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VZ.N - Q3 2025 Verizon Communications Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, and welcome to Verizon's third quarter 2025 earnings conference call. (Operator Instructions) Today's conference is being recorded. If you have any objections, you may disconnect at this time.

I would now like to turn the call over to Mr. Brady Connor, Senior Vice President, Investor Relations.

Brady Connor - Verizon Communications Inc - Senior Vice President

Thanks, Brad. Good morning, and welcome to our third quarter 2025 earnings call. I'm Brady Connor, and on the call with me this morning is our new Chief Executive Officer, Dan Schulman; and Tony Skiadas, our CFO. Before we begin, I'd like to point you to our safe harbor statement, which can be found in the earnings presentation on our Investor Relations website. Our comments this morning may include forward-looking statements, which are subject to risks and uncertainties.

Factors that may affect future results are discussed in our SEC filings. This presentation also contains non-GAAP financial measures, and you can find reconciliations of these measures in the materials on our website. With that, I'll turn the call over to Dan.

Daniel Schulman - Verizon Communications Inc - Chief Executive Officer, Director

Thanks, Brady, and good morning, everyone. On behalf of the Board and everyone at the company, I want to start off by thanking Hans for his leadership and passion and his many contributions to Verizon over the past eight years. Hans executed a series of technology-related investments that have positioned Verizon for success. By building an enviable network and a strong foundation we can leverage going forward. Hans been a friend for many years, and I appreciate his support as we enter this new chapter.

Personally, I could not be more excited about the future of Verizon, and I am honored to be its next CEO. As most of you know, I come to this role with extensive experience in the technology, telecommunications, and wireless industries. In fact, I began my career as an Assistant Account Executive at New Jersey Bell and then spent 18 years at AT&T eventually becoming the President of its consumer division.

So I have deep roots in the telecom sector and in many ways, this is like coming home for me. In the years since I've had the privilege to help lead and grow some of the most iconic consumer brands in the world, including AT&T, priceline.com, Virgin Mobile, American Express, PayPal and now Verizon. Those experiences have provided me with a strong perspective on customer-centric growth.

And of course, I've served on the Board of Verizon for the past seven years. So while I am only a few weeks into my tenure as the company's CEO, I've had a front row seat into the company's evolution since 2018 and therefore, come into this role with a rich perspective of where Verizon is coming from and what the opportunities are.

For many years, Verizon has led the industry with our reliable and scalable network, and we will continue to advance our network leadership. As you know, we're significantly investing in fiber and in the power of convergence with our acquisition of Frontier, which we expect to close early next year.

Verizon has deep strength and incredible potential, but the blunt truth is we haven't captured the customer growth opportunities, this strong foundation enables. Verizon is at a critical inflection point. For years, our priority was clear, build the best and most reliable network.

With that foundation firmly in place, our next chapter is about serving and delighting customers by building the industry's best overall value proposition and the best customer experience on top of it. We must shift to a customer-first focus and redefine our trajectory.

This is not a course correction. It is a fundamental change in our strategic approach to customers. The only way we can drive sustainable value for our shareholders is by significantly raising our game and winning responsibly in the market. This is about financially disciplined growth, winning with the right customers at the right economics. Volume growth and profitability growth can go and will go hand-in-hand.

We are fully committed to achieving both simultaneously. Before I elaborate on my vision for a revitalized Verizon, I'm going to hand it over to Tony to cover our third quarter performance.

Anthony Skiadas - Verizon Communications Inc - Chief Financial Officer, Executive Vice President

Great. Thanks, Dan, and good morning. Before I begin, I just want to take a moment to congratulate Dan on his appointment as CEO of Verizon. The leadership team and I are excited to work with him in creating this new chapter for our company. First and foremost, we remain on track to deliver our full year financial guidance, which includes our previously raised expectations for adjusted EBITDA growth, adjusted EPS growth, and free cash flow.

In Consumer Mobility, we delivered strong postpaid phone gross adds up 8.4% from the prior year. However, gross add growth was offset by churn of 91%, which resulted in postpaid phone net losses of 7,000 in the quarter. We continue to see healthy retention benefits from our converged customers. At the end of the quarter, more than 18% of our consumer postpaid phone base took a converged offering, more than 200 basis points above last year. We see significant opportunities to increase convergence in the Frontier footprint after we close the transaction.

Importantly, converged customers on fiber have a mobility churn rate that's nearly 40% lower than our overall mobility base. We also saw a 16% year-over-year increase in consumer upgrades in the third quarter tied to our Best Value Guarantee, which is resonating with customers.

