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Verizon Communications Inc. (NYSE:VZ) Q3 2024 Earnings Conference Call October 22, 2024 9:00 AM ET

Company Participants

Brady Connor - SVP, Investor Relations
Hans Vestberg - Chairman & CEO
Joe Russo - EVP & President, Global Networks & Technology
Sowmyanarayan Sampath - EVP & CEO, Verizon Consumer Group
Tony Skiadas - EVP & CFO
Kyle Malady - EVP & CEO, Verizon Business Group

Conference Call Participants

Simon Flannery - Morgan Stanley
John Hodulik - UBS
Dave Barden - Bank of America
Peter Supino - Wolfe Research
Jim Schneider - Goldman Sachs
Sebastiano Petti - JPMorgan
Brandon Nispel - KeyBanc
Mike Rollins - Citi
Frank Louthan - Raymond James
Tim Horan - Oppenheimer
Walt Piecyk - LightShed
Laurent Yoon - Bernstein

Brady Connor

Good morning. Hello, everybody. Welcome to the Essex House and welcome to our event this morning, and for everybody on the webcast, thank you for listening in. We got a couple of items that I need to cover upfront first. And I'm missing the clicker. Is there a clicker? Okay, there we go.

Safe Harbor statement. So, our presentation today contains things about statements that they are forward-looking and contain risks and uncertainties. Those are covered on our website with the Safe Harbor statement. A couple of items. Also, we had some non-GAAP disclosures or non-GAAP items in the presentation. The reconciliations of those are provided on the website.

Next slide, please. And one administrative item for today, the camera is going to be focused on the stage during live Q&A. For the folks in the audience ask that you announce your name and your firm when called on for Q&A.

With that, we're really excited for the content today. So let me hand it over to Hans and we'll get going. Hans?

Hans Vestberg

Good morning. And welcome to Verizon Third Quarter Earnings Call as well as a Broadband Update. Very happy to see so many in the room, but of course, also happy for everyone joining on the webcast.

Let me kick this off. I'm going to -- we have an agenda that is pretty simple. I'm going to talk about the highlights of the third quarter, then we're going to do some -- a little bit of strategic updates and we're going to end up with Tony talking about the results and capital allocation.

So, let me start by talking about the third quarter. And maybe before I start with the third quarter, just mentioning the hurricanes that has been going through our southern part of country and had devastating impacts.

Verizon, of course, has worked tirelessly to see that our communications up, is so essential that communication is working for public safety, but also for the communities that are affected.

Initially, in some of the states, we had challenges, especially with power, but I think that our team did a fantastic job to get our networks up pretty quickly. So, again, this is things that are happening constantly around the world right now in hurricanes and natural disasters. For us, building the networks, as we are always doing, is extremely important to see the resilience and on the network during this time.

So, starting with that, talking a little bit about the results. I have a tie today. That means it's a good a good result. It is result. I'm really pleased with what I've seen them. I've talked to you so many times that there are years when you are a CEO where you're performing better than others. And I know that 2023 wasn't the highlight of my career at Verizon, [indiscernible] what we have done great job since then. Started in 2023 in the midyear of starting changing the products and all of that and then coming around where we are right now.

Looking at the financial, growing 2.7% in the wireless service revenue is great. I'm also proud to report the biggest profit EBITDA in the history of Verizon, $12.5 billion in the quarter, which is really good and its multi-factors. And of course, the team sitting over there have done a great job. Proud of that. We continue to create good cash flow, $6 billion in the quarter, continue with a really strong cash flow generation as that is part of our measurement and how we measure ourselves.

On the operational side, we started getting an even better balance on the postpaid side. We were 239,000 net adds positive. Sampath will talk about what happened in the consumer, but I already now going to tell him, he did a great job in the postpaid, but also in the prepaid. We were turnaround prepaid. We got a lot of questions over the years. Now we're around approximately 80,000 ex SafeLink. And of course, the business side did a great job on wireless again. Kyle and his team is consistently between 125,000 to 150,000 net adds every quarter, and I'm really pleased with that.

The broadband side, I promised you now for quite a long time. As soon as I get into 4 million to 5 million fixed wireless access subscribers, are going to come back to what we're going to do after that for slides down. I will talk about that. But first of all, I'm going to take a victory lap that we're 15 months ahead of the target we outlined when we bought the C-band with our fixed wireless access. Again, a great product, great work.

At the same time, for the ones that remember, we were a little bit weaker on Fios in the second quarter because there was a little bit of movements in the market with ACP and all of that. Now we're back to normal again. The team is doing great work with Fios. All-in-all, a great quarter for broadband.

And we continue with the private networks and the mobile edge compute. We announced two deals this quarter, but we had way more. FIFA and MSG, Madison Square Garden Group, all are buying private networks using our capabilities in dense areas to see that they can fulfill their fans or the customers' experiences.

All-in-all, we feel good about the full year financial guidance that we gave earlier in the year. We even said, if you have read the press release, which I hope that all of you have done, that when it comes to the wireless service revenue and EBITDA, we are at midpoint or above on both of them for the full year. That's how good we feel about the performance so far in the year.

That's what I have to say about the third quarter. Tony will come back and go a little bit deeper. If I then come in to talk a bit about the strategy. Some of this is given for you, for me, it's a journey where we are today. It's a long journey with a lot of things, and we are very organized structure company, what we're doing.

The first phase, I call it sort of building the foundation. Some of you remember the heavy investment in fiber, the Verizon Intelligent Edge Network, all of that was enormously important for today's work. I mean on the table in front of you have your consumer connection report. That's what we give out twice a year with all the stats what's happening in the network. Last time, we told you that our network, the last five years, grew 129%.

If you haven't built it with our own fiber with the transport networks we have done and all these fundamentals that Kyle and Joe has built, we can't handle all these data and have the best network in the nation when it comes to wireless and broadband. So the fundamentals we did with go-to-market, with consumer and business is really paying off today. And you see it when our product has started resonating with the market is because we have Kyle and we have Sampath, both of them thinking about how to meet the customer demands and what the customer needs to have. So all-in-all, that was important.

The second phase, all of you remember, we sold -- we bought a lot of assets. We sold everything in Verizon Media Group. We bought the TracFone that is paying off right now. We also bought the C-Band, enormously important you're going to hear Joe talking about the C-Band, but we all know where we deploy this C-Band, we have a great financial success and customer impact. So very important movements we did in that.

But we also launched a lot of new products, fixed wireless access, myPlan, myHome and a lot of other things that we now have as the base going into 2025. And now we're also extending our TAM with a couple of larger investments we're doing all the way from Frontier, but also what we want to talk to in a second.

So for me, this journey is now in a moment where we have the have the right assets. We have right the right team, and we have great products for our customers.

Only the last, I would say, six months, we have done all of these strategic movements in order to strengthen ourselves to continue to be clearly the number one in the market and extending that. You have seen them all, the customer-first offerings we have done, resonating with our customer. We're going to hear Sampath talk about them.

The refreshed brand we did in June, that takes time to get the impact, but we see the positive movement with a refreshed brand that is supporting our new products, really happy with that. And hopefully, some of you are looking at commercials, highly digitally, or on TV, and see how we're trying to recapture and rethinking the way we're showing up for our customers.

We have the plan, Frontier acquisition. We talked about that in a separate session. We're excited about that and adding to our expanded TAM. We did a tower transaction just two seconds on that. Of course, this was cash in. But more importantly, we only do the deal when we can see a deal that's actually creating more – more opportunity for us, both by having a cost level that is predictable for us, very important.

I like [Indiscernible] economics in the network; and second, also creating more competition in the market. We are suddenly creating with a strategic partner in Vertical Bridge, another strong partner in the market, giving more optionality and seeing that we can have a predictable cost for our tower leases, which is one of the few things we're not having 100% ownership on.

We also yesterday, I think, announced that we're buying some spectrum US Cellular. It's going to take time until that's come into fruition because it's hanging on another acquisition. So I don't think it's going to be cash out until 2026. It's just adding capacity. It's a buy versus build in that region. So we're adding capacity there.

And then we will not speak so much about AI today, but I hope you're going to add some questions to Kyle, because not only even efficiencies that Sampath is talking about in the customer care and personalization, we see with our compute storage, with our power and the mobile edge compute, we see great opportunities when it comes to AI and revenues for us. And we will talk a little bit about here, but we also do it in the future, coming back a little bit more structure and talk what we're doing. But we already right now see a good tractions on what we're doing on the front end of it.

