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VZ - Q1 2019 Verizon Communications Inc Earnings Call

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OVERVIEW:

Co. reported 1Q19 consolidated reported revenue of \$32.1b and GAAP EPS of \$1.22.



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PRESENTATION

Operator

Good morning, and welcome to the Verizon First Quarter 2019 Earnings Conference Call. (Operator Instructions)

Today's conference is being recorded. If you have any objections, you may disconnect at this time. It is now my pleasure to turn the call over to your host, Mr. Brady Connor, Senior Vice President, Investor Relations.

Brady Connor - Verizon Communications Inc. - SVP of IR

Thanks, Brad. Good morning, and welcome to our first quarter earnings conference call. This is Brady Connor, and I'm here with Hans Vestberg, our Chairman and Chief Executive Officer; and Matt Ellis, our Chief Financial Officer. As a reminder, our earnings release, financial and operating information and the presentation slides are available on our Investor Relations website. A replay and transcript of this call will also be made available on our website.

Before I get started, I'd like to draw your attention to our safe harbor statement on Slide 2. Information in this presentation contain statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties. Discussion of factors that may affect future results is contained in Verizon's filings with the SEC, which are available on our website. This presentation contains certain non-GAAP financial measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are included in the financial materials on our website. The quarterly growth rates disclosed in our presentation slides and during our formal remarks are on a year-over-year basis, unless otherwise noted as sequential. Now let's take a look at consolidated earnings for the period.

For the first quarter of 2019, we reported earnings of \$1.22 per share on a GAAP basis. These reported results include a net pretax benefit of \$96 million related to a pension remeasurement triggered by the Voluntary Separation Program. The net impact after tax was a benefit of approximately



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\$71 million or \$0.02 per share, resulting in adjusted earnings per share of \$1.20. This represents growth of 2.6% on an adjusted basis compared to \$1.17 a year ago.

Let's now move to Slide 4 and take a closer look at our earnings profile for the first quarter. As a reminder, at the beginning of 2018, we adopted accounting standard, ASC 606, for revenue recognition, which results in a reduction in wireless service revenue offset by an increase in wireless equipment revenue and a deferral of commission expense in both our wireless and wireline segments. As we discussed previously, we expect a smaller benefit in 2019 than we realized last year from the adoption of the standard, primarily due to the deferral of commission expense. The reduction in benefit creates a year-over-year headwind to consolidated earnings per share and adjusted earnings per share.

For the first quarter, the impact was a \$0.03 year-over-year headwind to earnings per share. This headwind is expected to continue until the end of 2020. In addition, as of January 1, 2019, we adopted accounting standard, ASC 842, for leases. This will primarily result in a gross-up on the balance sheet for all operating leases. Upon adoption, we recorded approximately \$22.1 billion in operating lease obligations on our consolidated balance sheet. In addition, the lease standard affects our earnings per share, primarily due to the expensing of certain lease costs. As highlighted on our last call, we expect this impact to result in a \$0.01 to \$0.02 per quarter headwind on earnings per share through 2019. For the first quarter, this headwind was \$0.01 on earnings per share.

As you look at Slide 4, you can see that the 2.6% growth in adjusted EPS includes both the impacts from the deferral of commission expense related to the revenue recognition standard and the adoption of the leasing standard. This highlights the strong underlying performance of the business. Matt will take you through the details and key drivers later in the call. Before we do that, I'll turn the call over to Hans for his opening remarks.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thank you, Brady, and welcome, everyone, to the first earnings call in the 5G Mobility era. Once again, Verizon has led the world in the development of new technologies with the launch of our 5G Ultra Wideband Mobility network and the Motorola 5G smartphone. We launched our first 2 cities, Chicago and Minneapolis, and continue to deploy infrastructure in more cities, prioritizing cities that have made it easy to build there. Our initial launches are performing as expected on a brand-new technology being deployed for the first time in the world. As more features within the network and handsets become available for deployment through ongoing software innovation, we will provide increased coverage, improved capacity and greater throughputs.

