with the value proposition for our customers.

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

Great. And we'll come on to fixed wireless in a bit more detail. But what are you seeing in terms of desire for convergence. Clearly, the cable companies have done well in bundling your wireline -- wireless network with their broadband. But from your side, bundling with fiber, bundling with FWA, what's been the learning so far as FWA is now hitting, as you say, $3 million ability to attract new wireless customers and vice versa.

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Sure. We're not seeing a strong demand for convergence at this point, a little less than 15% of our base has a converged bundle, and we know what that looks like in terms of stickiness and churn rates with these products. We've been -- we focus on what we offer to customers, and we think we offer great options. We have great network assets. We've been at this for a long time with Fios, so we know what this looks like.

We also have owners' economics both on wireless and broadband at scale. We don't have any limitations on our offerings. When we say unlimited, we mean unlimited. And we don't do anything like the free lines or anything like that. So we don't do any of those gimmicks, but when conversion happens, we're well prepared. We've been at this for a while.

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

Great. And your -- help us understand how does the company benefit? We don't get a lot of color on your wholesale economics, but just help us with the contribution to the overall business? Because I think in the past, you've said you avoid the SG&A, you avoid the handset subsidy. So that gross margin really drops to the bottom line.

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes. So Simon, I know we've been -- we're pretty limited, and I'm going to be pretty limited on what I can say here. So what I will say is we don't talk about the particular economics of any commercial deal, and that includes the deals we have with the cable companies. What we've said is, we're very happy with the arrangements and those arrangements are accretive to Verizon. They're consistent with our strategy to monetize the network. The base of business is growing and it's very profitable, and we're happy with those arrangements, but I really can't go any further than that.

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

Understood. One of the long continued outperformance has been your business wireless unit, you consistently generated positive sub growth there. And yet AT&T got a lot of scale from FirstNet and you have had some of that business. So what is driving that sustained performance?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes, Simon. So business customers continue to trust the Verizon network and the trusted Verizon network for their mission-critical operations and functions and that we've seen that over and over again. In the fourth quarter, we saw good demand across the board, whether it was a small and medium business, global enterprise or public sector. And we were positive across the 3 customer groups with small and medium business leading the way.

And customers are very happy with what they see, but also we can compete beyond phones, too. And that's extremely important. I think the other thing that goes unnoticed a little bit on the business side is the continued progress of the wireless access. We did over 550,000 -- or close to 550,000 fixed wireless access subs on the B2B side this past year. So continued strong performance and consistent performance from our business customers.

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

And it feels like that's moving beyond the pocket full of food carts or...

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Oh, yes, yes, it is. Absolutely. I mean some of it starts moving into stores or branches, starts becoming less of a backup and more of a primary for business customers. So we're seeing healthy demand there. And that's continuing. And by the way, some of that is continuing also on LTE, too. It's not even on the C-band network yet. So a lot of the growth in the B2B space is actually on the LTE network. When it's on 5G, it becomes even more efficient.

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

And what's the appeal of this product? Is it ease of install? Is it time to turn it up price point?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

It's all of the above. Look, it's very easy to install. You don't need a truck roll, so it's a lot different in terms of speed to get the customer up and running, if not weeks. So that's extremely important. And it's very easy to install. A lot of this is plug-and-play, which is extremely useful for customers. And we've seen good demand thus far and customers like the reliability and the security of having that product.

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

And it's a lighter load on your network, presumably compared to the average consumer FWA?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Oh yes, the usage is much, much lower. Some of it on backup is a very low usage and the profile is much, much different than we would see on the consumer side.

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

Great. So you recently hired a new Chief Marketing Officer. Help us understand Leslie's mandate? And should we be seeing some sort of a new face of Verizon over the coming months here or a new go-to-market?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Sure. So look, the network reliability or the network quality is the hallmark of who we are. Network leadership is something that is core to Verizon, and we'll continue to extend that leadership in the 5G era. And you see what we're doing with the offers we have with myPlan and offering value on America's most reliable network.

