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# EDITED TRANSCRIPT

VZ - Verizon Communications Inc at Morgan Stanley Technology, Media and Telecom Conference 2018

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## CORPORATE PARTICIPANTS

**Matt Ellis** *Verizon Communications Inc. - EVP and CFO*

## CONFERENCE CALL PARTICIPANTS

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

## PRESENTATION

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

All right. Well, good morning, everybody. Welcome to day 2 of the Morgan Stanley TMT conference, and it's another exciting day in the TMT world. So a lot going on across the board, and it's my great pleasure to welcome Matt Ellis, EVP and Chief Financial Officer of Verizon, to help us take through the world from Verizon's point of view.

Before we get started, please note that all important disclosures, including personal holding disclosures and Morgan Stanley disclosures appear in the Morgan Stanley public website at [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures) or at the registration desk. So Matt, welcome to San Francisco.

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**Matt Ellis** - *Verizon Communications Inc. - EVP and CFO*

Good morning, Simon.

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

Thanks for coming.

## QUESTIONS AND ANSWERS

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

So perhaps if we can kick it off, can you just talk about the key priorities for Verizon for 2018 and the guidance that you've shared with investors?

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**Matt Ellis** - *Verizon Communications Inc. - EVP and CFO*

Yes. So good morning, everyone. Before I get into answering that question, we've got our safe harbor statements on the screen. We'll be making some forward-looking statements this morning. The full details of the safe harbor are also available on our website and in our SEC filings. So Simon, you asked about 2018 priorities. And I'll really put them in 3 main buckets. The first one, really, is executing on the fundamentals and that starts with network performance. And when you look over the past 12 months since we launched Unlimited, our network team has done a phenomenal job of maintaining the network performance that Verizon customers have come to expect over the years. And if you look at recent third-party awards from RootMetrics and Nielsen and others, you'll see that we continue to be recognized as the leader in network performance. And so very proud of that and that will, obviously, remain a priority for 2018. And then within executing on the fundamentals, the other key piece there is our customer relationships. And again, since we launched Unlimited last year, we've had very strong traction with our customers, strong net account growth, net add growth. And we've seen churn in the 0.7% range for the last 3 quarters and none of us can recall seeing those type of numbers for that type period in the past. So doing a great job of continuing our relationship with our customers. And so obviously continuing that is a focus for '18. The second major bucket in our priorities is delivering on our financial promises. So that starts with delivering revenue growth this year and, obviously, service revenue and the trajectory there is a key part of that. Then as we get down the income statement, you're obviously continuing to drive efficiencies in the business. We're complete rolling out the zero-based methodology this year. And then as we do those things, we'll also



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stay committed to our capital allocation model. So as we do those things, we should produce the financial results. And then the final bucket is really positioning the company for growth going forward, not just in 2018, but for the next 5-plus years. And so I think about what the team's is doing in Oath as we're consolidating those legacy platforms in the AOL business, in the Yahoo! business and so getting those together such that, that business is on a good run rate by the end of the year and heading forward. And then, obviously, it's 2018. It's -- 5G is here. We've moved from 5G being -- we've got that new technology we talk about, but it's still over the horizon to now it's in the field of vision. And later this year, we will have commercial 5G offering in the marketplace. So those are the 3 major buckets as we prioritize 2018: executing on the fundamentals; producing financial results; and position the company for growth.

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

Verizon was one of the big beneficiaries of tax reform, given your high capital spending and your U.S. domicile. Can you just talk through the benefits from tax reform and what you expect to use the cash flow for?

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**Matt Ellis** - Verizon Communications Inc. - EVP and CFO