All in all, that's sums it up where we are today. I think we have an unmatched value proposition all the way from our best mobility, American's best mobile networks. We created a satellite partnership recently. We have myPlan, plus all the business and business offerings, strong offering. And then on the broadband side, all the way from Fios to fixed wireless access, we're now almost 12 million broadband customers, 11.9. The fixed wireless access are generating more than $550 million per quarter in revenue started three years ago. So we can see that we can build on this network, where we build the network once and we want as many profitable connections on top of it. It started paying off without. So we're uniquely positioned in the market with onerous economics.

So all that said, we’re already in the quarter, where are we going as a company? We know also that we hit sort of our targets on broadband. So we're going to talk today about what we're doing next. So our broadband targets going forward is basically going to say that we're going to double the fixed wireless access targets by 2028 to 8 million, 9 million fixed wireless access subscribers. Joe will talk a little bit what we're doing and how we continue, and I expect that Joe, our Head of Network continue to have capacity way beyond and continue to build for us so we are ready to capture this opportunity that were created.

We also want to talk about our acceleration on Fios. We think that's a great opportunity for us to do that in this moment. We will, as we have closed the Frontier acquisition, have more than 30 million passings -- fiber passing. And we also see a clear path of somewhat to 35 million to 40 million passings after Frontier and what we're doing ourselves.

And if you combine that with our fixed wireless access, I think in the future, we're going to cover more than 100 million households. So, clearly, the broadband, together with the mobility, together with our offerings, we are putting ourselves up to a possibility to continue to have sustainable growth on our service revenue, but also continue to expand our EBITDA and cash flow.

And the ones that have been following us for time, you know those three all the things were measured on. Those are the three things that management are measured on. The Board has decided those are the three things that are actually driving the most shareholder value. And that's what we're focused on here right now.

So, I will let my team now explain a little bit about where we are and how we're going to execute on these targets. And then we're going to hear Sampath and Tony talk about the financials and the situation. So by that, I'm going to hand over to Joe Russo.

Joe Russo

Thank you, Hans. Appreciate it very much. Good morning everybody. The one thing I want to first say upfront is the is the network and technology team super confident that investments I'm going to talk about over the next few slides, coupled with the best engineers in the industry, is going to continue to deliver on the best, most reliable, highest performing networks for our customers and give that experience to more and more Americans across the country.

It's easy to make claims about being the largest this or the fastest that, but that's not what my team and I are about. We're about building the best, most reliable networks. And that takes hard work and a lot of strategic investments that I'll talk a little bit about today.

But that's hard work around testing and optimizing the network each and every day. It's strategic investments in things like generators and mobile assets for when there's emergencies.

And this is why, as Hans said, following the Hurricanes Helena and Milton, the Verizon network outperformed rest of the industry, and I'm super proud that we were there when our customers and first-responders and businesses needed us the most.

So, before I dive into the broadband plans, I first want to congratulate Kyle and Sampath for hitting our 4 million to 5 million fixed wireless access target 15 months ahead of schedule. And that took a ton of work from a lot of people within the organization. But one of the things I'm very proud of from the network and technology team is that we built the coverage and capacity well ahead of schedule for them to deliver on that target.

And as we look forward to the -- here we go. As we look forward to this new doubling of our fixed wireless access subscribers, my team's objective hasn't changed. It's to build the coverage and capacity well ahead of schedule and we're already doing that. We expect that to cover another 30 million homes over the next four years on our award-winning multipurpose network, we have to do a few things.

The first is will take a mobility-first approach, and I'll talk more about that in a minute. But getting to 90 million homes and businesses covered with fixed wireless access will be accomplished with three key things we're doing today.

The first is our aggressive deployment of C-Band and millimeter wave, we call ultra wideband. The second is a new MDU solution that's been in trial and we'll be rolling out in 2025 to serve MDUs with up to 1 gig Internet service with our millimeter wave technology. And the third is technology advances and the use of our vast small cell network in order to add even more ultra wideband coverage and capacity between now and 2028.

So I'm going to shift gears a little bit to fiber. So I'm looking forward to the pending acquisition of Frontier and bringing these two great fiber assets together. The combined wireline footprint has approximately 48 million homes and businesses of which 25 million of those are already served with fiber. And I know one thing. With our 20-year experience in building fiber across this country, that we will continue to deploy Fios in the new footprint after closing. Post close, we will take the appropriate pace to build based on the following criteria.

The first is the profitability of the build. The second is the competitive environment that we see that we're operating in. And the third is our capital allocation priorities. But over time, I want to be clear. My objective is to bring Fios to 35 million to 40 million homes across the country.

So I want to bring the whole network strategy together for you. The first is, we built a shared multipurpose network with owners' economics to serve as many profitable connections as possible. That strategy is built on the foundation we call the Intelligent Edge Network, which is rooted in our rich fiber assets, both in the ultra long-haul network and in the metro networks across the country. It also encompasses our converged IP core and our own and operated Verizon Cloud platform and our mobile edge computing platform that serves both today's and tomorrow's technologies. This foundation gives my team and I the capability to provide that best, most reliable, highest performing network to two access technologies.

The first is the radio access network. And again, as I mentioned, we take a mobility-first approach. What that means is I deploy coverage and capacity to enhance the mobile experience for our customers and to find new revenue streams. The good news is we pull through fixed wireless access when we do that. And as we've said, we've been awfully successful in that space. Customers just love that product.

So we will be accelerating our ultra wideband deployment. I expect that by the end of this year, we'll have a -- we'll have covered 70% of our planned footprint and by the end of next year through acceleration, we will get to 80% to 90% of that planned footprint covered.

We also have just recently launched our 100% virtualized 5G core network with stand-alone and slicing capabilities. And we'll talk a little bit more towards the end of this year, how we're going to put those to use in the market. And then finally, we are the only company in this country that's actually running virtualized RAN at scale. 40% of my C-Band sites are now virtualized in the network.

Shifting over to fiber access network. So I've been building Fios for 20 years or so now. And we're on track this year to pass approximately 500,000 prems. Frontier, as you know, is on their way to pass 10 million prems by the end of 2026. And we are in 2025, targeting an expansion of our Fios build up to 650,000 prems. Post-close, I see that pace growing to up to 1 million plus prems per year.

But what excites me more than anything, after 20 years of doing this, is our business case on Fios is getting better and better. And that starts with the fact that customers demand high-quality broadband services more now than ever. So what we see is when I do a build today, we see higher and faster penetration rates than we have with prior builds. And we pulled through mobility benefits on both churn and ARPU. But I'm also finding new and creative ways to bring down the cost of deploying fiber. And that comes in three big chunks.

The first is partnerships with companies like Corning and CommScope, where they're delivering technology to do both reduction in the amount of fiber I have to deploy to serve homes and the techniques and technologies that make it easier for my team to deploy.

The second is, we've made with Sean Carr's [ph] help, 20 years of systems and tools improvements through the whole process of building, designing, operating the network and we're seeing great benefits from those systems and tools enhancements in the reduction of rework, efficiency of our build and operating of the network.

And then the third is, we've made some strategic decisions of how to get legacy costs out of our network without having to deploy fiber to the entire wire center. So I can use other techniques to move customers to new technologies and remove legacy equipment without having to deploy fiber across an entire footprint. But our network strategy is clear. To build and operate the best, most reliable, highest performing network to power and empower how our customers live, work and play.

Let me leave you with this. My goal is to ensure more and more Americans have access to that best, most reliable network experience, by expanding the best mobile and broadband networks through a disciplined capital approach. We do that by building the best networks. And over time, that includes a 5G ultra-wideband network that will serve 300-plus million Americans with 5G advanced features for today's and tomorrow's technology. And a fixed wireless access and Fios network that will serve over a 100 million homes and businesses.

So I'm going to turn it over now to Sampath, who will talk through how he'll ensure more customers get access to those great network experiences. Thanks, Sampath.

Sowmyanarayan Sampath

Joe, thank you. Very good morning to all of you. There are two things that Joe spoke about that really excites me. The first one is America's best wireless network continues to get bigger and even better. And the second one is our ability to offer broadband to 100 million homes and businesses over a period of time. So with that, let me get into how we go about this.

Verizon is in a very unique position right now because we have two engines of growth: mobility and broadband. Both these segments, both these businesses have secular tailwinds, there's huge demand for both of the products. And more importantly, Verizon has a good position and a lot of opportunity to grow in front of it. Let's start with mobility.

Look, in mobility, we are number one. If we look at our share position, our total revenue. And it starts with our postpaid business. We are seeing continued momentum in our postpaid business. With this quarter, we would have had seven quarters of consecutive year-on-year postpaid phone gross ad momentum that we have in the business. And why did that happen?