And we're very excited that Leslie Berland has joined the team, she'll continue to do the great work and make progress on the work that's already been done, but -- and also continue to evolve the brand and evolve the foundation that we have and the connections and the experiences that customers have with the brand work. So we're looking forward to it.

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

And do you see an opportunity to kind of go down the age cohorts a little bit more to -- and use digital channels more effectively to reposition the brand perhaps too younger. Because when I do the kind of the age demographic, you tend to skew older higher income perhaps than some of your competitors?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes. With our market focus, we'll continue to segment and be targeted in our approach. And you see that, and we have the agility now with the structure that we have to do that. So -- and you'll continue to see us doing that.

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

Great. I know Sampath is focused on turning prepaid around. It's taken a little while here. You do have some traction with Visible in Total by Verizon. Help us just what needs to happen to get that back to sort of breakeven. And I know the whole prepaid market is helping fuel postpaid, but it's been tough.

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes. And I mean we have work to do there. There's some structural shifts there that we're working through. Obviously, you mentioned the pre-to-post migration being one of them. The second one being the shift to more exclusive distribution. And the third being the uncertainty with ACP. So we're playing through a few of those things that are impacting our business. Sampath and the team continue to make progress on the integration. I think the focus here is around scaling distribution with Total by Verizon, and we opened about 700 distribution points last year, and we continue to make progress there, and we'll continue to scale distribution with Total by Verizon.

And then on Visible, that's a digital-only brand, and that also continues to grow, and we're making, it's got attractive price points and low cost to serve as a digital platform. So we're making progress there. But the thing you'll see in the prepaid business as Sampath and the team spent a lot of time and a lot of rigor rightsizing the postpaid business, and you'll see that same rigor as we focus now on the prepaid business and setting ourselves up for improvements later this year and into next year.

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

Right, you brought up ACP. What is the latest you're hearing from Washington on that? And if it did go away and we saw the FCC public notice yesterday, what's the impact on Verizon?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes. So when we gave the guidance at the beginning of the year, we assumed that the ACP funding would stay intact. Assuming that it goes away, the team has a plan for that if and when that happens. We've said previously that the impacts are in our prepaid business. And what we said was we have about 1.2 million subs in our prepaid business that avail themselves to ACP that's less than 10% of our prepaid business. On the postpaid side, we said the impacts were pretty minimal, both in mobility and Fios. The impacts we would see mostly are on the service revenue side. The margin impacts are very minimal from ACP. It's obviously something we're going to continue to watch, but Sampath and the team are ready if we need to pivot.

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

Okay. Great. You brought up private networks earlier. I know going back a couple of years, there was a lot of excitement about the opportunity to kind of bend the revenue curve with some of these enterprise applications. It does seem like there are green shoots there, but it's taking a while. And so when you see the business plans, when do you think there's really a materiality coming from some of these initiatives?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Sure. So we're starting to see traction with private networks. As we talked about last year, we signed some big deals with the NFL, the Cleveland Clinic and BlackRock and more recently, with Audi and the NHL. So we're seeing good adoption. Customers that have private networks like the service, they like the speed, the reliability of the security.

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

This is upgrading from a Wi-Fi.

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes, this is upgraded from a Wi-Fi. So it's a -- it starts with a Wi-Fi replacement, but we can add to it with things like robotics and automation and customers that have the services, like it and in some cases, have asked for additional installations. So that's all positive. But still early days. I mean we don't expect significant revenue in 2024 for private networks, but we do see a good funnel and good adoption thus far in setting ourselves up in the future.

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

Great. Coming back to fixed wireless, you have long-standing guidance of 4 million to 5 million subscribers. As you said, you're already at 3 million, you're adding 350, 400 a quarter. So you're going to be -- by the end of '25, you're going to be well above on that trajectory of that 5 million. So help us understand the sustainability of this and how we should think about that in the context? You haven't withdrawn the guidance, I don't think or replaced it. But what's the opportunity here for Verizon because you must be getting some pretty healthy market share in some of your earlier FWA markets, suggesting there's a lot of potential still to go.