For our 5G Home product, we're on track to launch additional markets when new customer equipment under the global standards becomes available in the second half of the year. This enables us to apply our learnings from the initial commercial launch in 2018 to a broader base of customers. I'm super proud of what the Verizon team has achieved so far, and I'm pushing our teams for many more milestones and industry firsts that will give our customers the best experience. 5G has been a huge focus for us, but it hasn't taken away from our ability to enhance and improve the best-in-class 4G LTE network and superior customer experience. The network team continues to deploy leading technologies that improve our customers' experience. We have 4G LTE Advanced capability in over 1,500 markets across the U.S. and continue to be recognized by third parties for our superior network performance.

Our One Fiber deployment is rapidly expanding the multipurpose fiber network outside our landline footprint. This will enable new revenue opportunities in the large enterprise, small business, public sector and wholesale businesses while also delivering expense reductions opportunities. We have ramped up in installations to a run rate over 1,000 route miles per month, which puts us at the top of all major U.S. fiber providers. All of this is being accomplished within the current levels of our CapEx guidance. We are now 2 years into the implementation of our next-generation Intelligent Edge Network, which we expect to be largely completed by 2021. We're realizing significant efficiencies and cost savings from our network transformation initiatives and expect the CapEx and the OpEx benefits to extend well beyond their investment period.

With our unique set of assets, including our wide portfolio of spectrum, dense fiber network architecture and software-defined networking capabilities, Verizon remains the clear network performance leader in today's marketplace, and we're best positioned to capitalize on all the opportunities that 5G will bring to bear. Our ambition remains to provide the most advanced, next-generation network performance in the world. As I have said many times before, the combination of our Intelligent Edge Network and the 5G technology capabilities will deliver 8 network currencies to our customers and open up a new world of innovation that will transform the way we work, live and play.



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We're leading in the world in 5G, extending our leadership position in 4G, executing on the fundamentals and creating new ways to leverage our vast distribution capabilities through our network-as-a-service strategy and focus our partnership and key elements in driving increased value for our customers. Therefore, we are excited to announce we've partnered with Google to offer YouTube TV to our customers wherever they want it and on whatever platform they choose. Our new partnership allows our widest mobility customers to take their YouTube TV with them on-the-go, our wireless 5G Home customers to add premium content from YouTube TV to their Internet bundle and gives our consumer Fios broadband customers even more options when it comes to content and services.

2019 is shaping up to be an exciting year for Verizon. We have started the year with a solid financial result for the first quarter, led by strong growth in wireless service revenue and earnings per share. We're confident in the current state of our business, and we have good momentum going into the second quarter. I'm proud of the team's flawless execution in times of so much change and transformation in the company. We have maintained our disciplined approach to capital allocation, focused on investing in our networks, supporting a consistent dividend policy and strengthening our balance sheet, as shown by our recently announced leverage target. We're well positioned to deliver on all of our capital allocation goals in the years ahead. We're highly confident in our underlying business and go-to-market strategy as we now have moved to our new Verizon 2.0 structure as of 1st of April. The new structure positions us to better serve our customers and provide solutions to their needs regardless of their underlying technology. We will begin reporting in the new structure starting with the second quarter results. With that said, I will now hand the call over to Matt to discuss our financial results.

Matt Ellis - Verizon Communications Inc. - Executive VP & CFO

Thanks, Hans, and good morning, everyone. Let's jump in with a recap of our consolidated operating and financial results. On a reported basis, first quarter consolidated revenue was \$32.1 billion, up 1.1%. The primary driver of the increase was strong wireless service revenue growth. We are maintaining our full year GAAP consolidated revenue guidance of low single-digit percentage growth. On a consolidated basis, first quarter adjusted EBITDA margin was 37.2%. This was up from 37.1% and includes the headwinds from the deferral of commission expense and the impact of the lease accounting standard that Brady mentioned earlier. The growth in adjusted EBITDA is primarily due to wireless service revenue performance as well as continued improvement in operational efficiencies across the business. Our business excellence initiatives have produced cumulative cash savings of \$3.0 billion since the program started in 2018. At the end of the first quarter, we have completed the first 2 phases of our Voluntary Separation Program and have realized approximately \$180 million of expense savings. Roughly 60% of the savings in the first quarter is attributed to the wireline business, with the remainder primarily in wireless. We are on track to achieve our goal of \$10 billion of cumulative cash savings by 2021. Our effective tax rate for the quarter was up over 100 basis points versus the prior year. Last year's ETR included certain one-time benefits due to the Tax Cuts and Jobs Act, which will not repeat this year. Despite the higher tax rate, we delivered earnings growth with strong operational performance.