Yes. So we believe that tax reform will have a positive impact on our 2018 cash taxes in the \$3.5 billion to \$4 billion range, versus what we would have expected to pay under the previous legislation. So a couple of things we've announced already. We've said as the company benefits from tax reform, we believe our employees should benefit, too. So we've granted some restrictive stock to a lot of our employees, so as the company benefits they can see some upside as well. We also announced some additional funding to our foundation. And in the next short period, we'll see some announcements about how that will be deployed. But obviously, the major part of the cash benefits still comes through and just like any other cash flow, as we think about how we deploy it, we go through our capital allocation model. And that focuses on investments, return to shareholders and strengthen the balance sheet. So as I look at each of those, starting with investment, and I think about our CapEx plans for 2018, we say we expect to spend \$17.0 billion to \$17.8 billion in CapEx this year, and those plans are pretty much set. And there's a lot of discipline about the way we deploy capital, the way, especially, on the network side. And so immediately just changing that, we don't believe we could do in a fashion that would ensure we efficiently spend that money. So we have our capital plan for '18, we're in the process of executing that. Now as we look at '19 and beyond, if we see projects that have a strong return as we get into 5G, for example, and we get proof points around a lot of the assumptions in our models and we can demonstrate a return, we are perfectly happy to bring forward CapEx from future years into '19 or '20. So if we have an advantage in 5G that we can maximize the advantage we have in the marketplace. But if we see that opportunity to do that, we'll come back and discuss it with everyone and explain what we're doing. So we'll see how the year goes before we get there. But in terms of 2018, the CapEx plans are pretty much set and the team is just now focused on executing against that. The second piece of the capital allocation model is returning value to shareholders. The board has increased the dividend 11 years in a row now, and tax reform certainly means that we look forward to putting the board in a position to keep that streak going later this year and expect to be in a position to do that. And then the third piece is strengthen the balance sheet. And look, when we did the Vodafone transaction a few years ago, we made statements and commitments around where we wanted to get back to in terms of a credit-rating profile similar to what we had prior to that transaction and (inaudible)

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

The high ones leverage ratio?

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**Matt Ellis** - Verizon Communications Inc. - EVP and CFO

Yes. You are in that type of range on a GAAP basis. Obviously, we look at it more from how the rating agencies look at it. So they'd throw in pension and other things, too. But you're in that type of ballpark. And so there's are few points to improve, but -- so we'll take a large chunk of the benefits of tax reform this year and use it to strengthen the balance sheet and that will have us on trajectory to get closer to that -- making that commitment.



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

Great. So let's dive into wireless a little bit more.

**Matt Ellis** - Verizon Communications Inc. - EVP and CFO

Yes.

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

You talked about the Unlimited and I think -- as you mentioned the network's held up well, but the surprise, I think, for a lot of people has been -- the churn has been so good and seems like customers were really receptive to -- you're working through the -- a lot of the kind of repricing the base or whatever the optimization has happened. But reflect just on last couple of months, quarters, the -- it seems like the overall industry growth has actually accelerated. We have had -- phone adds were up, I think, 40-odd percent versus a year ago. And we've also seen a relative calm over the industry in terms of competitive activity, certainly, compared to couple of years before, even though we still have 4 players in the marketplace. So how are you seeing the sustainability of this environment and Verizon's ability to continue to sustain and grow share?

**Matt Ellis** - Verizon Communications Inc. - EVP and CFO

Yes. So as you say, when we launched Unlimited, what we saw was as soon as we had a comparable offering the marketplace, when people would say, okay, it's an unlimited product from Verizon, it's unlimited product from the other guys, now I can just look at the price difference and the quality of the experience difference, we immediately saw a benefit to that and our results over the last 3 quarters of 2017 really demonstrate and that strong churn number you mentioned very strong. So despite all the noise that we hear in the marketplace, network performance does matter, and the experience customers get on the Verizon network, we believe, continues to be a superior experience and there is a noticeable difference and we see that confirmed in a lot of the third-party studies as well. So that continues to be the bedrock on which we compete. Now as I look at the competitive environment, I think over the last 3 to 4 years, the competitive environment has waxed and waned over different time periods. Fourth quarter of '17 was a quieter period, certainly quieter than fourth quarter of '16. I would say, since the start of the new year, we've seen an uptick in some of the promotions in the marketplace, but in line with the upper and lower bounds of what we've seen over the past few years. So first quarter is always a low-volume quarter as well, but I don't think volumes pick up later in the year. So let's see how it goes. I think there's still room for growth in the industry. And then obviously, we're excited as we make the step from 4G to 5G as well. But it's a competitive marketplace, and I think we've shown that we can do just fine in that marketplace and produce strong results and good performance for our customers as well.

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

And the service revenue, it improved second half of the year and you see that turning positive mid-year?