Moving to core prepaid, we delivered 47,000 net adds, our fifth consecutive quarter of positive subscriber growth. The strength of our key brands as well as the continued expansion of Total Wireless distribution positions us to continue to grow our prepaid business. Verizon Business delivered 51,000 phone net adds. As expected, we continue to see disconnect pressure in the public sector, in part from ongoing government efficiency efforts. This was more than offset by strong demand from small and medium businesses and large enterprise customers as we continue to be the provider of choice for businesses.

Shifting to Broadband. We once again delivered solid results with 306,000 net adds. Our broadband base is up 1.3 million subscribers from a year ago and is now over 13.2 million subscribers. Fios Internet delivered 61,000 net adds, our best quarterly result in two years. Given the demand for Fios, we're working to bring it to more and more premises within our footprint.

In addition, we recently announced an initiative with Tillman that will enable us to bring our best-in-class Fios broadband offerings to even more households and businesses. The agreement combines Tillman's network design build and operations capabilities with Verizon scale, distribution strength and brand power. We will focus on markets outside of the Verizon and Frontier footprint, expanding our Fios business to new places across the country and driving more convergence in these markets.

Fixed Wireless Access net adds were 261,000 for the quarter. With approximately 5.4 million FWA subscribers, our annualized revenue has surpassed \$3 billion and continues to grow. We believe FWA can be a long-term sustainable business. In addition, we recently announced an agreement to acquire Starry, which will enhance our MDU capabilities, combining our scale and resources with Starry's technical and go-to-market expertise.

Moving to financials. Our third quarter performance keeps us on track to deliver on our financial guidance for the year. Third quarter consolidated revenue was \$33.8 billion, up 1.5% from the prior year period. We delivered over \$400 million of year-over-year wireless service revenue growth in the quarter. Wireless equipment revenue was 5.2% higher than the prior year, driven by higher gross adds and upgrade rates.

Wireless service revenue was up 2.1% from the prior year, driven by continued ARPA growth from targeted pricing actions and further adoption of fixed wireless access and add-on services. Perks continued to provide a high-margin revenue stream, and we look forward to offering additional benefits for our customers.

Additionally, prepaid revenue grew year-over-year for the first time since the TracFone acquisition. As expected, we faced a promo amortization headwind in the quarter, and we expect this headwind to continue. However, our underlying customer economics remain healthy.

On the expense side, we have work to do to further reduce our cost of services and SG&A. As Dan will outline, we will be looking at cost with a new lens and will be focused on driving significant cost savings across all aspects of our business.

Consolidated adjusted EBITDA was \$12.8 billion, up 2.3% year-over-year. Year-to-date, we have generated almost \$1.3 billion more in adjusted EBITDA compared to 2024, driven by a combination of pricing actions and cost reduction. Our adjusted EBITDA growth of 3.5% through the end of the third quarter is at the top end of our guided range. Adjusted EPS was \$1.21 in the quarter, up 1.7% year-over-year, driven by growth in adjusted EBITDA.

The cash generation of the business continues to be strong. Cash flow from operating activities was \$28 billion for the first nine months of the year, up over \$1.5 billion or 5.8% compared to the same period a year ago.

CapEx through the end of the third quarter totaled \$12.3 billion compared to \$12 billion in the prior year period. We're on track to meet all of our investment goals for the year and deliver within our guided range or better. The combination of our continued CapEx efficiency and our ability to drive profits to the bottom line resulted in third quarter free cash flow of \$7 billion. This represents a nearly 17% improvement year-over-year and the highest reported in our industry by nearly \$2 billion for the period.

For the first three quarters of the year, we have generated \$15.8 billion in free cash flow, an increase of 9% compared to the same period a year ago. In September, we raised the dividend for the 19th consecutive year reflecting our continued commitment to shareholder returns.

Net unsecured debt at the end of the quarter was \$112 billion, a \$9.4 billion improvement year-over-year. We continue to make meaningful reductions to our debt throughout the year, resulting in our net unsecured debt to consolidated adjusted EBITDA ratio dropping to 2.2 times as of the end of the third quarter. This puts us inside of our target leverage ahead of schedule and before the Frontier closing.

We're focused on generating strong cash flow and committed to paying down our debt. We also remain committed to our long-term net unsecured leverage target range of 2.0 times to 2.25 times. This is not going to change.

Looking ahead, we remain on track to close the Frontier deal in the first quarter of 2026. We have received approvals from 11 of 13 states and are making good progress in the remaining jurisdictions. Integration planning is on track. And through the third quarter, based on their public disclosures,

Frontier is performing extremely well across both their fiber build and customer growth. While we continue to execute within the parameters of our financial guidance, we recognize there is significant opportunity ahead.

And with that, I will turn the call over to Dan.

Daniel Schulman - *Verizon Communications Inc - Chief Executive Officer, Director*

Thank you, Tony. When I look at our performance objectively, Verizon is clearly falling short of our potential. And as a result, we are not delivering the shareholder returns our investors expect. Despite investing significantly in network leadership, we have not been able to translate that into winning in the market.