Based on the strength of the operational trends in the underlying business, we are raising earnings guidance for full year 2019. We now expect low single-digit percentage growth in adjusted EPS, excluding the impact of the new lease accounting standard. This is an increase from our prior guidance, which is a 2019 adjusted EPS to be similar to 2018, excluding the impact of the new lease accounting standard. Our expectations regarding the headwind impact on EPS from the new lease accounting standard remain unchanged at approximately \$0.04 to \$0.08 for full year 2019.

As Hans said, we are moving to the new Verizon 2.0 structure in the second quarter reporting cycle. We plan to provide recast quarterly historical financial information for the past 9 quarters prior to reporting second quarter results, so our investors can digest the new view of our company well in advance of our second quarter earnings report. We are committed to providing transparency in our reporting in order to help bridge the transition to the new structure.

Now let's move on to the reviews of the operating segments, starting with wireless on Slide 7. Total wireless operating revenue increased 3.7% to \$22.7 billion in the first quarter, primarily driven by continued strong service revenue performance. We are extremely proud of our results given the level of promotional activity in the marketplace during the quarter. Wireless service revenue increased by 4.4%, mainly due to customers stepping up into higher-priced plans, contribution from the strong net adds late in the fourth quarter and an increase in connections per account. The year-over-year growth rate was positively affected by a number of factors. In the first quarter of 2018, we completed the consumer migration from traditional subsidy to device payment plans, and we moved to a longer device upgrade cycle for business customers. We anticipate that the impact of these 2 items will be minimal going forward and expect wireless service revenue growth to be within the mid-2% to 3% range for the



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remainder of the year. In the first quarter, equipment revenue decreased 2.2%, driven by the continuing extension of device ownership cycles. Wireless EBITDA margin as a percentage of total revenue in the quarter was 47.4%. This includes headwinds of approximately 85 basis points, primarily from the deferral of commission expense and the new lease accounting standard, as previously mentioned.

Let's now turn to Slide 8 and take a closer look at wireless operating metrics. Customer activity in the quarter was consistent with seasonal trends from prior years. We maintained measured promotional actions. And our postpaid net adds totaled 61,000, consisting of phone net losses of 44,000, tablet net losses of 156,000 and other connected device net additions of 261,000, led by wearables. Postpaid smartphone net additions were 174,000. Phone churn increased slightly during the first quarter due to the competitive nature of the marketplace. Our postpaid phone churn of 0.84% was up 4 basis points and remains strong. Our superior network quality and our personalized offerings continue to resonate with our customers. Total retail postpaid churn of 1.12% was up compared to 1.04% last year. Total postpaid device activations, of which approximately 78% were phones, were down 4.7%. Our retail postpaid upgrade rate was 4.4%, down from 5.0%. In the first quarter, prepaid net losses were 176,000 compared to a loss of 335,000 last year. We continue to focus on high-value accounts and profitability in our prepaid offerings.