**Matt Ellis** - Verizon Communications Inc. - EVP and CFO

Yes, yes. Certainly, when you ignore the impacts of the new revenue recognition standard. And so because of the way we've adopted that, when you compare '18 to '17, it's not on the same basis. But when you ignore that, yes we expect to be back for service revenue, positive by the middle part of the year. As you look at how you get there, so the real big driver of this is the change and completing the change from the subsidized model to the unsubsidized model. And so at the end of the fourth quarter, we had 80% of that base now on the unsubsidized model. And so that's largely completed. There's probably a few points still to go there. But the B2B part of that base is still largely subsidized and that's not changing at this point in time. So we'll get into the low 80s percent, but we're already 80% today. So when do you think about the year-over-year service revenue growth, you look at the year-over-year change in that base on the -- on unsubsidized and that's narrowing. And you saw as those year-over-year percentages narrowed, the service revenue gets better. So we improved to 5.1% -- negative 5.1% in third quarter, negative 2.9% in fourth quarter. We saw service revenue improve sequentially third quarter over second quarter and fourth quarter over third. So as we head into the first quarter,

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we see the continuation of that. Adding new accounts as we've done since we launched Unlimited is important. Obviously, keeping customers with low churn and then the stabilization of the ARPU as well. You bring all that together and you have the path to the service revenue getting back to positive around the middle part of the year, and we'll go forward from there. So certainly, a much different picture in '18 than '17.

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

Good. You talked about the network quality holding up. I think this time last year there was a concern if you looked at Verizon on a spectrum per subscriber base of that you were in a weaker position than some of your peers. But you talked about the densification, but help us understand how you think about the CapEx versus spectrum in terms of presumably this growth is going to continue over time?

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**Matt Ellis** - Verizon Communications Inc. - EVP and CFO

Yes, yes. I think people have that concern about our spectrum per customer for more than just the last year. And yet the network continues to perform better than anyone else's in the marketplace. So that's really a testament to the job that the network team does. As you think about how we deploy capacity, because that's ultimately the question? There's really 3 ways that we add capacity to the network: technology; the architecture of network; and also spectrum. So the technology has taken a lot of the features in LTE that exists and can be deployed. It's a very different network today than it was when we first deployed it 6 or 7 years ago. We've deployed carrier aggregation, 4x4 MIMO, 256-QAM, getting into massive MIMO and other features. And as you deploy these, they make the LTE network more efficient. You get customers on and off and their data session's faster, it creates more capacity in the network just by adding those technological features. And so we deployed a number of those software updates across the network last year, certainly in the back half of the year and you will see that show up in the speeds that were coming across the network at the end of the fourth quarter and as we come into first quarter this year increasing. So you got the technology piece. Then the architecture, and this is densification. And we talked about this when we came out of the AWS-3 auction, there's a price at which it makes more sense to add capacity by densifying the network, putting in small cells, than buying spectrum. And in some markets in that auction we crossed that threshold, and we say if we can add capacity through densification and we've been doing that for the past 4, 5 years now. And the great thing about adding capacity for the 4G network through densification is we knew that 5G was going to be millimeter wave, spectrum-deployed technology. And so as we've architected the densification for 4G, we've also done it in a way that's prepositioning the foundation of the network to deploy 5G as well to create the efficiency in the capital there. So we will continue to densify for 4G and in the final piece of spectrum. And we like spectrum, we think spectrum is important. When you look at the spectrum we use today, our (inaudible) midband and low-band spectrum, we use in just over half of that in our LTE network. So the AWS-3 spectrum will get turned on this year. The network elements have been -- being deployed with it in, there are now handsets coming in to the base and so that now gives us the opportunity to turn that on this year. And then we refarm the 850 and PCS spectrum as we get customers migrating off of 3G and 1x calls and everything else. We can refarm that spectrum, too. So there are significant ways for us to continue to add capacity to the LTE network. There'll be continued technology advancements in 4G. We'll continue to densify and we still have spectrum to deploy. So we should expect to see great performance on that network and then as we get to 5G, you get customers taking traffic off of from the 4G phone to the 5G phone that will add further capacity on the LTE network, too.

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

Okay, great. And you're the only one of the big 4 that doesn't have a video offering bundled with your wireless service. I think you've talked about looking at some of the different alternatives on the streaming side of things. So what we should be looking for in 2018 there?