Some of it has to do with our sales engine that we've gone and reengineered, get back to the local market structure, local sales incentives, local marketing. And the second is myPlan. myPlan, as I say, is on plan. Customers love it. They like the structure of it, they like the ability to get access to unique offerings and it's truly differentiated in the market. And you saw us, we had a strong quarter, 81,000 phone net adds in the space. We will be postpaid phone net add positive with second number, without second number, this year as well as promised in our plan to do that.

Next, we turn our attention to our value business or prepaid. And we bought TracFone, we've integrated TracFone and we had really strong momentum in our business. We had 80,000 net add positive in our business, the best in many quarters, and a lot of that comes down to a core performance of our brands. We saw almost all our brands have very strong performance and momentum in this space. Two, our exclusive distribution with total wireless has scaled up really well, and you can see those stores everywhere.

And third is our unique distribution position that we have within Walmart. And you're going to see continued progress and continued momentum in our value business going forward.

That brings me to our third topic, which is churn. Now that we have our postpaid engine working well, our value turnaround in progress, I can turn my attention to the churn. There is nothing structurally that prevents Verizon from being an industry leader in retention and lower churn. We've been in that position before. We know how it feels. And more importantly, we know how we get there.

In the short-term, we made some trade-offs, some strategic trade-offs that Hans and I feel very good about to drive shareholder value. We had some pricing actions that do drive some churn in this space. But on balance, we feel very good about how we executed those and often churn is way less than some of our business cases that had come in.

The second is we are very disciplined about our retention spend. You see that in our upgrade numbers. We -- it has to be demand-led, customers have to want it, and we link our retention promotions the plans and the price plans that they have there. But over a period of time, you should expect lower churn from us from a couple of things. The first one is better experience. We are using AI significantly both at stores at our call centers. Second is myPlan and perks, as more and more and of our base gets into the myPlan construct and takes more perks that helps with churn. Third is myAccess or Verizon Access, our loyalty program, which I'll cover in a bit, that could give us traction in that.

And then the last one, which is probably the biggest lever is going to be more mobile plus home customers. When those two customers come together, we see a huge reduction in churn, and that's going to apply to a larger base as we expand our broadband offering more piece.

The fourth is margin accretive add-on services. In form of perks, in form of adjacent services, it's a continuous growth, and it's being very innovative every time we do that. We are taking the same approach we have to mobility to our broadband space. It first starts with momentum in sales.

You saw that this quarter strong momentum in sales on Fios and FWA. Similar tactics, similar promotions. But the construct is that same momentum we have and the same energy we bring to our broadband business as well. myHome has been a very successful launch. A lot of our base tends to like the perks. They are taking on our new customers when they come on board, they take on perks, and they like the ability to share their perks between mobile and home.

And also sustained growth in ARPU, when you build a long-term sustainable subscription business like we've done, you have to balance P&Q. Over a period of time, I've spoken about this 80-20 contribution to service revenue because that's the big measure we measure ourselves on is service revenue. I think with a positive four net add trajectory, strong FWA and Fios performance, we are on track to get to that 80-20 mix over a period of time.

Now, we are in a very unique position. I think the only the only company, carrier, who has a scaled position in both FWA and in the fiber business. And both these are top products, when you combine them together you get access to 100 million homes and businesses in the country. No other carrier offers that amount of coverage and depth that we offer in terms of serving our customers.

Let's dig into each of these one by one. The first is FWA. Joe just spoke about moving from 60 million to 90 million homes and businesses covered. But what's interesting about the FWA basis, it's a quality prime customer base. Our FICO score on FWA is north of 700. So it's a really strong customer base. And the reason is it's a high price value equation. There's a huge segment of the market who love that. And because of that, you see very high NPS scores. I mean think about it, you could finish this. You could go to a store in five minutes, buy it, and in 10 minutes after that, you could be in your apartment connected with the 5G Verizon FWA product.

It's a huge competitive advantage. High NPS is a competitive advantage. Our pricing construct is a competitive advantage. We do not like promotions that roll off. You get a customer on one price point and in two years, you -- the price changes. It's annoys customer. And that's one of the reasons why it's a huge competitive advantage for us because we continue to lead with that.

And then you have fiber. Joe spoke about 20 years. He's been working a little longer than 20 years in the fiber business. Look, we are the OG fiber players. Some people think it's a new thing. We've been in this thing for 20-plus years. And every year, we find that the new cohorts that we bring on have better penetration than some of our older cohorts even because we get better. Joe gets better with the build, we get better with selling it, we're targeting it, using digital to bear in those pieces to do that. But what's interesting is it's a white-glove experience. Very, very high NPS scores that we have, very low churn. And most, a majority of our customers who come and take our Gig Plus plan. Again, that's a competitive advantage around high NPS, high customer satisfaction.

So over a period of time with 100 million premises covered, we have a differentiated offering. We have an offering that is steered. We have an offer that is segmented. FWA and fiber, and customers will choose. At the end of the day, we want customers to choose what's right for them, and we're going to be very transparent on what the pricing is and what the value prop is to grow that.

And talking of value prop, I want to spend some time talking about the Verizon model of convergence. The Verizon model of convergence is margin accretive. It is revenue accretive and has very attractive ROIC. And at the end of the day, it is demand led. I do not believe in giving away one product to sell the other, or giving away one product to hold on to the other. We think we have the best wireless network. We have best broadband offering. Customers want it and they're willing to pay a very fair price for it. We do have some advantages for a customer when they take both of those products together. But at the end of the day, it is demand-led, because customers want to buy the best from both us to do that.

Now let me talk a little bit about how this convergence comes to life. How convergence comes to life? The first one, as you see on the page, is myHome and myPlan. It's -- we launched both, and it's not a coincidence that both the offerings look very similar. You buy a base connectivity and then you have access to these really unique books. I mean, it's becoming a pretty big business for us and customers can share perks across both those plans.

The second is our app. My Verizon app, we have a single app now for both for mobility and home. So once you get a mobility customer, they see a home piece and they can try out the home and they can buy the home and then vice versa to do that. And also home Wi-Fi can control everything in a single app and it does very well.

The third thing is transparent pricing. It is very clear to customers what their savings are. And we're going to keep innovating in this space. Because at the end of the day, customers want the best product, but they also want clear pricing upfront, and we do that every single time with our constructs that we have there.

Fourth is distribution. We have a large distribution of stores and a digital footprint. And you can see over a period of time, we are able to distribute our Fios offering through our store network as well, and that's a huge upside to the business case. So you see that we are building the Verizon model of convergence, which is demand-led and it's accretive to us. But where does the value come for Verizon and its shareholders? Two big buckets, revenue.

The first one is we will see penetration well north of 40% in our business. And as I said, every new cohort that we bring in actually gets to that a little faster than the previous cohort we do that space. And once we do that, once we acquire Frontier, and when we close on Frontier, we will we will have that as well. And then as Joe builds out new networks, we will see similar penetration levels as we do that.

The second is, in some of our big markets where we have fiber, our wireless market share is 500 basis points or 5% better than if we don't have fiber. So we can cross-sell mobility to our Frontier base when we close it, to our new cohorts of fiber that are coming in, but also customers who have access to fiber, but don't have fiber today, we'll be able to cross-sell them. So two revenue upside opportunity for us as we build out our converged offering.

The second is churn. A couple of data points. We see a 50% reduction in mobility churn when we bundle with fiber. And that's a huge lever for us, even broader, longer term on how we take churn down in the space. The second is a fiber churn, which is already world-class, one of the best in the world, will go down another 40% when we bundle mobility and fiber. That's a very unique position for us, and we see churn benefits on FWA as well.

So what we are essentially building here is one of the world's best franchises for broadband, with FWA as well as with fiber, with best-in-class metrics. But more importantly, it's demand-led, and that's the Verizon model of convergence.

Talking about demand led, a lot of the reason it's demand-led actually comes from our unique value prop. Let me start with this. The bottom of layer is our connectivity layer. Best network. Joe always says, we will be the most reliable network. That's where our value comes from. It's the same network we have for broadband, for postpaid, through myPlan and our prepaid value brands as well. And we keep tiering these. We have segments that go after it. And over a period of time, we'll have new sources of revenue. Let me touch on two of these.

The first is network slicing. It's a new currency. It's something that you should -- we should talk a little more about soon. And that will have upside opportunity for us.

Second is satellite connectivity. That's another new form of connectivity and then new ways to monetize our overall connectivity network.

Then on top of that, you get to our entertainment and adjacent services. We call them perks, because you have to be a Verizon customer to get them. That's the perk you get for being a Verizon customer. And we right now have seven million perk subscriptions on our network. And then guess what, they're going to double by 2025. So we have a large revenue stream that customers find very compelling. It reduces churn for us and is very margin rich for us. So it covers a lot of pieces for us.