Now let's move to our wireline segment on Slide 9. Total operating revenues for the wireline segment decreased 3.9% in the quarter as the business continues to face secular pressures. Growth in high-quality fiber products was more than offset by pricing pressures on legacy products and technology shifts. Consumer Markets revenue increased 0.1%, driven by the growth in Fios services. Consumer Fios revenue increased by 2.9%, due primarily to demand for our broadband offerings. Fios Internet net adds of 52,000 were driven by continued demand for our high-quality fiber broadband product. Fios Video losses of 53,000 resulted from continued cord-cutting trends as more customers are choosing over-the-top video services. Our enterprise solutions, partner solutions and business markets revenues declined by 4.5%, 12.5% and 4.9%, respectively, driven by technology shifts and pricing pressures, as mentioned earlier. Wireline segment EBITDA margin for the quarter was 20.3%, which included a meaningful contribution from our cost management initiatives, especially the Voluntary Separation Program.

Let's now move on to Slide 10 to discuss Verizon Media Group. For the first quarter, Verizon Media Group revenue was \$1.8 billion, which was down 7.2%. Declines in desktop advertising continue to more than offset growth in mobile and native advertising. The integration of the demand side and supply side platform is complete, and the team is finishing the customer migration to the new consolidated platform. We continue to enhance the features and solutions, making it easier to do business with our advertising partners, enabling us to create even more synergies across the business. The Verizon Media Group team is focused on enhancing our super channels, driving revenue improvements in sports, finance, news, entertainment, home and mail by deepening our customer engagement for example, during the quarter, Yahoo! Finance launched live bell-to-bell video coverage, which is linked throughout the family of Yahoo! brands for optimal viewership.

Let's now focus on consolidated cash flow results and the balance sheet on Slide 11. Cash flow from operating activities was strong and totaled \$7.1 billion, an increase of about \$400 million from the prior year. This was driven by the continued momentum of our operating businesses and lower discretionary employee benefits contributions, partially offset by the first and largest of 3 payments related to our Voluntary Separation Program. Capital spending for the first quarter was \$4.3 billion, which was down approximately \$300 million. Our capital expenditures continue to support the growth in data and video traffic on our industry-leading 4G LTE network, the launch and continued buildout of our 5G Ultra Wideband network, the upgrade to our Intelligent Edge Network and significant fiber deployment in 60-plus markets outside our ILEC footprint. We maintain our full year 2019 CapEx guidance range of \$17.0 billion to \$18.0 billion. The net result of cash flow from operations and capital spending is free cash flow for the first quarter of \$2.8 billion, up about \$700 million.

Our balance sheet is strong and provides us with financial flexibility to execute on our strategy. We continue to maintain near-term maturities at low levels, giving us the confidence to operate effectively in various financial market conditions. We ended the quarter with \$113.7 billion of total gross debt, which was comprised of \$103.3 billion of unsecured debt and \$10.4 billion of asset-backed securitizations. As part of our commitment to strengthening the balance sheet, we provided a net unsecured debt to adjusted EBITDA target of 1.75x to 2.0x at our Investor Day in February. At the end of the first quarter, our net unsecured debt to adjusted EBITDA ratio was 2.1x, down from 2.4x in the first quarter of 2018.

Our progress in strengthening the balance sheet and the continued use of excess cash flow after investing in the business to further delever the balance sheet has been recognized by the rating agencies, with both S&P and Moody's recently putting Verizon on positive outlook for a potential upgrade in credit ratings. With that, I'll turn the call back to Hans for a summary of our strategic positioning and goals for the remainder of 2019.



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Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thanks, Matt. As demonstrated by our strong results, we have carried forward the momentum that we saw into 2018 through the first quarter of 2019 and are focused on the execution in the Verizon 2.0. We're committed to creating great customer experiences as a result of the investment in our networks. We're extending our leadership position in 4G, driving innovation in 5G and expanding our high-valued customer relationships while creating value for our shareholders. We're building momentum for our Ultra Wideband 5G network. Our launch of the world's first commercial 5G smartphone signals the beginning of an era that would transform the way people live, work and play.

Our strategy lays the foundation for the future through investments in our Intelligent Edge Network, enabling efficiencies throughout the core infrastructure and delivering flexibility to meet customer requirements at the network edge. We're excited about the current position in the marketplace, our financial strength and the opportunities ahead of us. With that, I will turn the call back to Brady so we can get to your questions.