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**Matt Ellis** - Verizon Communications Inc. - EVP and CFO

Yes. So we also have the lowest churn. So what that tells us is, customers fundamentally value the network performance versus other things that you might bundle into the overall offering. That's not to say they don't value other things, but if you don't have underlining good network performance, the value of those other offerings is not as robust as it otherwise could be. So we've -- we continue to look at the OTT space and is that something we should have an offering in? Or should we deploy somebody else's product and bundle it in? And we continue to look at that, nothing to update on it at this point in time. But we will continue to look at that and find a way to deliver something that matters to mobile



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customers. We have a video offering in fixed today in Fios, right? So we know have to deploy a video offering to customers. When we find the right offering for a mobility use case, then we'll move forward.

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

Great. All right. Well, you've talked on -- about 5G a few times and I think Verizon's got a history of leading with technologies, but I think a lot of the questions we get are how serious are you? How committed are you to this? And will it work? You've obviously got some significant trial results, but will it work both in the technical environment, but also in a commercial environment? So help us think through where this sits in Verizon? And what makes you so confident about your ability to attack a big town with 30 million households in your initial target zone?

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**Matt Ellis** - Verizon Communications Inc. - EVP and CFO

Yes. So to go back to your initial comments there. We're very serious about it. We're incredibly committed to it. And it, absolutely, does work as we've demonstrated that it does work. And if you're reading any of the articles coming out of Mobile World Congress in Barcelona this week, I don't think there's anyone over there who questions, does it work. And look, actually, I sympathize all little bit with all of you who have followed us in the space over the past few years because you've heard all these different messages for our 5G from various people. I would say, we're the only ones that have had a consistent message out there. But it's been confused in all the noise that you've heard on this. We were very confident from the get go, that's why we formed an alliance with network OEMs such as Samsung and Nokia and Ericsson. We worked with a couple of other carriers in Asia, and really pushed this ecosystem because we felt that 5G was real. It was going to bring step-change functionality over 4G. And if we had the right people pushing for it, it could be delivered in the timeframe we're now talking about it being delivered in. Here we are and that's happening. So we are very excited about being at that point in time now. If I go back to fourth quarter of last year, we had 2 important things. Firstly, on November 29, we announced the results that we've seen from our precommercial trials. This is where we have taken the technology out of the lab, out of kind of field type tests and actually gone into 11 different cities around the country with different topographies, dealing with different geographical challenges, and using the millimeter wave spectrum. And working with real consumers with CPE in their houses and delivering that -- demonstrating that we could gigabit speeds on the millimeter wave at 2,000 feet and beyond. And that was very important for us to see.

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

And not necessarily direct line of sight?

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**Matt Ellis** - Verizon Communications Inc. - EVP and CFO

You do not need direct line of sight. We've demonstrated that. I think others have now demonstrated that, too, that the millimeter wave is more robust in real-world environment than people were concerned it wouldn't be. So again, one of those other messages and you've all been exposed to over the past 3 years, oh, millimeter wave will never work in the real world. Well, it does. And we've demonstrated that, and we'll be deploying that later this year. So the first of those things in the fourth quarter was our announcement on November 29. And then towards the end of December, we had the 3GPP announce the Global 5G standards. And that was important because that now allows the ecosystem to accelerate. And you've already seen the chip -- the number of the chip manufacturers announced that they will be printing 5G chips in 2018. They were holding off on doing that in scale until they had a global standard. We now have it. The ecosystem will now develop quickly here. And we're at this point because, as I say, those -- us and those other companies that we've worked with over the past 4, 5 years have really pushed us to this point. And so we're now talking about deploying that technology and all the benefits it will bring over the next few years.

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

Okay. So I think we're still looking for clarity, I guess, on the pacing of your deployment. So what are the milestones that we should be looking for that you're looking for in the next few quarters? I assume you'll give us a couple of more cities before you actually launch them. Maybe it becomes obvious and then roll out X number of households this year and then give ample (inaudible) next year and get some empirical results?