And we're not stopping still. We're going to keep innovating. But to be on our network to be part of perks, it's going to have to be compelling. It's going to have to be exclusive to Verizon and something our customers want and they can save money with it.

On top, we have our loyalty program. Verizon Access or if you're a customer, it's just myAccess because it's your access, because it gives you access to two things. One is always on deals to some of the best premium brands out there. But second is once in a lifetime, my kids call it bucket list type opportunities they have.

For example, you can sky dive with the bronchos, or you can go to London to watch the Jacksonville Jaguars. Or we can actually toss the kind for the opening game. These are once-in-a-lifetime events for NFL, NHL, NBA and some of the best musical acts out there. I don't know if you can get tickets for Taylor Swift, but definitely check in on the Verizon myAccess plan to do that.

As I wrap up, I want to leave you with two thoughts. The first is we at Verizon right now, have two engines for growth. Two engines that have secular growth in front of them, two engines that have tailwinds and where we have unique market position but huge opportunity as well.

You're going to see us do the Verizon model of convergence, which is demand-led, which is give customers choice, be transparent about pricing and offer them a huge set of services on top of that. We're going to deepen our relationship with our customers and extract value for them and for ourselves in the process.

The second is, over the last seven quarters, you've seen our vision and execution on the business. You're going to give a lot of confidence you're going to get from that that we will execute on that for our mobility business, our broadband business and the Verizon converged business.

With that, I'm going to pass it over to Tony talk about two things; 3Q update and more importantly, capital allocation. Tony take it away.

Tony Skiadas

Thanks, Sampath and good morning. So our execution, as Sampath said is really strong, and it's fueling the momentum in our business. Our third quarter results, before we get into it, I do want to talk about the third quarter. Our ability to demonstrate customer growth and financial growth once again is a hallmark to our testament of execution day in and day out. And we delivered the highest ever reported adjusted EBITDA in our quarter.

We're on track, as Hans mentioned, with our 2024 guidance, and at/or above the midpoint of our guided range for both wireless service revenue and adjusted EBITDA. If I go to the operational metrics from mobility, if you think about business and consumer, gross add and churn both improved year-over-year and that drove phone net adds of 239,000 in the third quarter. That's a significant improvement year-over-year.

And as Sampath mentioned, we expect the consumer business to have positive postpaid phone net adds for the full year, and that's with and without the second number offering. And that's in addition to the continued strength in phone net adds from our business segment, and that's quarter after quarter of strong growth.

If you think about broadband, we have almost 12 million subscribers in our base, and Fios and FWA are both growing. On broadband, we had 389,000 net adds in the quarter. That's another strong quarter for us. And inside of that, if you think about FWA, we've grown our FWA subscriber base over 1.5 million in that time period. And as you heard from the team today, there's much more opportunity for us to expand further.

If we move to the financials, Hans talked about how we're measured, service revenue, EBITDA and free cash flow. If I start with service revenue, our service revenue is very healthy. Our wireless service revenue was up 3.1% year-to-date or $1.8 billion. Our EBITDA continues to be strong. And even in a quarter where we delivered a very strong $12.5 billion of adjusted EBITDA, we took actions around revenue and cost efficiencies to set us up for 2025.

That strong EBITDA led to free cash flow of $14.5 billion year-to-date, and that's consistent with the prior year. And that includes an increase of $2.5 billion in cash taxes. The cash generation of the business continues to be very strong, and we have ample flexibility and funding to execute on our capital allocation priorities. The business is performing well, and we have good momentum as we close 2024 and head into 2025.

And if I shift over to capital allocation, as many of you know, we have four capital allocation priorities and they remain unchanged. Our first capital allocation priority is to invest in the business. And that includes investments in our network infrastructure. If you think about C-Band, if you think about Fios, it includes M&A to accelerate our strategy. If you think about the pending acquisition of Frontier, and it also includes being opportunistic with wireless spectrum as evidenced by the deal we signed last week with US Cellular.

As we said before, we're back to BAU levels of capital spend, and we're on track with our 2024 capital program. If we look ahead to 2025 in terms of guidance for 2025, we expect 2025 capital expenditures to be in the range of $17.5 billion to $18.5 billion for the next year. And that's an all-in number that includes all of our growth initiatives. So that includes C-Band and the continuation of rolling out C-Band.

Joe talked about having 80% to 90% of our sites on C-Band by the end of 2025. It includes our Fios continued open-for-sale expansion up to 650,000 new open for sale on Fios. And it includes the broadband MDU solution, the multi-dwelling solution that Joe mentioned. All of these things are included in that 17.5 to 18.5 number. And that range gives us the flexibility to both invest for growth and be disciplined and efficient with our capital spend.

Our second priority is our commitment to the dividend. And as you've seen recently, we've raised dividend for the 18th consecutive year. That's an accomplishment we're extremely proud of. And as we said many times, our goal is to put the Board a position for further dividend increases.

Our third capital allocation priority is having a strong balance sheet. We've made significant progress delevering the balance sheet since the acquisition of C-Band. As of the of the end the third quarter, our unsecured leverage stands at 2.50 times. That's the ratio of net unsecured debt to adjusted EBITDA. Our focus is to continue to pay down debt between now and the closing of the Frontier deal.

And today, we're announcing an update to our long-term leverage target of 2.0 to 2.25 times. Given our cash flows and overall financial strength, this is the appropriate range for our business to provide flexibility to invest for growth and return capital to shareholders.

Our fourth capital allocation priority is share buybacks. And as we've said many times, we will consider share buybacks but our unsecured leverage metric reaches 2.25 times, and that target is unchanged. As we work towards that target, we continue to focus on generating strong cash flows and paying down debt. Our capital allocation strategy is disciplined and deliberate. And as you've seen from our track record, we'll continue to focus on operational execution and performance and deliver on our commitments. We're excited about the opportunities we have ahead.

And with that, I'll turn it back to Hans.

Hans Vestberg

Thank you, Tony. Let me summarize updates before we come to Q&A. I think you hopefully got a feeling that we are setting us up well for 2025 and beyond to continue the leadership in this market and extend it. So we talked about the networks that we're building. It should be the best and the best performing. I think that's been a focus. And really now with the C-Band coming quickly and our Fios build-out, we feel really good about it.

It's been important for us to focus the last couple of years on the differentiated value proposition for our customers. We know that there are more important services than ever. To have mobility and broadband is a necessity for every organization, every person on this planet and in the United States. The differentiating offerings that we're doing are enormously important, and they come from deep research what our customer really wants. And of course, together with a refreshed brand should support us for the continuation.

Tony talked about capital allocation, and you have seen us being very prudent by the capital allocation. We promised to come down to BAU levels, we're on BAU levels. We have the high [indiscernible] C-band because we saw a great opportunity to quickly come out with that, and that were coming down.

We're now doing investment to expand our total addressable market with the same offering, the same network. That's the strategy we have. We stay there and we see that we can continue to grow well and continue to create profitability and cash flow. So that's the overall strategy.

And we are measured on three things: the wireless service revenue, the adjusted EBITDA and the cash flow. And we are very committed, the whole team here to continue to grow the service revenue and expand the EBITDA and cash flow going into 2025 and onwards with the investments we're doing right now and where we stand with our strategy, where we stand with our assets and we stand with our offering. So all in all, we feel very positive where we are right now. We feel positive where the market is and our products.

By that, I'm going to close, and we're going to have a open Q&A. Brady will help us to manage that. I have my whole management team here, and we even have a pictures on them, if you don't know who they are. They are sitting to the left here for the ones on the webcast. You can see them here. So they are all here. So I'm going to diligently distribute answers to them. Probably going to take some myself. Any questions you might have for us. Brady going to do it, remember, present yourself when you're going to answer, so the webcast audience know who is asking the question.

Question-and-Answer Session

A - Brady Connor

Okay. So I love the folks in the front row, but we're going to go back right to start with Simon. And again, just please announce your name and firm and since you're not on the camera.

Simon Flannery

Great. Thanks very much. Simon Flannery, Morgan Stanley. Hans, I was interested in your latest thoughts on the BEAD program. You're clearly leaning into broadband. We're starting to see some of the states open up their processes. So how do you think about that as an opportunity beyond this?

And then the other question would be around these markets like the Northeast where you have fixed wireless and fiber. How do you start to bifurcate that opportunity? Because I think in the past, if you had fiber, you hadn't really done fixed wireless. But does that start to blend a bit?

Hans Vestberg

I'm going to take some help from Joe later on, but I'm going to start myself first. The BEAD program is, of course, contemplated in everything we have here. In the Fios footprint, it's obvious we will go for it when it makes sense for us, both from a return on investment. And so we -- in our Fios footprint, there's going to be great opportunities for us for sure, and we will be active on it.