Brady Connor - Verizon Communications Inc. - SVP of IR

Thanks, Hans. Brad, we're now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question will come from Brett Feldman of Goldman Sachs.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

Actually sort of 2 related questions here on mobile 5G. At your analyst meeting, you identified the key opportunity with your mobile 5G launches, defending and growing your market share. And so it was actually interesting to see that the first mobile offer was actually priced a little bit higher than your 4G offering. And so that implies it's a little bit more of an ARPU driver. So the first question is, as we sort of watch more 5G deployments going forward, what success factor do you think investors should be focusing on? Is it going to be subscriber metrics responding favorably or ARPU or ARPA metrics responding favorably? And then just the second part of this, and this is something Hans alluded to earlier, which is that some of the initial reviews of the launch have noted that this is still an early-stage technology. And so the question is, when should investors expect some of the technical adjustments to be ironed out, so that you can scale your mobile 5G offering in a way that will deliver a more consistent user experience?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thank you, Brett Feldman. If we start with the mobile 5G, as we said before, we see, of course, an opportunity when we're early on the customer experience like 5G, you have a chance. And we have high ambitions here to see that we can grow with subscribers, but, again, we're very early stage on 5G. I mean, we're absolutely the first in the world. At the same time, of course, we will see that we have an offering that responds to the enhanced sort of technology and experience you will get from 5G. So that's what you saw on the first commercial offerings we did on the 5G Moto. We will soon as well announce earlier come with our next phone, and that we're going to discuss or announce how we're going to deal with that. But clearly, the team has high ambition in this area. We think that our leadership and experience is giving us a way to monetize 5G for mobility. When it comes to the initial launch on the mobility in Minneapolis and Chicago, it meets our expectation, what we have seen from the software. Remember this, we are first in the world to adjust from all the way from the network, to the chipset, to the handset and actually have an experience, and we have a great experience out there already right now in the Moto model, basically constantly updates on the software improving the throughput, the speeds and all of that and features. And of course, we're part of driving the improvements on 5G in the world and giving our customers the first experience. So I would say that I'm really excited on what I have seen so far. It's meeting our expectations, but we have much

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more to come out from when it comes to speed, throughput, coverage and all of that from the deployment on our Ultra Wideband 5G. And then not forgetting that we also as well said so many times before, when we launched 4G, we didn't even know about carrier aggregation, which, of course, changed the whole game on 4G LTE Advanced, which we now enjoy 1,500 -- more than 1,500 markets on that, and that will happen with 5G as well. And one of the most important features that I haven't talked about is, of course, the dynamic spectrum sharing that will come during next year, where you basically also can use deploy wherever you are with 5G, and then you don't need to allocate certain spectrum to certain technology. So I see a lot of technology innovation, and we work with the most advanced partners in the world here to actually stay in the lead.

Operator

The next question comes from John Hodulik of UBS.

John Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

Maybe one for Hans and one for Matt. Hans, can you give us any learnings you have on the -- for the 5G Home deployment? And I realize you're working with pre-standards equipment and expect that equipment to be available later this year. Can you talk about the benefits that you'll see maybe in terms of capabilities, installation and form factor when you get that new standards-based equipment? And then maybe one for Matt. On the wireless side, it looked like the cost of service was a bit elevated this quarter, and then had the impact on margins. Is that all being driven by the lease accounting? Or was there something sort of underlying operational issues that's driving that?

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

If I thought, and as you rightly pointed out, the first deployment of 5G Home that we did last year was based on our own proprietary of standard. And thus, it was limited and now development on the software. However, what we have seen is, of course, a consistent speed, keeping up 300 megabits per second minimum to our customers, which is great to see. Second, of course, the installation times has been reduced significantly since the beginning. So we have great, lot of learnings when we come out in the second half of this year when we have CPs on the global standard for 5G Home. And again, it's sort of a multi-deployment, so it's the same equipment doing mobility and Home. So with all improvements we're going to see on 5G Mobility, it's going to go to 5G Home as well with the software. So a lot of great learnings, especially on the coverage, installation times, and then keeping the consistent on the speeds, which has been very good.