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**Matt Ellis** - Verizon Communications Inc. - EVP and CFO

Yes. So we launched in 3 to 5 cities this year, as Sacramento, obviously, one of those we've announced, and we'll announce others as we go forward. One of the important things around those 3 to 5 cities is we're deploying those cities using the proprietary standard that we developed a couple of years ago. And it was important that we did that because it pushed the ecosystem along, it pushed the global standard bodies to move faster on 5G than they probably otherwise would have done. It also allowed us to get the product out into the field where we could test it. And so we've got a lot of experience now using the technology in the field. So as we deploy this year in 3 to 5 cities, it's going to be using the proprietary standard in both the radio heads and also the CPE equipment in the customer homes. So 3 to 5 cities gives us the chance to get started to have a commercial offering out there, to experience the amount of self-install customers can do and how much we'll have to send a technician to help set up and all those things. But it also doesn't mean we put a massive amount of capital into deploying our propriety-standard technology and then we have to transition over to the global spec. So we will get the product launched this year. It will be low of value we'll get out of doing that. And then we'll be looking to continue to roll out 5G more broadly onto the global standard. And when you think about the 5G deployment, don't think of it is a single-use case, right? We're going to talk a lot this year about residential broadband because that's the product we're launching. You're building that 5G network not just to provide that use case, because we'll then come out with mobility and then will come out with the IoT, B2B applications and deliver -- using 5G to deliver connectivity for small and medium business, all the smart city applications as well, and they're going to use the same network. I'm not building this network for residential broadband and I've got a different 5G network for mobility and different 5G network for smart cities. It's one 5G network and we can use different slices of that network for different customer bases. And so the efficiency of the network build is going to be very different for 5G as we go forward. Residential broadband is that first-use case. And we think that can be successful as a standalone product. But the fact -- I know of other applications on that network to come means we're very excited as we enter this year.

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

And you mentioned local 5G. When do you think we see 5G in Verizon handsets?

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**Matt Ellis** - Verizon Communications Inc. - EVP and CFO

In a -- in actual smartphone handset?

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

Yes.

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**Matt Ellis** - Verizon Communications Inc. - EVP and CFO

At this point, I would say it's probably in 2019 before we get a smartphone out there. So there's a possibility of some type of 5G mobility device later this year, but I doubt we'll smartphones on the network this year, but look forward to deploying those in 2019. That's what we expect at this point.

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

Great. Maybe we can pivot to Oath -- how's the integration with Yahoo! going? And how should we think about that as an opportunity for driving revenue growth at Verizon?



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**Matt Ellis** - Verizon Communications Inc. - EVP and CFO

Yes. So the integration is going well. The team has done a lot of the organizational integration. They got that done very quickly and that's now largely complete. And -- so now the focus is on really integrating the platforms so that as you go out there to consumers and you got out to advertisers, they see that one platform that's -- one set of platforms that's got a 1 billion users on it versus multiple platforms that they have today. As we do that, we think that's speeds up the flywheel here with digital advertisers. The focus for the team is, we now have a large base. There's only 3 digital companies that have 1 billion-plus monthly active users and Oath is one of those. So we now have a large base of consumers that we interact with on a regular basis. So now the question is, how do you deepen that relationship with those consumers? And that's what the Oath team is working on is increasing the number of minutes every day that consumers are interacting with our platforms and our properties. So that's why activity -- like the NFL transaction, the NBA transaction where we bring in the mobile digital rights, we can put it on that platform. It's a type of compelling content that brings consumers in and then you add other content around it that keeps them on the platform and then that's going to make it interesting for advertisers to come to and that's really the focus of that group this year.

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

Okay. And you mentioned content there. Should we expect significant additional investment in content over the coming year or 2?

**Matt Ellis** - Verizon Communications Inc. - EVP and CFO

Yes. We're focused on having the digital distribution rights as opposed to owning underlying core content at this point in time. There's obviously a lot going on in the content space, and we feel just being the distributor of content rather than an underlying owner of content is the right approach for us at this point in time.

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

Great. If we turn to your wireline business, there's some secular headwinds, but at the same time the economy is pretty strong. I mean, you continue to have competitive -- very competitive product in Fios. How should we think about that business and your ability to kind of keep it fairly stable over the next couple of years?