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes. And the goal, Simon, is with FWA is to build a long-term sustainable business with a lot of runway. So as you said, we have 3 million -- a little over 3 million subs in our base and well on our way to the 4 million to 5 million target by 2025. And if you do the math, we're well ahead of schedule there. We're not going to provide new targets. So what we said is that once we get inside the 4 million to 5 million, we'll update everyone on what that might look like in the future.

A couple of points I would make. First, our internal targets are much higher, as you can imagine. And also the network team is way out in front of the capacity needs here for fixed wireless access. So they're engineering the network way out in advance of the demand. So we like the shape and the growth that we've had and the consistent pace of growth that we've had, and we'll see where it goes. But we feel very good about the adoption of fixed wireless access and the customer uptake.

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

And so how do you address the criticism that fixed wireless in a world of more and more streaming, more and more usage is just going to congest your network and the product essentially has this sort of small window of opportunity, but ultimately, fiber wins. And I know you're a big fiber player in real.

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

So sometimes we laugh because we've been at it with Fios for 20 years. So we know what a usage profile looks like for Fios subscriber. And you may have seen we put out a connections report recently, and we've outlined what the usage patterns look like for both Fios and FWA. And a Fios user is a little over 600 gigabits a month, and FWA is right behind it in a little bit over 500 gigabits a month. So we know how to manage capacity in the network. We've been doing it for 20 years, and our engineers are in the best in the business. So they know how to manage capacity. They know how to stay out in front of the demands, but we know what it looks like. And that's extremely important in how we think about the capacity needs down the road. And if we have capacity issues, that might be a high-class problem at the end of the day, and we have ways to deal with that if that comes to pass, and that would be in that we're really successful.

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

And I think that the traffic peaks are complementary, right, for fixed wireless on your wireless network?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes. So if you think about mobility peaking during the day and fixed wireless peaking at night and in the evening hours. And similar to -- fixed wireless similar to home broadband, you see peaks in the evening. So we know what that -- what the shape of that usage pattern looks like and the network team is well on top of that.

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

And remind us of what you're seeing in terms of NPS scores versus your own fiber product versus some of the cable competitors, et cetera?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes. Look, the -- our NPS scores are right up fixed wireless access. Customers that have the product, love it. And like I said, it's very easy to install, to plug and play, and you're up in a few minutes, which is great, and it serves as a great home broadband solution, and we're very pleased with what we've seen thus far. And also, we're very pleased with the traction we've seen on churn as well.

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

Great. So I think on -- coming back to Fios, you still have some opportunity to continue to expand the footprint there. What are we looking at 400,000 or so this year?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes. So we did a little less than 500,000 last year. And for this year, we said 400,000 plus for Fios. So Fios continues to grow. We saw almost 250,000 Fios Internet net adds this past year. So we're very pleased with the product. Obviously, it's the gold standard from our perspective. And like I said, we've been at it for 2 decades. So the quality and the reliability of the Fios product is second to none.

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

And how many of those customers coming in are taking a voice line, taking a video line where -- or they're bundling with YouTube TV or something?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes. I mean we're indifferent on the video, whether it's a YouTube TV or they take the video product and the connection is extremely important to us, and that's what we're focused on.

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

Great. And how does BEAD look to you?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes. So with BEAD, we look to bid on broadband funding where it makes sense to do so, and you see us do that in our ILEC footprint where we already have facilities. And we're doing that where it makes economic sense to do that. You're not going to see us bid outside of footprint. We'll look to see whether and work with us day to see whether fixed wireless access also might play a role in addressing either unserved or underserved areas as well.

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

Okay. So you might knock fiber out of region, but you might with that does seem like for these high-cost areas that might be a good solution, although fiber seems to be still the DC's preference.

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes. And like I say, we'll do that appropriate.