Matt Ellis - *Verizon Communications Inc. - Executive VP & CFO*

John, so on your question around wireless margins, so we reported 47.4%. But as you touched on in your question, there was some year-over-year noise from the accounting, both the deferred commission expense coming from revenue recognition and the lease accounting, about 85 basis points on there. So that's showing up in both the cost of sales and SG&A lines. But when you -- so when you adjust for that, the 47.4% gets you to about 48.3%. So up year-over-year, 47.8% a year ago. So nice improvement on the margin year-over-year, which, when combined with the 4.4% service revenue growth, means that we think we had a very good earnings quarter in wireless -- high quality of earnings there and really setting the basis for the year as a whole.

Operator

The next question comes from Philip Cusick of JPMorgan.



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Philip Cusick - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

A follow-up and a question. First, Hans, can you give us an update on the 5G equipment pipeline and the potential timing for NR volumes as well as the impact to CapEx base? And then second, with leverage now in the low-2s, can you talk about strategic priorities beyond the current business? Could you envision making a strategic acquisition this year?

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

So first about when it comes to the ecosystem of handsets, et cetera, I think that, as was alluded during our Investor Day, we see a majority of the handsets coming out next year having the millimeter wave spectrum. Many of the phones, as already I've talked about, meaning the Samsung phone, both the Note and the Galaxy coming this year, we'll both have it 5G. We have the Moto already. We're going to see also an LG phone coming out. So we see a much quicker ramp-up on ecosystem in that area to be clear. At the same time, the whole ecosystem from chipsets to equipment is ramping up quickly. But again, we are in the forefront of technology here. So of course, we are being on the edge of the demands and the supply on equipment at the moment. But we feel good about that. Secondly, the question around our capital allocation. We remain very solid in what we have said before. I mean, number one, we invest in our business; number two, we see that we can serve the dividend to our shareholders; and thirdly, then we have our targets that Matt talked about on the balance sheet. That's really where we have the main focus. Then we talked at the Investor Day, there could be tuck-ins, et cetera, but nothing else in that at the moment.

Operator

The next question comes from Simon Flannery of Morgan Stanley.

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

Matt, maybe you can just talk about the wireless service revenues. The ARPA was strong this quarter. I think you mentioned people moving to higher-priced plans. So where are you on Unlimited adoption and the spread across those plans? How much headroom do you have on that? And then perhaps on the network, can you just talk about the refarming of the 3G spectrum and where you are on that process, particularly in the major markets?

Matt Ellis - *Verizon Communications Inc. - Executive VP & CFO*

Yes, Simon. So as you look at the wireless service revenues, you see the 4.4% was a good result in the first quarter. As we look at that, the ARPA was a big piece of it. We continue to step customers up to Unlimited, which is typically a step-up in their ARPA. We continue to add connections per account, and we think we still have the runway to do so. Unlimited is still less than 50% of our total connections, so there's runway there to continue that. And that's why you heard, as we made the comment on the prepared remarks, that we see service revenue for the balance of the year continuing to be in the mid-2s to 3% range. So continued growth on a year-over-year basis as we look forward.

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

On the spectrum, I think that, first of all, where the team has continued to do excellent, as I said, we still are gaining the majority of all the performance metrics in the markets. So the team is doing good work. And when it comes to the refarming all the 3G spectrum, we have said that's going to be ended by 2020, and we are on plan for doing that. And the team is working every day to see that we are doing most out of our spectrum.

Operator

The next question is from David Barden of Bank of America.



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David Barden - *BofA Merrill Lynch, Research Division - MD*

Maybe 2, if I could. Just Matt, the -- on the -- sorry, the cost structure for the income statement on the dividend side -- sorry, the depreciation side, we saw a step-down of about \$100 million there into the New Year, with the big step-up in kind of CapEx in the quarter. So if you could kind of address how depreciation is changing and contributing to the guidance. And then the second piece was just on the media side and, I guess, corporate and other. If we look at the combined number that we back into by comparing the segments to the consolidated total, it looks like we had a step-up in losses there. Could you kind of talk about the profitability in that unit or if there are other things that are moving around in the corporate side not related to the media business?