And consequently, we are not generating the financial profile necessary for share price appreciation. Our stock performance reflects this reality. My mandate from the Board is clear, unlock the growth potential of our platform while delivering strong financial results.

Today, I intend to discuss my priorities and areas of focus. Our plan will not be about incremental change. We intend to aggressively transform the culture and financial profile of our company operating under the principles of being bold, customer-centric and executing with financial discipline with a focus on shareholder value.

For the past few years, our financial growth has relied too heavily on price increases, a strategic approach that relies too much on price without subscriber growth is not a sustainable strategy. Every year, it gets harder to grow as we lap past price increases and experience higher churn. This cannot continue, and there is no question that meaningful change is needed.

As we shift to a customer-first culture, we will simultaneously drive a much more efficient cost structure, that fully supports our incremental investments in delighting our customers. I reject the premise that delighting customers and winning in the market means that margins will decrease.

I think this industry and clearly Verizon are only scratching the surface of increased bottom line performance. My top strategic imperative for Verizon is to grow our customer base profitably across our Mobility and Broadband subscription businesses. I strongly believe that growing volumes essential to drive sustainable long-term revenue and adjusted EPS growth. We are going to compete and grow responsibly across all market segments.

And over time, meaningfully increase our share of net adds, particularly in postpaid. We aim to win fairly by having the best overall value proposition and delighting our customers across all elements of the marketing mix. This is not going to be about promotional activities that can be quickly imitated. It is about true innovation, not easily replicated by our competitors. We will leverage our network excellence to drive growth, but we cannot rely on it exclusively.

Network quality is now foundational. Winning in the marketplace demands a revamped and superior customer value proposition and requires full attention to the entire customer experience. We will significantly elevate our game across multiple dimensions. We will work relentlessly to serve our customers, ensuring that every customer is fully satisfied with their Verizon experience. We must make it much easier to do business with us.

You should expect bold execution powered by sophisticated and smart marketing, actions that strengthen loyalty and the elimination of practices and processes that detract from the customer experience. Raising rates without corresponding value rarely, if ever, delights customers.

Our primary objective is to build loyalty and drive significant improvements in retention to optimize the lifetime value of our customer base. Verizon will no longer be the hunting ground for competitors looking to gain share. We are reinventing how we operate to make Verizon more agile and efficient.

You should expect disciplined execution across marketing, operations and service. We will invest significantly across all elements of our marketing mix and customer experience to drive mobility and broadband growth, and we will fund these investments by aggressively reducing our entire cost base. We will be a simpler, leaner and scrappier business. This work is overdue and will be multi-year and an ongoing way of life for us.

In addition, as some of you know, I am a strong believer in the growing power resulting opportunities created by AI. We have barely scratched the surface of how AI-powered innovation can transform our customer experience. I intend to use AI as a key tool to simplify offers, improve the customer experience and reduce churn through smart consistent and more personalized marketing and offers.

And we will leverage AI throughout the company to make it easier for our employees to delight our customers and to dramatically improve service while reducing cost and complexity across the vast majority of our business processes. While we narrow our focus to invest in key growth areas. We will also aggressively sunset or exit legacy businesses where we don't see a clear path to profitable market leadership.

We have a large opportunity to unleash meaningful margin improvement by doing so. And we will talk about this in more detail in January. Convergence is one of our most significant near-term growth opportunities. The pending acquisition of Frontier will enable us to serve approximately 29 million fiber passings creating a massive cross-sell opportunity. Our wireless share significantly under-indexes in Frontier's territory, and we intend to address this on day one.

This will create a significant runway to capture mobility volume from our broadband customers and cross-sell broadband to our existing mobility base, driving meaningful revenue synergies. I recently met with the Frontier senior leadership team. Their focus and performance is impressive. Their results are trending above the expectations when we signed the deal, and I am looking forward to having them join the Verizon team. We will continue to expand our fiber footprint through our own build and with strategic partnerships.

I expect the actions we are taking will enable us to generate higher free cash flow in 2026 than 2025, even when we include Frontier. Our business is generating strong cash flow today, but I believe it can be even stronger. I am committed to prioritizing the customer experience, while maximizing returns for our shareholders and doing both in a fiscally responsible manner.

I am closely examining not just our operating expenses, but also our capital spend, and our capital allocation framework. I believe that elements within our framework can change to optimize our capital structure and shareholder returns. This includes an ironclad commitment to our dividend, continued debt repayment and value-creating capital return.

In short, we will be much more deliberate in how we allocate our spend to execute our strategy. Of course, we'll continue to invest in the business. and we will do so with a critical eye towards growth areas. You can expect our capital envelope to support the completion of our C-band build-out and our long-term objectives for fiber expansion, while preserving our financial capacity and flexibility for strategic investments as the landscape evolves.