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

Great. Help us with the trends in business wireline and to what -- at what point do we see some moderation of some of the pressures there? I know some of that is going over to your business wireless. So it's a little bit of a 0 sum on that side. So it's -- you're winning it back there. But any sense that we're through -- or when are we going to be through some of these big MPLS and other kind of headwinds?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes. So we're still working our way through the headwinds in the business wireline space. We still see high single-digit declines there. So I would say nothing new as customers continue, as you mentioned, transform their networks. Kyle and the team continue to focus on removing legacy products and solutions off the platform as well as focusing on deemphasized -- writing business and focusing on deemphasizing low-margin deals as well. So we're trying to be very disciplined in that space.

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

And anything on lead-sheathed cables, any kind of -- we see the odd newspaper story about that, but how are your conversations with the state PUCs and EPA and so forth going?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes, sure. Not a lot of change there, Simon. What we said previously is we take the matter very seriously, prioritizing the health and safety of our employees and the communities we serve. We've been -- we, as an industry, have been in constant dialogue with the EPA and other regulatory agencies for many months now. There is no change to the stats, the network stats that we provided previously. We said approximately 280,000 route miles of aerial copper cable and approximately 3% of that was lead sheath, and it's a small percentage of our infrastructure. So none of that's changed. We said we stand ready to engage appropriately on testing, and we'll keep everybody updated as we learn more.

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

Right. So early on, you talked about EBITDA and free cash flow. And a big part of that is your productivity initiatives. So you've made a lot of progress so far, but where do you see the big opportunities over the next couple of years here?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Sure. So we gave EBITDA guidance of 1% to 3% growth for the year. And underneath that, there's a number of initiatives on the cost side that we've talked about. First, in our consumer business. On customer care, Sampath and the team are doing a large transformation there, and that got underway last year. Similarly, on the business side, Kyle and the team are focused on the managed services platform transformation with the deal we signed with HCLTech back in the fall. So that's also underway.

And then in our Verizon Global Services team, 3 main areas. First, on the IT stack. We continue to do work there and continue to rationalize the stack. We also see opportunities with real estate and fleet optimization and also opening a shared service center in Ireland. So when you think about all of these items, these items were contemplated as part of the operating leverage that underpins the EBITDA guidance that we gave.

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

Okay. And that's multiyear in terms of...

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Some of these are multiyear, yes.

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

And I know Verizon has been using AI in a number of forms for many years. But how -- over the past year, has Generative AI kind of looked to you in terms of -- I think Hans shared -- frightening stat about how far your data is spread across the organization, but perhaps just share with us what you see from that over the medium term?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Sure. So a few areas that we're using AI today in the network. We analyzed billions of network elements to continue to optimize the network. And then when you think about our consumer business, for example, customer care, helping the reps, serve our customers and making them more efficient, so we don't keep customers on the line for a long time. So that's extremely important to do that, and we can do that with AI. And then also with myPlan, helping customers and making recommendations for customers, whether it's to choose their network option or their perks. So a lot of good areas and early cases for us in using Generative AI and making us more efficient.

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

All right. So maybe if we turn to CapEx and free cash, you didn't give explicit free cash guidance, but perhaps just give us the elements of that and they're in bonus depreciation as a wildcard, if you could.

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Sure. So as you mentioned, we're not going to give guidance on free cash flow, but maybe some of the puts and takes. So on the positive side, we talked about the growth in EBITDA at 1% to 3% was the range we gave for this year. At the midpoint of that range, it's about $1 billion of EBITDA growth. On the CapEx side, we said $17 billion to $17.5 billion of CapEx, and that's down to a BAU level of spend. And if you look at the midpoint of that range versus where we ended last year, that's about $1.5 billion less capital spending year-over-year.

And then from a working capital perspective, we've said that we strive to continue to improve the working capital profile, and you've seen the work we've done on inventory in other areas. Offsetting some of that, we continue to see higher interest expense and up to $1 billion and 75% to 80% of that is a function of lower capitalized interest now that we have the C-band licenses placed into service, and that interest now manifests itself in the free cash flow math and cash flow from operations.