Matt Ellis - *Verizon Communications Inc. - Executive VP & CFO*

Yes. So thanks, David. So on the depreciation amortization side, a couple of things in there. One, you've obviously got the impact of the lease accounting standards. So some items that would've flowed through D&A will now flow through above the line. And so that's part of it. The other pieces is the mix of our spend over the last year or so has moved to a mix of assets with a longer average life. It means they're depreciated over a longer time period. So that kind of impacts the timing of how they come through on the depreciation line of the income statement. On the C&O side, as you look at that number, you're right that there's a little uptick in the negative results in that piece. And where that's coming from, there's 2 or 3 one-timers in the first quarter. They weren't large enough for us to adjust out. But net-net, they had about a \$0.02 impact at the EBITDA line. So you see that flowing through there. They're one-timers. You shouldn't expect to see them through the rest of the year. And so you've got strength in the overall results of the business, in the wireless and wireline segments, being offset by those one-timers that I say add up to about \$0.02 of EPS pressure that's sitting in C&O. So it's related to one-timers rather than Verizon Media Group that's driving that number in C&O.

Operator

The next question comes from Craig Moffett of MoffettNathanson.

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

I wonder if you could just comment on what you've learned about high-frequency spectrum. The work that we did on the Sacramento market and then some of the press reports of your rollout of mobility in Chicago in particular and then -- and with some of the comments are -- were yesterday from T-Mobile's Neville Ray all sort of point at millimeter wave having real challenges for propagation. I'm wondering how you think about millimeter wave in the context of your broader rollout at this point of 5G, particularly for mobility, and what role you think mid-band needs to play in that rollout.

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

Thank you, Craig. So when it comes to the millimeter wave, as I said before, I mean, that has lived up to our expectation on performance. And again, we're very early on in improving the software, how we can deal with it. We all need to remind ourselves this is not a coverage spectrum because we will do it as far as the economic is sustainable, of course. But still, it's very good, the ranges we can come up with. And, of course, the throughput and speeds are enormous. And again, we're very early on, on the journey. I think that no one else in the whole industry knows more than Verizon about it. We have been onto this for 2 years, and what we have seen on it is a good strategy. And topping that, which I've said before, the dynamics sort of spectrum sharing will be the next step for us to see that we have all the assets to deploy our strategy on 5G to meet the different type of use cases we outlined at the Investor Day sort of the mobility case, the 5G Home case and the mobile edge compute case. So that's what we're working with every day here to improve, et cetera. So the engineering team feels good about it.



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Operator

The next question comes from Michael Rollins of Citi.

Michael Rollins - Citigroup Inc, Research Division - MD and U.S. Telecoms Analyst

Just 2, if I could. First, if you look at the 5G rollout for the Home, I think, initially, you were advertising to offer over several hundred megabits per second of speed to the consumer. And more recently, we've learned that you've been trialing an over-100 megabit product. And I'm curious how that change in throughput affects the potential coverage in homes over time or the speed that you might be able to reach that initial 30 million home target, if that would accelerate the pace of the rollout. And then just following up on the comments around the partnership with YouTube TV, what are your thoughts on potentially exiting the Fios Video business and letting someone like a YouTube TV or another partner just potentially manage that video business for you, so you can just really focus on the broadband and the infrastructure side of the equation?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thanks. Okay. Rightfully mentioned, we started with 300 megabits per second in our offering in the cities. Of course, we have said that we will sort of meet all the customer demands. And that's why we, of course, are trialing out different type of speeds as well. And as you rightfully said, I mean, if you have an enormous speed and throughput, of course, the range of coverage will go out and go further. But again, we need to meet the customer demands in the markets where we're into. And the team will run down, will see that we are competitive in every marketplace we go. But of course, you can see possibilities for having different ranges of speeds on 5G Home as well. But we're not there yet. We will come in the second half of this year and see what offerings going to have. On the YouTube TV, I think that what's most important is that we are committed to support our customers with the optionality. Here, we're creating, as we said from the beginning when we decided not to pursue our own investment in OTT, that we will have partners in order to work out our strategy network and networking strategy and give our customers optionality. And that goes also for our Fios customers. And there, YouTube TV will play a role for us.