To summarize, we understand change is needed, and we are aggressively making those changes. Our goals and our priorities are clear. First, delighting our customers to meaningfully increase our share of industry net adds. Second, cost transformation, fundamentally restructuring our expense base. Third, capital efficiency, optimizing how and where we invest. And fourth, accelerating shareholder returns by increasing our bottom-line growth, and a steadfast commitment to our dividend.

You can expect to see a tangible difference in the way Verizon competes. Going forward, we will aggressively compete and fundamentally redefine what it means to be a Verizon customer. I'm confident in our strategy, our assets and the team's ability to execute. We have the network, the scale, the brand, and now the strategic clarity and commitment to drive sustainable growth. We are playing to win, and this will be a different Verizon than the market is used to.

This will not happen overnight, and there's no one silver bullet. It will require hard work, strategic focus and thoughtful execution. Importantly, much of the critical planning and evaluation is already well underway. We will provide 2026 guidance during our January earnings call, and we will report progress against these objectives quarterly.

Our shareholders and our customers have been patient. It is now time for us to deliver. Thank you, and Tony and I look forward to your questions and comments.

QUESTIONS AND ANSWERS

Brady Connor - *Verizon Communications Inc - Senior Vice President*

We're ready for questions.

Operator

(Operator Instructions)

John Hodulik, UBS.

John Hodulik - *UBS AG - Analyst*

Can you expand on your vision of the company and what you expect to accomplish, say, over the first 100 days? And specifically, if possible, can you touch on or provide more details in terms of how you expect to turn consumer volumes?

Daniel Schulman - *Verizon Communications Inc - Chief Executive Officer, Director*

Nice to hear from you, John, and to work with you again. Look, let me take just a quick step back. I'm extremely excited about Verizon's potential. We are building off tremendous assets. We've got an excellent network.

We have got an iconic brand. You've got tens and tens of millions of loyal customers. We have a really talented team, but it's clear we need to enter a new chapter. The existing status quo is not acceptable for us. And I wouldn't be here if I wasn't fully confident in our ability to pivot.

The vision has three pillars basically to it. The first pillar is about shifting from being a technology-centric to being a customer-centric company. This is about delighting our customers. This is about growing through retention basically, my aspiration is I want to have the lowest churn rate in the industry.

And when you talk about growing through retention, it is about creating the best value propositions segmented by the various segments in the market, looking at all elements of our marketing mix quite thoughtfully and looking at creating the best customer experience possible.

This is a full reboot of what Verizon means in the marketplace. And this is not about one-time noneconomic promotional activities. That's not how you're going to win over the medium and long term in this marketplace. It's about being thoughtful across all elements of the value proposition and marketing mix and winning responsibly.

And that's kind of what we intend to do, and we are well underway throughout the organization in making that shift. But I don't want to underestimate or underplay how big a shift that is for us, but it is the way that we win over the long term.

Second pillar that happens simultaneously with delighting customers because we want to drive shareholder return simultaneously. I want to deliver sustainable revenue growth and accelerated bottom line adjusted EPS growth. And as I mentioned in my script, the dividend is sacrosanct to us. We are going to examine every element of our OpEx and our CapEx, and we are going to fully fund all of our initiatives with OpEx savings and drop them to the bottom line so that we can accelerate EPS growth as well.

And finally, the third pillar kind of supports all of this is a full review of our CapEx spend and our capital allocation. You can expect us to continue to invest heavily in growth areas with a path to profitability, whether that be completing our network, expanding our network, fiber aspirations, other opportunities as they become available to us in the ecosystem. We have a tremendous amount of financial flexibility on the balance sheet. We're going to do a hard look at portfolio rationalization and divest and exit legacy businesses where we don't see a clear path to profitability.

As Tony mentioned, we'll continue to pay down debt. We'll continue to be steadfastly committed to our dividend. And we will review, frankly, other opportunities to return capital to shareholders. And so I think just to summarize, we want to win responsibly in the market. We're going to do that through, let's call it, kind of growth through retention, looking at all elements of how we delight customers and at the same time drive shareholder returns.

We think we can do both, and we're committed to that.

Brady Connor - *Verizon Communications Inc - Senior Vice President*

Thanks John, Brad we're ready for the next question.

Operator

Ben Swinburne, Morgan Stanley.

Benjamin Swinburne - *Morgan Stanley - Analyst*

I had two questions sort of tied back to your comments. You made the point, Dan, that you think the reliance on price increases has been misguided or were not productive and not sustainable, I think it was your phrase.