On the second one, when it comes to fiber or Fios versus fixed wireless access, I think -- I hope that you heard from Joe our strategy on fixed wireless access is a secondary business case on mobility. So we -- first of all, we deploy our C-Band for mobility. And the agreement that Joe and I have in the whole team is that we build mobility for two reasons: revenue generation as well as customer satisfaction.

And then we get a secondary fixed wireless access opportunity. So it's not really thinking about where we do Fios or we do fixed wireless access. We do Fios and we do mobility. Then we create opportunities. And -- and I always love what we are doing because we give optionality for our customers. There are customers that just kills to get Fios. But there's others that really feel that fixed wireless access is a solution they want to have because of simplicity.

So we're going to create optionality. And you saw the consumer slide that Sampath showed with customer offering framework, I think it's called, where actually everything is in the same model, regardless of what it takes. So that's how we think about it. Do you want to add something? Yes, you want to add something. Please come up here.

Joe Russo

Okay. Yeah. Just on BEAD. So we've built a very good process for managing subsidies. And we've been already receiving and winning subsidies in our Fios footprint. So as BEAD starts to get deployed, we'll deploy those same kind of standards and processes to participate. When I think about the 35 million to 40 million, it will be a very, very small percent that we think is BEAD. And we foresee that getting 35 million to 40 million will be with or without BEAD funding.

Hans Vestberg

Thank you. Next?

Brady Connor

Okay, we're going to work our way up. I'm going to go a second row. We'll go Hodulik on the end over here.

John Hodulik

Thank you. I don't think you would see me behind these tall guys. First, starting with fixed wireless. Thank you guys on the new targets. Just on the quick math, it seems like the cadence is slowing a bit. You guys are doing like 360 -- 360,000 a quarter. It looks like that slows to just sort of doing it ratably to under 300,000. I just want to make sure if that's sort of what we should expect to see or if there's something different in the numbers?

And then these new initiatives are great. You guys did 1.7% service revenue growth this quarter. Obviously, you don't want to give 2025 guidance -- full guidance here, but should we expect an acceleration in service revenue growth from these new issues?

Hans Vestberg

On the future guidance, I'm going to leave that to Tony. On the first question, I'm going to start. I think to some extent, you're right. So think about this, we have had a target to create and get between 350,000 to 400,000 new broadband subscribers every quarter. And I think we've had that, but I'm not sure how many quarters. Sometimes up to 400, sometimes a little bit north of 350.

What is happening right now is two things. First of all, the fixed wireless access is going into in a second sort of transformation because the C-Band is not going to suburban and rural. And of course, the opportunity is equally big, but the density is way less. So, we're going to see for a while that OFS, it's going to be a little bit less.

And the second one is, as we're ramping up the Fios. You saw that we are doing some 450 to 500, going to 650 is a ramp-up. So, in the short-term, I think you're going to be in the lower end of that 350. And then I think when you see the ramping up of both of them, you're going to see a little bit different.

So, I wouldn't say that we have changed anything on the pace. It's just a technicality of how we build right now and how we're ramping up Fios and actually going suburban to rural with our C-Band. So, those are the things. Tony, do you want to talk about guidance 2025 now?

Tony Skiadas

Sure.

Hans Vestberg

Great. I'm eager to hear.

Tony Skiadas

Hey John, thanks for the question. So, look, as we said we said this morning, we're on track with our service revenue, and we said we'd be at or above the midpoint on service revenue.

If we think about next year, I'm not going to guide on 2025 right now. But in terms of puts and takes, we've taken a lot of actions to position ourselves for sustained growth. So, that includes the P&Q that you heard from Sampath, so volume improvements in pricing, and it also includes fixed wireless access, and you see the great growth that we've seen on fixed wireless access.

Prepaid, has now, Sampath mentioned, turned positive. So, that's been a headwind this year. We would expect that to start to turn next year. We're still facing headwinds with program amortization. So, those are the puts and takes as we head into next year, and we'll bring it back to you in January.

John Hodulik

Right. Thanks guys.

Hans Vestberg

Next.

Brady Connor

We're working our way up to the front row. We're going to go -- we'll go Barden here on the end, the first tall person.

Dave Barden

You don’t have to sound so excited about that Brady. Dave Barden from Bank of America. Thanks Hans. So, if my base case is that the tax regime remains the same. Cash tax is going up. CapEx is going up. Working capital, if the iPhone becomes a bigger thing, it's not going down, it might go up.

Hans Vestberg

A lot of assumptions here, continue.

Dave Barden

Those are -- not so much assumptions. And then you're going to do the Frontier deal and they're not free cash flow positive. So, is the message financially to you and Tony that 2024 is the high watermark for free cash flow at Verizon because it doesn't seem like there's a lot of dials to turn to kind of make it get a lot better.

And the second question, if I could, would be there's some agitators at Frontier that want you guys to pay a higher price, bid against yourselves in that process. And you spoke a lot about how important it is to have this 100 million homes passed and the Verizon version of convergence. What are you willing to do to get that deal done?

Hans Vestberg

Okay, I'll leave the capital allocation for you, but I think that, of course, you can always find headwinds. We have a lot of -- or tailwinds as well in cash flow, and we will be very focused on that. So, I will let Tony go through the puts and takes on that.

On the Frontier deal, I mean, first of all, if you have read the proxy, which you probably have done, it was a competitive process. We were asked for a best and final. We gave the best and final. We have a signed agreement and a contract for a merger. Now it is up to Frontier's shareholders to make the vote. We always have different type of strategies. We will continue to have that. This fitting in well right now. We're going to see what's going to happen, but we feel really confident that this is fair and good for all stakeholders. Tony?

Tony Skiadas

Hey Dave, so we're not going to guide on free cash flow, but a few things. I mean, the same puts and takes that we shared at the beginning of the year still remain intact. So, see the EBITDA growth, and that's the focus for next year. Interest, in terms of deleveraging, we'll have to see where rates go. That will have an impact. And then cash taxes, as you mentioned, they're up this year. We'll have to see what happens on the legislative front. They're going to be up -- we said $2.5 billion so far this year. We'll see where that goes. And working capital, we're not seeing a big upgrade cycle right now. The upgrades were down 10%. Right now, customers are choosing to hang on to their phones a lot longer, and that's by choice. The average upgrade rate, and Sampath can correct me, but it's probably 40 months or so. So that hasn't changed. So we're going to continue to stay disciplined and segmented in our approach and then we'll come back on our thoughts on cash flow back in January. Thanks.

Brady Connor

I'm going front row over here to Peter next.

Peter Supino

Hi thanks, Brady. Thanks, Hans. Peter Supino with Wolfe Research. A question on fiber. And really about the rate of expansion, your target plus a lot of other publicly available targets and the guestimate about how many private fiber passings there are in the country summed over 100 million homes. Population density observations, nobody has perfect information, lead us to think that maybe you should be in a hurry to build as many homes as you can. And yet your current velocity of expansion is still much slower than other -- a couple of other companies. Wondering, how you think about the speed at which you want to pursue the targets that you laid out here today? Thanks.

Hans Vestberg

Thank you. I think about broadband, that's the thinking I have, and team has that as well. That means that we include both our Fios, as well as the fixed wireless access as broadband solutions. And as you have seen lately, they are doing well, both of them. And that's how we think about our customers, and we create optionality. So, I that nobody else is building on the pace that we are doing in the combination of it. That's how are we thinking. And remember, we build the network once. And then at the edge of network, we decide what type of connections we have. Sometimes it's Fios, sometimes it's 4G, sometimes its 5G, something is fixed wireless access, and then we get the best return on investment on the invested capital because we do it one. So that's the thinking we have, and that's how we serve our customers. So I feel good about the pace we have and how we're deploying this again with the financial mind in behind it to see that we get the best return on investment for our shareholders. Anybody want to add something to that? Okay, then you don't need to. Next?

Brady Connor

Come back in the middle of the room here, we'll do Jim and then Sebastiano.

Jim Schneider

Thanks. Jim Schneider from Goldman Sachs. Just a couple of quick questions on the network side, if I could. First is on -- just in terms of the longer term, the fixed wireless targets, do those sort include or not include any dedicated spending purely for fixed wireless? I know you said it's mobility-led, but does it of that? And talk about the part of that, which is small sales, if any? And then maybe tactically for 2025, can you maybe talk about the drivers of the CapEx increase. How much of that increase is coming on the wireless side on macro cells? How much of that is coming from fiber, et cetera? Thank you.