And then from a tax perspective, we said we would see higher cash taxes in 2024, mainly from 2 areas. First -- the first area is related to the tax benefit we took from the spectrum clearing payments that we made last year. We made about $4.3 billion in spectrum clearing payments. So there was a tax benefit associated with those payments that, obviously, doesn't repeat in 2024. And then you mentioned bonus depreciation.

And under current legislation, the continued phase out of bonus depreciation, obviously, will be a headwind as well. We're well aware of what's going on in Washington with tax reform and -- but we'll have to see how that plays out. But nonetheless, we would expect to see higher cash taxes in 2024. And then when you put that all together, the goal here is to continue to generate strong free cash flow and to continue to delever the balance sheet.

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

Sure. Well, let's turn to that. You brought up capital allocation right at the start, just remind us of your priorities here.

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Sure. So we have 4 capital allocation priorities. The first one is to invest in the business, and you see us doing that with our investments in C-band. Our second priority is our commitment to the dividend and putting the board in a position to, once again, increase the dividend this year. Our third priority is a strong balance sheet and continuing to delever the balance sheet towards our long-term goals of 1.75x to 2x unsecured leverage. And then once our unsecured metric gets to 2.25x, we would said we would then consider buybacks. And in terms of our progress thus far, last year, we -- our unsecured metric ended at 2.6x. We made good progress in delevering. We still have more work to do. And really that's my focus in 2024. We have $3.6 billion of unsecured maturities coming due this year, and the goal is to continue to pay down debt in a very meaningful way.

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

Great. And you didn't put -- I guess, it may cover invest in the business, but tuck-in M&A or acquisitions or anything like that, how do you think about the M&A environment. There's obviously a bit of spectrum around perhaps...

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes. Look, we're happy with the assets we have. I mean we're not going to comment on M&A one way or the other. But we have a generational investment in C-band and the team is very focused on deploying the C-band network. So that's really where our focus is right now.

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

And the 17, 17.5 envelope, that allows you to do everything that you think you need to do. There's not a sense of holding back to get to a free cash flow number. Because that's come down a lot, obviously, from your 5G peak, I guess, in '22.

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

It has, and we said we'd get back down to a BAU level, and we know how to manage the capital at those levels. That's an all-in number. When we say 17 to 17.5, that's all in, it includes all of our growth initiatives. So inside of that envelope, you would naturally see increases in C-band spend as we continue to roll out and we said we have a couple of years to go there. We also said that we'll continue to deploy Fios. So we said a little over 400,000 open for sale. And then in terms of what's coming down, when you think about 4G LTE and as we move traffic to 5G, the spend on 4G will continue to come down.

And then with our One Fiber program, that program is coming to a conclusion. So we also expect to see a decrease there as well. But like I said, all in all, that funds all of our growth initiatives. And our engineers are the best in the business in terms of managing capital efficiency. They have a long and demonstrated track record of doing this for our company. So I'm very comfortable with the plans there.

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

How are you thinking about the fixed floating mix. There's hope perhaps that we're close to seeing some reductions in interest rates from the Fed not too distant future. You've maintained this sort of higher than some of your peers on floating rate. So what's the opportunity there?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes. So we've had -- our fixed to floating mix has been in place for a decade, and it served us well over a long economic cycle. And as I've said previously, the best defense against an uncertain rate environment is to continue to delever and pay down debt, and that's really our focus. So last year, you saw that we executed a successful $2.6 billion debt tender and the majority of that was floating rate. We'll continue to monitor the market conditions and be opportunistic. But as I've said previously, we don't see any obstacles to paying down debt in a meaningful way this year.

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

Great. Great. And on the cost side of things, just anything, what are you seeing in terms of inflationary pressures, wage pressures, supply chain issues? Is that pretty predictable at this point?

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes. Simon, we're not seeing anything significant in the environment from an inflationary standpoint.

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

Okay. Great. Well, Tony, thanks so much for your time today. We really appreciate it.

Anthony Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Thank you so much.