I think there's a view in the market that Verizon's back book is overpriced relative to sort of where the consumer is. And I'm curious if you agree with that probably oversimplified generalization? And more specifically, how do you drive share for Verizon higher in -- particularly in consumer without going through sort of a painful kind of back book repricing exercise, which I'm hearing from your financial commentary about accelerating earnings growth and free cash flow that you're not expecting.

And then I just was curious, you guys were very clear on your balance sheet and leverage targets. But would you be open to flexing the leverage higher if the right opportunities presented themselves. There's a lot of spectrum in the market, more coming from the FCC down the road, you have this Tillman agreement. So just curious if you could talk a little bit about the potential to take leverage higher, at least temporarily if the opportunities were there.

Daniel Schulman - *Verizon Communications Inc - Chief Executive Officer, Director*

Ben, thank you for all of your questions. I hope I remember a couple of them at least. Look, I think my view on our approach into the market is to be quite thoughtful and financially disciplined. I think that we need to look at the reasons why customers are leaving us.

And there are basically four that customers there are more, but these -- the top four are price increases that we've done, that customers run into some friction in the experience with us and we need to fix that. There's a value perception. I think I call it a value perception, not pricing. Because the value is all about price to value. And I feel we offer good value and -- but there's a value perception.

And then there's obviously competitive intensity. There are a lot of offers in the industry. Our game plan is going to address all of those pain points for our customers. We want to have the best-in-class experience I want to leverage things like convergence.

I want to create segmented and targeted value props and offers. I want to think carefully across all of the marketing mix. There are four marketing P's. I always throw a fifth one in there, which is Prayer. But I think like pricing is the last refuge of the market when desperate. It is what you pull when you have nothing else in your quiver. And frankly, we have a ton of things to pull in terms of creating incremental value for our Verizon customers.

And so although I won't go into specifics on how we're thinking about this because it's still early days and I'm actually never going to go into specifics because I don't want to tip off our competitors on what we're trying to do in the marketplace.

But I think that we can begin to take our fair share of the new to the industry, postpaid adds, we're going to start off by it by increasing it because today, we take somewhere between and some very low percent of the new-to-industry postpaid, we're clearly losing share, and that's not a sustainable path for Verizon. So we'll win eventually, our fair share of industry net adds going to reduce our churn to being the industry best. I want to responsibly win in a fiscally prudent manner.

So hopefully, I hit a couple of your questions, at least there, Ben, anything else that you want me to hit on? Tony?

Benjamin Swinburne - *Morgan Stanley - Analyst*

No, that was really helpful, Dan. Just I was curious on the balance sheet, any openness to flexing up if you had the opportunities?

Anthony Skiadas - *Verizon Communications Inc - Chief Financial Officer, Executive Vice President*

Sure. Hi, Ben, it's Tony, good morning. So a couple of things there, very comfortable with the long-term leverage target. And as you know, we've had a long and demonstrated track record of execution with the balance sheet. The target is very appropriate for the company of our size, and the way we expect it to perform in the future if you heard Dan talk about that.

We have strong cash flows, as you've seen, we reiterated our guidance for the year at \$19.5 million to \$20.5 billion for 2025. And as you heard Dan in his prepared remarks, we expect to have higher cash flows in '26 versus 2025. And that leverage target gives us the ability to invest for growth. It all gives us a lot of flexibility and balance sheet capacity to be opportunistic should the need arise from a strategic standpoint.

As we talked about, the deleveraging is on track. We're now inside of our long-term leverage target at 2.2 times. We have Frontier coming in, as we said previously, that will add about 0.25 turn to the metric and that will be for a short period of time. We are going to operate outside of it for a period of time. But the overall goal is not going to change. The focus is generating strong cash flows and execute across the entire capital allocation framework, and that includes continuing to pay down debt.

Operator

Michael Ng, Goldman Sachs.

Michael Ng - *Goldman Sachs Group Inc - Analyst*

Good to be reconnected with you, Dan. I just have to First, are there any parallels between Verizon and PayPal that inform your view of the opportunity for improvement? Where in the Verizon business, do you see the biggest need for a change agent.

And then second, Verizon's Perks and myPlan seems like a strategy where it puts it closer to a super app strategy relative to peers. Is this something that is important to your strategic blueprint any opportunities or key benefits that you would call out?

Daniel Schulman - *Verizon Communications Inc - Chief Executive Officer, Director*

It's good to hear your voice again, Mike. I look forward to seeing you again as well. I think when I think about kind of when I first started at PayPal and now for starting here with Verizon, there are definitely similarities, one of the big things that we did at PayPal when I first came on was declare that we were going to be a customer champion.

And declaring you're going to be a customer champion is kind of easy words. But if you're really going to be a customer champion, it takes hard work and it takes challenging your business model as well. It means doing what customers expect and addressing all of their pain points and then figuring out how to delay and surprise them going forward.