Hans Vestberg

On the first question is no, there's no success-based fixed wireless access in the plan that we're presenting today. That's an optionality we have for the future. Right now, again, believe in our design principles because that makes the operation easier. It makes it easier for our customer, it makes it better for capital. That doesn't exclude it in the future that we will have success-based fixed wireless access. And then of course, I'm sure that Joe is building more capacity. So Kyle and Sampath has an opportunity to leverage on that. But in this plan, it's mobility first in all our C-Band.

The second question is about the increase or the BAU level you have right now, how much is macro? You heard about what we said. We were trying to go to 80%, 90% of our planned radius having C-Band. And then you see the Fios up to 650. I think those are two important ones. There are other things coming down to some extent in our normal build because we have sort of come pretty far on the 4G, and we see much more traffic on the 5G. We have gone very far on our small cell with millimeter wave that is capturing a lot of our traffic in dense areas. That's a little bit smaller today. That doesn't mean we don't believe in it. We think it's super important. So I think those are the puts and takes in the CapEx. Joe?

Joe Russo

I'll just add on small cells, and I mentioned it during, but we started probably about six months ago now deploying C-Band on small cells and have seen really good success with putting that technology on our vast small cell network, giving us more coverage and certainly more capacity for both mobile and fixed wireless access.

So my view is that will continue in this four-year build program. As we'll leverage what we've done both with our millimeter wave small cells, and we had a pretty significant small cell network even for the 4G network. Leveraging now C-Band on those has really proven to be a great tool to add coverage and capacity.

Hans Vestberg

And one other thing that is increasing, which you mentioned was, of course, the MDU solution we have now for fixed wireless access, using millimeter wave. We have talked about it. We're going to put that in commercial use in next year. So that's, of course, also an opportunity, but of course, with a great return on investment.

Brady Connor

Sebastiano, and then we'll go up here front row to Greg.

Sebastiano Petti

Hi. Sebastiano Petti, JPMorgan. I guess just following up on Jim and kind of Dave's question as well, but help us think about the shape of CapEx over the next several years because the 17.5 billion on a stand-alone basis, I guess, 17.5 billion to 18.5 billion includes the MDUs, the ultra wideband build as well as the 650...

Hans Vestberg

It's a range between 17.5 and 18.5.

Sebastiano Petti

Yes. Yes. So within that range, is there any maybe perhaps milestones or things like that, that are more elevated next year that that begin to peel off like the MDU or the ultra wideband build, should we think about it as being more steady state over the next several years?

Hans Vestberg

As I said, I think that this is a BAU level that we have in a steady state. I'm not going to guide for future years. I always said that if we see an opportunity where we can grow faster and we can invest more in CapEx, we will explain that if we go outside the normal BAU levels. Right now, we don't see that. Remember, we have talked about, there's no auctions for spectrum coming out at the moment. Usually, that is triggering or new. We don't even think 6G is in any of the plan of records we have right now. So it's a lot of things that usually catapult the higher investment level. We don't see them right now.

So BAUs this level we are right now 17, 17.5 up to 18.5, that's where we're going to spend it. But ultimately, if we see opportunities, remember the capital allocation priorities, we spend it in business, but we also want to explain that is something additionally we can get and that we can share with our shareholders. But right now, the BAU levels are what you see from us right now. The big triggering events that you sometimes have, it's going to going to come 5G, its go spectrum auction. I don't have visibility of anything on that at the moment.

Sebastiano Petti

Okay. Thank you. And then maybe one for Sampath. I mean what underlies the confidence as we think about the 80/20 service revenue growth and the sustainability of, I guess, the volume side of the equation as you think about maybe tougher comps on the gross add side, the EIP dynamics and help us maybe think about the levers of sustained consumer volumes?

Sowmyanarayan Sampath

Yeah. Look, I think it comes back -- we've had seven quarters of strong gross add year-on-year growth coming into this. And all the efforts that we've put in, whether it's local marketing, going back to market structure, sales incentive, myPlan, just better execution on the ground, we continue to see gross add improvement in our business going forward. So I think that's a machine that we've gotten back to the right phase, and you're to see continued growth in that.

The second comes down to churn. As I mentioned, there's nothing structurally that prevents us from getting back to leadership position on customer retention and churn. We made some short-term strategic trade-offs, which are the right things to do. But over a period of time, churn will start coming down, mobile plus home offerings, converged offerings is probably the biggest lever that we have there. But then myPlan, some of our loyalty programs and then just better execution on the churn piece as well.

So you're going to see both things coming in, continued progression on gross add momentum and then better churn. When you put both of them together, that's how we're going to sustain a net add growth over period of time to do that.

The second is on the price side. Look, we've had four or five price increases depending on how you count it over the last years. And in every case, the churn has been less than what we thought coming in. So customers like our product, they our offering, and you're going to see continued ways in which we can earn the trust of customer.

The last one is there is another type of price increase, which has earned price increase. If you look at the chart where I had the customer offering framework, we are able to upsell our customers, upsell them on the type of plans, but also upsell them on perks and other things. We have seven million perks in our business right now. That's going to double this time next year. So you're going to see a lot of momentum on the price side just by our ability to earn those price-ups that we have.

So a combination of gross adds, better churn and also ability to upsell our customer both on connectivity and some of the other offerings that we have. When you put all of that in, I get really comfortable about the LG20 [ph] framework that we laid out, that we are going on the right path to get there.

Sebastiano Petti

Good. Thank you.

Brady Connor

Yeah, we're going to go Greg [ph] in the front row over here, and then we'll start mixing around.

Unidentified Analyst

Sure. Thanks. Another CapEx question, but more situated on the B2B opportunity. One of your peers has been putting out a few press releases on GenAI fiber. And you have a lot of fiber, both in footprint and from the One Fiber build and Jaunt XR acquisition. So I'm just curious on your latest thinking on the economics and the opportunities there.

Hans Vestberg

Thank you. I think I'm going to ask Kyle to comment on that. If we talk about the GenAI opportunities, I talked about a three-pronged GenAI strategy we have. We have employee experience improvements right now already in the market when it comes to call agents, et cetera. We have our personalization for customers. And then we have our revenue opportunity. And as I alluded to, given the assets we have in our network, we see great opportunities for having a chance to earn business there, which we've already done.

But maybe, Kyle, you can talk a little bit more about it.

Kyle Malady

As you rightly bring up, the investments we've made before and say One Fiber and all the other fiber and all the CEOs and everything we've done, we're kind of reimagining those assets right now is how do we -- and how we can sell into this. And actually, right now, we're already selling into it. We're getting a lot of good orders from hyperscalers either on dark [ph] fiber or lit [ph] and we're going to see that growing. But we have more than that, not just the fiber, it's the power space and cooling, which you know is in really high demand. And we have a lot of latent assets in that area.

So at the moment, we're putting it together. We're kind of -- I talked to somebody before, we're going to measure twice and cut once. We're not -- we're figuring out exactly how we're going to go into this market. It's a huge market. We can't cover it all, but there are certain segments we might be better off in than others, and that's -- we'll be back to you pretty soon talking to you about it. It's a great opportunity for us.

Unidentified Analyst

Got it. Thanks.

A – Brady Connor

Okay. We're going to go over here. We're going to go Brandon, and then Mike Rollins.

Q – Brandon Nispel

Thanks. Brandon Nispel with KeyBanc. I was hoping you could maybe unpack the fixed wireless targets in the homes passed from the perspective of maybe a proportion of MDUs versus single-family, Tier 1, Tier 2, Tier 3 markets and percentage of millimeter wave versus C-Band?

A – Hans Vestberg

That's a lot of unpacking in that one. I'm not sure Joe you want to do it or something. But of course, we -- as I said before, the C-Band deployment goes to suburban and ruling because we started in the urban areas because that's where we got the spectrum first. That's another opportunity. It's a great opportunity, but less density. So I think that's one thing that's happening.

The MDU is just adding to coming back to some of the places with dense areas where we can do the MDU solution. So I think it's a combination of them all. I'm not sure it's a special distribution or something if somebody wants to -- we just deploy our technology from a mobility point of view, and then get all the opportunities around it. Again, there's no success based sort of CapEx here for fixed wireless access, which comes along with everything else we're doing. But again, it's a great investment.

Mobility is performing better when we have C-Band, both from churn and from step-ups and then we will fixed wireless access. So it makes all the sense for us to deploy it in the right way where we find the revenue, and that's what Joe is doing. Anything else you want to add? Are you sure. Okay.

I understand the question, but this is sort of -- we have the framework and our plan of record, how we're deploying this, and it comes along with that. And then both Kyle and Sampath are selling into those open for sale that is coming out from either MDUs or from the C-Band deployment.