**Matt Ellis** - Verizon Communications Inc. - EVP and CFO

Yes. So the Fios business is a very good business for us. There are some secular trends going on, but as I think about it, the broadband side of that continues to grow. We're above 40% penetration on broadband where we have Fios deployed. And some of those open for sale are very new, so I expect that number to continue to increase over the next couple of years. As you say, there's some secular trends there that you see in our video numbers. So I would expect to see those recent trends to continue. That doesn't hurt me from a margin standpoint because for a lot -- as you've seen content cost increase. So if a customer decides to cut the cord on the video piece, I'm not getting the video revenue anymore, but I also have a significant cost component that goes away too and when those customers decide to cut the cord and rely on OTT for their video entertainment, the quality of their broadband connection becomes even more important. And there isn't a better product out there in the wired space than fiber-to-the-home. So we think that Fios where we've deployed it will continue to resonate very strongly. And then we continue to manage the cost side of the Fios business. And the team's done a great job of taking cost out of the business over the past few years. It really -- the step-change last year in reducing the number of times customers' needs to call us to do things and the ability for customers to self-serve a number of those things through the app rather than calling up is a great example of how we -- just 2 things: to take cost out of the business; and actually customers are happier typically taking care of those things themselves. So it improves customer satisfaction, too. So at the same time that we continue to grow broadband penetration, we continue to improve the cost efficiency of that business, too.





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

Well, that's a good segue way to the zero-based budgeting approach. Perhaps, for people that aren't familiar, we talk about the program and \$10 billion over 4 years. How much of that actually drops to bottom line versus getting reinvested?

**Matt Ellis** - Verizon Communications Inc. - EVP and CFO

All right, yes. So the \$10 billion, just to be clear, it's \$10 billion of cash outlay reduced. Whether that cash outlay gets treated as CapEx or OpEx and it's a cumulative number over the 4 years. The thing with zero-based budgeting, what it forces you to do is to not do the normal review each year of, okay, last year I spent 100, next year is plus or minus 2% or whatever it is. You actually go back and say, just because I spent 100 last year, why do I have to spend on anything as I go into next year. You just have to justify each line item. And it forces people to think about how we run the business to achieve the results we want to achieve. And so it's a really good exercise to do and make people just not be on autopilot about how we do things. And so we expect that's going to have a significant change. So we're in the process of deploying it right now, already starting to see savings come through as we ask those tough questions around why do we do things the why do we do. And so I expect that's going to have significant benefits. Optimistic, what we've seen so far. In terms of the benefits, you're right to think that not all of the benefits will fall to the bottom line. One of the reasons for doing this is to make sure that as we have opportunities to grow, we have the resources to invest in those growth opportunities. And so I'll be very disappointed as we achieve those savings that people aren't coming to me with opportunities to reinvest those savings in the future growth of the business and create long-term shareholder value as a result of this -- as a result of doing zero-based budgeting.

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

Great. Okay. Well, let's open it up to the floor. We've got time for a few questions here. There's microphones on the back, I think. Okay. We have one.

**Unidentified Analyst**

A quick question. A few weeks ago, President Trump mentioned about rolling out possible 5G network here in the U.S. Just wanted to hear your comments on that. How serious that idea is? Or is it just the tweet of the day?

**Matt Ellis** - Verizon Communications Inc. - EVP and CFO

Yes. I'm assuming you're referring to the -- a government-run 5G network? Yes, that was a surprise on a Sunday evening when that story broke. All right, look, I don't think -- if you've seen the response from a lot of the other folks in various government agencies. So that's not something that is really front and center. I think everyone recognizes the importance of being competitive in 5G. And we are very focused on that and the way we're deploying it. And I'm very confident that we could deploy a 5G network a lot quicker than a government-run network will be deployed. So -- look it's -- we continue to work closely with the folks in D.C. I don't expect that to go anywhere and it certainly doesn't change our thinking on 5G at this point.

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

One over here.

**Unidentified Analyst**

Do you have any concerns about the cable operators rolling out millimeter wave services to edge out their service areas? Thus making -- sort of blending the competitive field between you guys?



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**Matt Ellis** - Verizon Communications Inc. - EVP and CFO

I'm sorry, I couldn't hear that, can you turn the volume up a little bit?

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**Unidentified Analyst**

Sure, I'll try it again. Do you have any concerns about the cable operators using millimeter wave technologies to edge out their service areas and thus reforming a less differentiated market between you guys?