At PayPal, that was giving customers full choice on how they could pay, not by forcing them to pay with what was the highest margin funding instrument that they had in their wallet for us. And that unleashed a huge amount of growth for the company. And I think the same thing can happen here. We're going to invest heavily in our value proposition.

We're going to fund all of that cut in our cost structure. We have a tremendous amount of opportunity to be more efficient, to be scrappier. In many ways, this is a turnaround for us and making sure that, culturally, we're ready to make that move from being technology-centric to being customer-centric. It takes some time, but there is no question that what I saw in PayPal. I see it here in Verizon, too .

The team here wants to reclaim their market leadership. And they will do anything that they can. Big companies are extraordinarily good at responding to a crisis. They're not necessarily good at day-to-day but responding to a crisis are amazing.

And this is really a clarion call to the company to refocus, regain our leadership by focusing on customers, delivering what they want, not doing things that don't delight customers. And so there are a lot of similarities, obviously, very different industries, different ways of thinking about it.

And when you talk about the value prop and things like Super App versus how we might think about that. Just give us a little bit of time to develop our thoughts more from where we are at a full effort underway right now, and you'll hear more about that as we go into January and beyond.

Brady Connor - *Verizon Communications Inc - Senior Vice President*

Thanks, Mike. Brad, we're ready for next question.

Operator

Mike Rollins, Citigroup.

Michael Rollins - *Citibank Cameroon SA - Analyst*

Dan, welcome back, and congratulations on taking over as CEO. You mentioned a few times the importance of convergence. I'm curious to get your perspective on where you would like convergence to go over time in terms of the physical fiber footprint, how many passings you want to see that get to and the path potentially to get there as well as how you're looking at fixed wireless and whether it's time to incrementally invest in fixed wireless as also a way to drive more broadband business for the company.

And then just secondly, following on your comments about accentuating the growth side of the business and deemphasizing or exiting legacy business. I was curious if you could put more context around that as -- when you look at the Verizon portfolio in totality, how much of Verizon do you view today as strategic and growing versus legacy. And what are the ways you're trying to better frame that internally as well as externally for shareholders?

Daniel Schulman - *Verizon Communications Inc - Chief Executive Officer, Director*

Yes. Mike, it's great to hear from you again. You've been around this industry for a long time, and I appreciate your thoughts and your questions. I'm a very big believer in convergence. I think it is extremely powerful. I think offers not just meaningful revenue synergies, but as Tony mentioned and as we see, when you combine mobility with fiber, you see churn rates that are almost 40% less than what we see with our traditional mobility.

And I think, thinking innovatively about how we bundle together broadband, writ large, and that includes both fixed wireless and fiber with our mobility to drive both incremental broadband revenues as well as incremental mobility revenues will definitely beyond the plate.

So expect us to continue to invest in our broadband footprint and our fiber footprint as well as our fixed wireless as well, but also expect us to think about that innovatively as I mentioned, because I think there's a ton of opportunity in that. And as I mentioned in my opening remarks, we'll continue to invest appropriately and aggressively in that expansion.

In terms of kind of portfolio optimization, I think that's what you were talking about, kind of legacy versus broadband and mobility. Clearly, we're focusing on broadband and mobility. There are other areas, by the way, that I think we can focus that are maybe potentially large opportunity areas. Clearly, AI infrastructure is booming, and we can be a part of that and should be a part of that. But we have parts of our business that are costing us billions of dollars of margin.

And I think we can think much more clearly about how we invest in growth areas and divest or exit those that are not that for us and are actually hemorrhaging margins for us. We'll spend more time on that in January and lay that out for you in more detail, but you can probably imagine what we're thinking about and talking about that. But I'll be more specific about that, and Tony and I will be more specific about that as we get into early next year.

Brady Connor - *Verizon Communications Inc - Senior Vice President*

Thanks, Mike. Brad, we're ready for next question.

Operator

Sebastiano Petti, JPMorgan.

Sebastiano Petti - *JPMorgan Chase & Co - Analyst*

Dan, congratulations on the role. I look forward to working together. Just maybe following up on the 2026 free cash flow. I mean, we're -- I understand the cost efforts will help -- basically help fund a lot of the growth initiatives that you're discussing here today and the pivot and your vision for the company. But relatedly and basically to Mike's question, and about the longer-term fiber footprint.

How do we square 2026 free cash flow growth? I mean it sounds like CapEx is coming down this year. implication would be free cash flow probably trends towards the higher end of the range. And as you -- and Frontier is burning \$1 billion of cash today. And so just trying to help understand that the question we've been getting incoming from investors this morning.

And then secondarily, I guess, just maybe thinking about the accounts growth in the core accounts decline in the quarter in the consumer as well as in the total wireless segment. Anything to help square there was the highest losses we've seen since the first quarter of 2020, rather, the pandemic quarter. So just helping us understand the trajectory there, and how should we should be thinking about that trend over time as you kind of focus in on convergence.