Q – Mike Rollins

Thanks. Mike Rollins from Citi. I wanted to follow up on this question, but maybe in a different way. So the mobility first is going to take ultra-wideband to 80% to 90% of population and presumably households by end of next year and maybe 90-plus percent over time, but the FWA target is roughly like 60% of homes. What holds that percentage back relative to the 90% plus? And what would be the catalyst to try to unlock that additional 30 points of penetration?

And then just a second question, if I could. When you look at building fiber and the team mentioned some of the progress in building and dynamics, what's the base case for penetration and ARPUs from the fiber builds, let's say, over a five-year period?

A – Hans Vestberg

On the first one, I assume my team always want to beat the targets. We give you one target, the team is working to really beat and do it better and faster. You saw what we did last time, we said 4 million to 5 million. We beat that target with 15 months. So I think the team and are building ahead. So, but right now that's a target. It's always a time lag from when you deploy the technology and when you get the revenue and the subscribers. So I guess those are two questions. On the second question, Sampath, I think you can answer on that. You can answer on the first one if you want to correct me.

A – Sowmyanarayan Sampath

No, I will not do that today.

A – Hans Vestberg

Okay. Thank you.

A – Sowmyanarayan Sampath

Look, on the second, the way you think about first is penetration. Just have been in this business for 20 years. We'll see penetration well north of 40% in our space as we do that space. I think now get more comfort because we'll have more mobility to bear into that space as well. So well north of 40% penetration, we do that.

But the second thing we are seeing is every new cohort that we bring in to the market tends to have better one-year penetration than the previous cohort. So it gives us more confidence that -- and you would think when we get to the end of our build, you're getting to the less attractive, but that's not the case. Our first year penetration is actually better this year than it was last year and other. Some has to do with the way we market and the way Joe and my team work together to pre-sell some of that capacity to do that.

In terms of ARPU, I know we don't report a specific broadband ARPU number. But look, we tend to do very well. We are industry-leading. If you look at Frontier's ARPU numbers, we'll have continuous growth on top of that because we will -- our customers on broadband sit in the myHome framework, where they come, they buy the connectivity piece.

And look, majority of our customers take the 1 gig plus plan coming in. So that gives us a boost in ARPU. And then we start selling perks and other adjacent services on top of that. So we'll see good comfortable ARPU growth with a 1 gig plus plan, ARPU growth on that and the north of 40% penetration pretty much across our fiber footprint as well. Thank you. Next.

Brady Connor

Okay. Let's go. We're going to go Frank back here in the back row, and then we'll come back up to Tim in the front row over here.

Frank Louthan

Okay. Great. Frank Louthan with Raymond James. So on the fixed wireless, what is sort of the outlook for that on the business side? Is -- are those 8, 9 -- 8 million, 10 million subs include business, Type 2 replacement, you comment on that? And then getting to 35 million or so homes passed with wireless, is a pretty high percentage. Can you get there without additional M&A? Or does that include BEAD or other government subsidy?

Hans Vestberg

The second one doesn't include any M&A. And besides the one we have planned that you have announced. And B, as Joe said, there's no -- there's small pieces that will not rock the boat. We will make our numbers, regardless or BEAD or not. We will, of course, participate in BEAD that we can do.

On the business side, those are in the number 8 to 9, yes, business side is included. And I have to say one of the things that Kyle and I are more surprised than others is, of course, the success we have had on the business side. Maybe you should talk about it on fixed wireless access on the business side, Kyle.

Kyle Malady

Listen, Frank, thanks for question. We continue to see this as a great opportunity, like I said before. We actually did a little bit better with this product than we thought we might. And what's interesting is enterprises, small businesses are figuring out different ways to use this connectivity. It's just not for broadband like you would see in a consumer world. So we think people are going to continue to innovate with it. And so this new -- these new open for sales that Joe and his team are putting together for us, we feel we can accelerate and really sell into this thing.

I'm also excited about the -- what you hear about the using millimeter wave for MDU. A lot of these MDUs also have stores or businesses in them. And so we'll be able to leverage that investment as well to increase our market share in this area. So a lot of work to do, but – but we're really happy with the plans that Joe has put out for us to sell into.

Hans Vestberg

And a good thing from a sort of a utility point of view, many of the customers that Kyle have, they are using the fixed wireless access on certain hours. The consumers are another hour. So this is just using the utility even better that we can sell it in and we can monetize all hours of the day with our network. Next.

Brady Connor

Come up here to Tim in the front row.

Tim Horan

Thank you. Tim Horan, Oppenheimer. We're seeing pretty unprecedented improvements in technology across the board, satellite, AI, what you're talking about, you would stand alone. Can these be material drivers to the business model, both maybe just talk a little bit about incremental revenue from all of these and maybe the ability to use AI to automate and digitize a lot more. And I guess -- and specifically, you satellite direct to phone, direct to mobile. Can that be a real needle mover in terms of overall growth rates for the company?

Hans Vestberg

I think AI is definitely over a time frame. So how kind and I think about AI, generative AI especially, in the beginning right now, we see large language modules going to the big data centers out to the market all the time. As soon as they're going to be an application that you're going to use as an enterprise, you're going to put it much closer.

For the main reason of the transport cost for privacy, for security and in some cases, also latency, maybe not equally much. But then you're going to see a big opportunity for us, given what Kyle talked about. And we will come back a little bit more specific on it, but definitely. But it's going to take some time from all these large language models to be real products and sitting in the edge of the network. So that's clear.

Slicing is another area we talked about. We believe that we will probably start more in the business side and then we'll come to the consumer side and that we see as an opportunity as well.

On the satellite, a little bit too early to see how large opportunity can be, I have to say, because, of course, we want to offer satellite to our customers in the white spaces, we are not allowed to build, for example, and see a direct device. A little bit too early on the consumer side to see if that's a business case.

On the business side, yes, we can see that already for remote enterprise or things like that. So those three are new revenue opportunities on top of everything we've talked about in.

Brady Connor

Okay. We're doing fine on time. So we're going to get to everybody to just be patient. So we're going to go front row with Walt very here.

Walt Piecyk

Walt Piecyk from LightShed. So the 2% to 3.5% growth you had historically, there was a lot of doubts whether Sampath is going to deliver on the units. Obviously, it's going to come down in the fourth quarter, but it looks like the Q of the P&Q is happening, just had a price increase, which should accelerate the postpaid growth in the fourth quarter at a time when people are concerned about the economy, right? So you've got -- it seems like some decent strength there.

Now you're investing in fiber, you're investing in fixed wireless. Who knows where inflation is, but is the Board now expecting you to deliver higher than this 3% growth? Again, you've got postpaid working. Now you're talking about prepaid, growing, you're making new investments. Shouldn't the expectation be that total wireless number, not 2025 guide, Tony, but like at some point, getting to a -- what is considered -- I mean, T-Mobile is considered a growth company, what are they doing, like 4%, 5% growth, like so delivering that type of growth? That's my first question.

Hans Vestberg

It was a good question, Walter. There was a lot of things to unpack there. But ultimately, you're right on many things we're doing. You're right. We're trying to turn everything right, but we also had some headwinds that with program amortization, for example, that is a headwind for us. So but all in all, our focus is to really do right and do more value for our customers.

And I think we are have proven now the last six, seven quarters that we talked about that we can do it. Not going to go into confirming any of your growth numbers or percentages, but we are incentivized to grow our wireless service revenue, that's part of all the teams sitting there and all the V Teamers, they are incentivized to do that.. So of course, our focus is going to be that because we have a leverage model. If we grow, it basically falls down even more to the bottom line, and then we can both improve our cash flow and/or adjusted EBITDA.

So all the things you are saying is what we are doing on. I'm not going to commit to any numbers. But clearly, that is to grow faster over time or be sustainable. That's very important for us because that is how we return both cash flow to our shareholders and continue to be an attractive stock to invest in.

Walt Piecyk

Okay. And then just one quick one because you know I like care about the Apple stuff. I think Tony was very clear on where the current upgrade rates are. But the new narrative is, oh, even though AI sucks now, it's going to be better over the next couple of years. Just kind of your viewpoint on -- because you have to manage cash, right, based on upgrades over the next two years, do you think AI is something that is going to stimulate the upgrade rates within the wireless whether it's Verizon or just broadly in the industry? Thanks.

A – Hans Vestberg

It's a little bit too early to say. I mean many of the AI application, of course, are very helpful. But when it comes to consumer devices, we also need to think about the processing power for this application, if you want to do something really innovative. So I think it's a bit too early to call that. I usually say, historically, when we've seen sort of cycles in our industry that's been 4G to 5G or hardware redesign. Those are the things that have triggered it.