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**Matt Ellis** - Verizon Communications Inc. - EVP and CFO

Look, I assume a number of other people will deploy 5G technology and have different service offerings with it. And just like as we go into 4G, look forward to competing with other people in 5G. I think we're going to deploy first. I cannot underestimate the benefit of our engineers having spent the last couple of years working with millimeter wave in real-life environments versus what basically everyone else has been doing. So I think we have a head start in 5G. I think we'll be deploying it before other people do. You'll see all sorts of marketing messages about people claiming what they've done first, and we'll work through that over the next year or so. But we are focused on deploying 5G in a fashion that truly delivers all of the benefits of the 5G technology. And others will, I'm sure, be doing similar things, but just by previous generations. I'm very confident and looking to compete.

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

I presume if you go into market like Sacramento, you've already got a lot of wireless stores in Sacramento. You have a lot wireless customers in Sacramento. So you're -- that's going to be a head start for you.

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**Matt Ellis** - Verizon Communications Inc. - EVP and CFO

And that's a good point, Simon. I mean, when we launched the 5G residential broadband product in those 3 to 5 cities, and Sacramento is a good example, it's not like we're going into that city as a cable overbuild and having to create customer relationships from scratch in that geography. We have over 100 million Verizon Wireless connections across the country. So we have a significant number of Wireless customers in Sacramento, for example, who already know us, we already know them. We have those points of distribution at the retail stores and everything else. So it's not like as we go into those geographies, we're not known in that geography. So our ability to quickly deploy is certainly a factor in how we thought about doing this.

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**Unidentified Analyst**

Well, maybe a related question to that, just -- we got a lot of questions about the cable MVNOs into the wireless business generally, and what are you seeing so far? And how do you think about it from Verizon point of view given that you also have the MVNO relationships?

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**Matt Ellis** - Verizon Communications Inc. - EVP and CFO

Yes. We've been in the wholesale business for over 2 decades now. And we've -- I think, every wholesale arrangement we have has been good for us. And the MVNOs -- sorry, the MSOs wouldn't treat any differently. I think the way the arrangement with Comcast has gone so far is in line with expectations. I assume we'll see Charter do something later this year and we'll see when they come out with that. But -- so yes, they've certainly picked up customers as we expected. But we pick up a good amount of wholesale revenue, if they do, then not every one of their customers was a Verizon retail customer. And as long as that ratio of customers they pick up to the number that came from Verizon stays in line with where we expect it to, net-net we're better off collecting that wholesale revenue from all their customers and only a fraction of them have been originated

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from us. So we expect them to continue do things with that relationship, but it continues to work very well for us, and I'm not expecting to see anything different.

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

One last question, yes.

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**Unidentified Analyst**

Just on 5G, can you talk about the sort of spectrum band opportunity for fixed versus mobile, high-band versus mid-band, there will be some more mid-band spectrum coming into the market and will that be interesting for Verizon to leverage another 5G applications beyond what you're doing at high-band on the fixed side? And specifically, with Dish, I'm just curious, is there an opportunity maybe to leverage their spectrum and integrate that into your network over time, because they seem to be moving down the path towards a build out. But obviously, they don't have any network assets there?

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**Matt Ellis** - Verizon Communications Inc. - EVP and CFO

Yes. Look, so I think we've got a good amount of the high-band millimeter wave spectrum right now, like what we have there. Look, as we look at mid-band, there's certainly opportunities to deploy 5G there, but we're looking to find -- you get those 100 megahertz wide blocks of spectrum and there aren't too many of those in lower mid-band. But -- look certainly, as we look at what the FCC will bring to auction in that space, what is available in the secondary market, we look at all of those. And as we said in the past, we like spectrum at the right price. So there's a number of opportunities as to how we deploy 5G from a spectrum standpoint. And we'll look all of those in the months and years ahead and see what makes the most sense. So maybe if I could, Simon, just wrap up here real quick. And I'll just come back to those priorities for 2018 for everyone. And if you think about what we're focused on, it's the executing on the fundamentals, whether that be the network performance and our engagement with our customers. It's -- secondly, it's on producing strong financial results and sticking with our capital allocation model. And then thirdly, it's positioning the company for growth, whether that's building out Oath and some of the other growth businesses we're in and then 5G is here. The point to the last question. I mean, it's 2018, we're going to see 5G deployed commercially and that's going to open up a significant number of use cases that we think is going to drive growth for the company for many years to come.

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

Great. Matt, thank you so much.

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**Matt Ellis** - Verizon Communications Inc. - EVP and CFO

Thank you, Simon.

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