Anthony Skiadas - *Verizon Communications Inc - Chief Financial Officer, Executive Vice President*

Hi, Sebastiano, just on your question on free cash flow. So look, in the prepared remarks, we said we expect free cash flow growth for 2026 year-over-year. And that's all in, including Frontier. So some points on that, but that give us confidence in that statement. So first, we have a very good starting point.

The cash flow generation of the business continues to be very strong, and we have the strongest free cash flow in the industry. So we start there. And then in terms of actions, and I think Dan covered this multiple times, you should expect to see significant cost transformation. Dan talked about running leaner. Those plans are already underway.

In terms of the portfolio, we're looking at everything and everything is on the table for us. So -- and it also entails being very efficient with our capital spend. And what we said in the prepared remarks that we expect 2025 to get all our initiatives completed and will be [within the range or better](corrected by company after the call), and that's the goal.

And then as we look ahead, we said prioritizing investments focused on both mobility and broadband and being very efficient with our capital spend. We know how to do this, and that includes maintaining network excellence and also making sure we deliver on the promise for customers.

And as Dan said, areas not aligned to growth will be deemphasized. And those actions are underway, and we're acting with a sense of urgency. So we'll be back in January with the full view of that, Dan?

Daniel Schulman - *Verizon Communications Inc - Chief Executive Officer, Director*

Yes. Look, on account growth, I mean it just plays basically into what I was talking about before. The status quo doesn't work for us. We're going to be much more aggressive in delighting customers, and that has to happen.

Look, it's a competitive industry. And to all attractive and great industries are competitive. That's why people come into them because they're super important industries and most industries follow the rule of three, and wireless is no different in that.

I think about competition, a little bit how I think about gravity. When I get out of bed in the morning, I don't think, oh my gosh, gravity is pulling me down, it wasn't around, I could jump 20 feet high in the air, same way about competition. If it wasn't around, I'd have 100% share, but it is.

And both AT&T and T-Mobile are excellent companies. And with strong leaders in John and Srin, I have a ton of respect for both of them and their companies. But I feel like there's still plenty of room for growth in this industry. And depending on how you count it, somewhere between 5 million and 8 million new postpaid subs that enter into the industry every year. There's obviously switcher pools that are available is new and growing services, whether that be convergence or AI-powered infrastructure that can come in.

So there's a lot of opportunity in the industry. The key here for us is to win smart and responsibly, focus on what our customers want, not on our competitors. I feel like we can win this fight the right way. We earn it every single day. There's no need to ratchet up high promotional spend.

We want to be competitive. Obviously, we want to be consistent, but there's no reason for us to be irrationally aggressive to win our fair share out there. So we'll focus heavily and you'll see that in creating the best value propositions. They'll be very different than what you see today, make sure that we have the very best customer experience, and we are to do everything in our power to make sure we delight customers. And again, thoughtful around all elements of the marketing mix.

Look, we want to be so good that prospects want to come to Verizon, and our Verizon customers never want to leave us in. So a lot of work to do underway with that, but we feel good that we've got a head start on that, and we know what we want to go do.

Brady Connor - *Verizon Communications Inc - Senior Vice President*

Thanks, Sebastiano. Brad, we're ready for next question.

Operator

Michael Funk, Bank of America.

Michael Funk - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Dan, welcome back and congratulations, too. So Dan, I heard you loud and clear on growing through retention. So curious to hear from you, what strategies or tools you think best to reducing churn? And then how we should think about these as being proactive versus reactive when you think a subscriber might be on the verge of churning. And a couple more, if I could.

So curious to hear if you think about utilizing AI to address the efficiency offers you laid out for us in retention as well. And then you threw in your comments about AI infrastructure is booming. And love to know what that means for Verizon an opportunity?

Daniel Schulman - Verizon Communications Inc - Chief Executive Officer, Director

A bunch of good questions on the -- as I mentioned, we have a pretty good idea of what's driving churn. And so we have a pretty good idea on how to address all of those. In many ways, this is a multipart complicated business. And otherwise, it's pretty straightforward, honestly. And so we just need to hit these things one by one to reduce churn, continue to grow by retention, but also we'll have the right offers in the marketplace, will be competitive.

And I think you'll start to see evidence of that even beginning this quarter. But as I mentioned, this will take some time as well. When you want to turn around your entire offer into the marketplace when you want to redefine the culture, financial profile of a large company like Verizon. We need to do it in a very thoughtful provision manner, but with a nod to urgency and moving as fast as we can. We're going to be a much scrappier company than we've been before. We have a lot to do, and we're going to go out and do that.