Now we're talking about is a software cycle's going to do it. It's too early for us to say at least, we're so far, and I'm looking at my colleagues, we haven't seen that. We haven't seen that is creating the cycle. But it's too early to say we're going to be -- if it's going to happen, we're going to be continued very discipline in how we do promotions. We're going to have the right promotions for the right customers at the right moment in the right segment with the right type of value.

So we will continue the work we started somewhere in 2023 with segmenting approach on everything we're doing. Remember, I look at this as a customer sort of investment that we have, all the way from promotions, retention and media. For me that's one bucket, how I drive the market. And that's a tight budget for us, but it's very flexible. As I see Leslie is here in marketing. Sampath is here, Kyle is here. We sit down all the time and see should we put more retention, should we do more on promotion, should we do more on media. That is an ongoing work for us that is dynamic nowadays. Historically has been a little bit more static.

But where the market is right now, this is super important to be good at this. And then AI comes in, so you can be even better to see that -- we have -- our customer segment here needs more offerings here. We need to come from here, need more media. We need more retention. All that is a new word where we are in a world where wireless and broadband is such a necessity. Everybody needs to have it. If you're a business or if you're an individual consumer, and we have the best products in both of them. We just need to see that we are creating the value for our customers, and we can go with them upwards. This is something we spent enormous lot of time on because we are getting into a new phase all our industry where I think that I don't think we have ever been as good position as well right now.

A – Brady Connor

All right. We're going to go -- well, there's still hands up. Okay. We're going to cut in over here and then cook in, then we're going to come back to Laurent. And we'll finish with Jonathan and John.

Unidentified Analyst

So maybe, I guess, to start with on fixed wireless. I mean I don't know if this understanding is correct, but it feels like the approach or the go-to-market strategy is mutually exclusive between fiber and fixed wireless in the sense that I don't think that's the approach some of your peers are taking where fixed wireless is top of the funnel, you upgrade people to fiber and it becomes a different path. For you it seems like a TAM opportunity where you expand the market. So first, I want to get an understanding of whether that's the go-to-market approach?

A – Hans Vestberg

Yeah. We can confirm that one. Yeah, that is it. I mean we want to create optionality and that's how we build the networks. Different customers want fiber or Fios and others want fixed wireless access. We want to want to create that opportunity. I don't miss out on any of the segments because they like one product and the other. We are trying to address both of them. That's what the plan you see here.

Unidentified Analyst

And then from a capital allocation perspective, I mean, when you think about your peers, they're obviously using a slightly different approach when it comes to investing in fiber with JVs and maybe more localized kind of an approach in different parts of the country using these JVs.

And you followed a more of an on-balance sheet approach. Is that an option you have in the future to look at some of these structures? Or is this something that that you've made a deliberate choice on this is--?

Hans Vestberg

No, it's not a deliberate choice. It is -- we look into everything and it's an option, but again, it has to be a good return on investment. So far, we haven't found any third-party models where we don't own the capital and somebody else own the capital that is really attractive with our return on capital because we have one of the best into return on capital in the industry and we want to see that, that continues.

So far, it has been organic. We're doing it. But -- nothing is excluded here. I mean, I usually say that the CEO, you can never say that are never going to do it and then suddenly you do it, then everybody say you told us not. But -- so I couldn't exclude it, but so far, we haven't found any of those models that we think is attractive in our capital allocation and our return to our shareholders.

Brady Connor

We'll go to [indiscernible] next.

Unidentified Analyst

Thanks. [indiscernible] with Evercore ISI. Maybe for Sampath, I had a question about your perks portfolio. And the 7 million subscriptions, you mentioned is pretty impressive, fairly ambitious targets to double that going forward. Are you happy with the portfolio now? Do you see that changing? And as you expand that, does your relationship wholesale partnerships, does that dynamic change in your economics evolve, especially with entertainment partners that you have?

Sowmyanarayan Sampath

I think when we started launching myPlan, our sales teams were getting used to this. It was selling motion. Our customers are also getting used to it. So, if you look at our attach rate, it has grown significantly from when we launched at the beginning of the year, again, beginning of the year to where we are now, teams are getting more comfortable than that. So, that's why we get to 7 million. We'll double that at $10 a pop, you can do the math on where it goes.

What we tend to find is the perks that do well for us are ones that are exclusive to us, ones that have maximum savings and then one just have a very strong value prop for the customer.

So, you'll not see us have a very long tail on that. Because what it does is it doesn't focus the attention of the sales teams and our digital efforts to do that. So, we'll continue with our approach of having fewer, deeper relationships like right now, we have deep relations with Apple, with Disney, with Netflix, with MAX, some of our own perks as well. And also, it has to be margin accretive to us as well. We've been quite open about this. This is a margin play as much as it's a revenue play for us.

So, fewer, more concentrated perks makes a lot more sense. And that if it kind of answers your second part of the question, we tend to have more leverage over our partners and that drives better economics for us in the process. But we're really excited about getting to double this perk portfolio with a pretty margin-rich pool that we have right now.

Hans Vestberg

And then adding also Sampath some of the combinations, we are unique. We're the only one who can do those combinations that we have had, for example, MAX and Netflix in the market. Nobody can combine that. That's how we have negotiated, so we have this flexibility and exclusivity to do it, and that is what is driving quite a lot of things.

And all-in-all, every perk we have is a saving for you, for our customer. And of course, it's also a saving for our partners because ultimately, they're wholesaling to us, they don't have the cost of acquisition. But again, we only do it when we -- it's accretive for us as well. Has to be accretive for the customer, has to be accretive to us. And then we go forward and creating a very unique model. And sometimes, you might think this is pretty simple. But I'm looking at Shankar, with this our head of IT.

Just imagine you can come into the store and actually be a Netflix customer and move over to be a Netflix customer to Verizon. We take care of all of that back end. The only thing you need to remember is your password. And sometimes that might be a problem, I know. But so just imagine how much work we have done to make this a unique offering that is hard to replicate, first of all, some of them are exclusive. And number two, you need to replicate a lot of things behind because if you're going to go home and then you log off and then you log on and cancel and everything. I can tell you the heat rate is low. Extremely low. And that's why we have worked so much with the customer experience here to do this in the right way.

And I think that Sampath and Leslie and Shankar and the whole team have thought about how we make it simple for our customers. So I think this is just the beginning of us using the distribution as a strategy. We have the network. We have the distribution. We're just going to continue to do the right thing for our customers here, and that's going to pay off long term for us.

Brady Connor

All right. So the clock is ticking down. We have time for one more. We're going to go Laurent here in the back.

Laurent Yoon

Sorry, Sampath one more question for you. This is Laurent Yoon from Bernstein. You mentioned the 500 basis point incremental penetration of wireless and where you have fiber. Can you give us some color on correlation versus causation for that number?

And secondly, how important is that observation or more explicitly. Is any of that the expectation of incremental wireless built into your fiber business case going to 35 million to 40 million passes?

Sowmyanarayan Sampath

Yes. Let me answer the second part first. Look, we feel comfortable between Joe, Tony and I on this 35% to 40%. Fiber economics is getting better over time. Two reasons. The first one is cost, as Joe said, we're getting better on technology, better systems, able to take cost out of the process. Second is penetration. A, north of 40% penetration, but also how quickly we get to that north of 40%. That's another important factor.

Another important factor, Laurent, is the first year of penetration. How quickly we get to first year penetration. And as I said, we keep getting better every year on how quickly we get to year one penetration in that. So those are some of the factors that make fiber really attractive.

On top that, now you have mobile plus home benefits that historically, we've not had or not spent enough time on. So that's kind of cherry on top of the whole Sunday in terms of why fiber economics looks really strong going forward to do that.

To answer your first part of the question, if we see 500 basis points or 5% better wireless market share in Tier 1 large Tier 1 markets where we have fiber. Look, I think there is, a lot of it is driven by causation, because you have better brand, we're able to spend more money on marketing in those local markets.

Two is also distribution. Historically, we've not had our stores get involved in Fios sale. Now we have a sales motion where all stores, especially in the Northeast, get more involved in the Fios sale. You saw that this quarter, we actually launched it this quarter when we do that. So better marketing, we're able to double down efforts but also you tend to get the cross-sell opportunity in that.

So I think a lot of it is causation going forward. So there will be upside in our mobility case as we continue to get to 35 million to 40 million homes of fiber definitely.

Hans Vestberg

Thank you. I guess we are wrapping up. First of all, thank you, everyone on the webcast, everyone coming here face-to-face in New York. Hopefully, you've got more insights, both to our third quarter, but also to our expanded broadband strategy, and for sure, we will back with more information as we have more quarters to come and other activities.

So once again, thank you so much, guys, for coming. Thank you.

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