(inaudible) On AI, I have spent a lot of time before I got here within the AI community help advise some of the CEOs in the AI community. So I have a really keen understanding of where it's going. I think AI is the only technology I've seen in my lifetime where it does step function improvement every two to three months. The models that we have today are by far and away the worst models we're ever going to have. You can see anywhere between 300% and 600% improvement in those models over the next year.

And obviously, they are becoming more and more powerful, and they are able to do more and more things. The other thing that AI is doing is clearly shifting the way the internet operates on its head. The internet is much more of a wide cast broadcasting and AI is much more narrow cast, much more individualized to you.

I think that, as I mentioned, we are just scratching the surface of how we use AI inside Verizon. AI can obviously be used to be more efficient to do things and satisfy customers in ways that we can do today and do so at a much lower cost, and that goes for across multiple functions inside any organization, including Verizon.

But really importantly, AI can be used to dramatically improve the value proposition that we put in front of customers. To your point, we can anticipate when customers want to upgrade when they have an issue, what that might be proactively address it before it happens, tailor and customize offers at micro segment levels that can radically change kind of where Verizon is today and frankly, where our industry is as well. And so I think that AI is today, a very large opportunity. And as the years go on, will be an increasingly large opportunity for not just Verizon, but American industry.

Brady Connor - Verizon Communications Inc - Senior Vice President

Great. Thanks, Mike. Brad, we have time for one more question.

Operator

Peter Supino, Wolfe Research.

Peter Supino - *Wolfe Research LLC - Equity Analyst*

And Dan nice to meet you in this way. I wanted to ask you two questions. One about costs and the other about fiber. On costs, I wonder if you could discuss the nature of the cost opportunities you see if there are some common threads or themes through them. Verizon looks productive on a headline sort of benchmark to peer's level?

And then on fiber, Verizon on course this year to pass about 650,000 homes incrementally with fiber organically. And at the same time, it's laying out \$10 billion to buy Frontier. And the two seem somewhat inconsistent in the sense that it's a rather slow organic fiber expansion in a rather aggressive external fiber expansion. I wonder if you could sort of reconcile those and let us know what you think an ideal organic expansion rate for Verizon's ILEC footprint for the organic fiber extension might be over time?

Anthony Skiadas - *Verizon Communications Inc - Chief Financial Officer, Executive Vice President*

Yes. So Peter, on fiber, I'll start there, and I'll hand it to Dan on the cost. So on few things here. So number one, I mean, fiber is not new for us. I mean we've been at it for 20 years, and there's plenty of room out there in our combined -- outside of the fiber footprint that we have today and with Frontier to be first on fiber.

And as you saw recently, we signed a deal with Tillman to further expand our broadband build and maybe just some aspects of that deal. It's a capital-light partnership and it gives us the opportunity to go outside in markets outside of the pro forma footprint that we have and Frontier has and to increase the conversion opportunity.

And look, in this case, the fiber is going to be built to our standards, leveraging the Verizon brand and bringing Fios to more and more location into a long-term deal, and it gives us a lot of optionality in the footprint in the future and really go outside the footprint with good economics, and we did not have that ability before. And to your point, we're on track with our 650 in terms of Prems pass and Frontier is, as you saw the results last night. We're also pacing to their fiber build.

So we're not stopping. So -- and I think you see that in the results in the quarter and where we're heading and with the deal with Tillman, we have a lot of runways ahead with fiber. And then I'll hand it to Dan on the cost.

Daniel Schulman - *Verizon Communications Inc - Chief Executive Officer, Director*

Yes, thanks for the question. First of all, our goal is to reclaim our market leadership, simple as that. And we need to invest to be the best in the marketplace. And that's going to take significant investment to go and do that, and we're fully committed to that, and we're fully committed to covering all of those investments through cost reductions, and redeployment of those cost reductions into our value proposition.

Cost reductions will be a way of life for us here. Honestly, I'm not that interested in comparing our productivity ratios to others and looking at how productive can we be as a company? What is the right place for us to invest, where are the right places for us to be leaner than we have, how do we use technology to do so.

This is all about satisfying our customers, but there's tremendous opportunity for us to be a more nimble and agile organization. Think everybody inside the company knows that we need to invest in our value proposition that we need to be customer champions, and that there's a lot of area for us to find efficiencies.

We'll talk more details about that as we're working through our plans, but we see plenty of opportunity to be the most efficient company in the industry. Again, we're looking at every element of our OpEx and our CapEx spend to make sure that we invest wisely, that we capture the growth areas in front of us and that we drive bottom line performance for our shareholders.

Brady Connor - *Verizon Communications Inc - Senior Vice President*

Yes. Great. Thanks, Peter. Brad, that's all the time we have today.

Operator

This concludes the conference call for today. Thank you for your participation and for using Verizon Conference Services. You may now disconnect.

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