Operator

The next question is from Matthew Niknam of Deutsche Bank.

Matthew Niknam - Deutsche Bank AG, Research Division - Director

Just 2, if I could. One, on wireless, I think you called out some pleasantness with the churn levels, given the promotional activity in the quarter. So maybe if you could just talk about what you saw in the quarter, how that compared relative to expectations in typical 1Q seasonality. And then secondly, just to go back to the question on YouTube. What's exactly changing on the mobility side? Is this just an ability for your mobile customers to watch YouTube on their phones? Or is there any sort of incentivization on the mobile side using YouTube as well?

Matt Ellis - Verizon Communications Inc. - Executive VP & CFO

Thanks, Matt. So on the wireless churn, the -- we saw what we would normally expect from a volume standpoint in 1Q, with a typical dropoff from the fourth quarter into the first quarter. We saw a fair amount of competitive activity in the first quarter, and we really didn't participate in that until we got into the March time period, when we start to see volumes pick up. We feel good about the momentum we have in the business as we exited first quarter, as we come into second quarter and expect to see that drive performance for the rest of the year. On the YouTube TV, I think as you described and you heard Hans say, gives us the opportunity to combine that product with the core wireless offering. And Ronan and his team will make sure that's relevant to our wireless mobility customers having that additional functionality available to them.



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Operator

The next question is from Colby Synesael of Cowen and Company.

Colby Synesael - Cowen and Company, LLC, Research Division - MD and Senior Research Analyst

Two questions, if I may, for Matt. First one is on EPS guidance increase. Just curious how much of that you're anticipating coming from the operational businesses, so said differently, showing up in the EBITDA line item versus improvements that you're expecting below the line, such as interest expense, taxes or other income. I saw, for example, other income was \$295 million or about a \$0.06 benefit in the first quarter at least that we weren't anticipating in our model. And then secondly, as it relates to the savings from the VSP program, you mentioned \$180 million to date. And you've -- I'm just curious, how much of that or how much more can we expect for the remainder of the year? And I guess, as part of that, where can wireline margins go for this year? Would you anticipate them continuing to go higher?

Matt Ellis - Verizon Communications Inc. - Executive VP & CFO

Yes. Thanks, Colby. So I'll start with your second question. So as you think about the VSP savings in the first quarter, we said approximately 10,000 V teamers were leaving the organization as a whole. Around half of those came off at the end of December. So you had a full quarter impact from those. The second tranche was at the end of March, so really minimal impact from those. So as you think, when you get to a full run rate, is going to be significantly higher than that \$180 million. 2Q will be a blend. It'll be more than the 5,000, but not the full 10,000. It'll really be 3Q when you get to a full run rate benefit compared to the \$180 million that we saw in 1Q. And as you say, more than -- approximately 60% of that benefit came from the -- in the wireline segment. And so we expect to see that continue to help wireline margins for the year as a whole. So we think that, that will be something that will be a positive as you think about managing the cost in that business to offset some of the trends on the revenue line. In terms of the EPS guidance, so I want to just want to make sure that we level-set where we were. We wanted to make sure we kept it in the same basis as last time. Last time, we said that the adjusted EPS before the impact of the leasing standard would be similar to last year. Last year's \$4.71. And so we said adjusting the guidance to be low single digits up. And to be clear, even after accounting for the new leasing standard, that would put us in the mid-4.70s from an adjusted EPS standpoint. And when you think about what's in there, you've got the headwind from the lease accounting standard. You've also got the impact of the commission expense deferral under the revenue recognition. And our expectation of those impacts are the same as we outlined previously. So what we certainly think, and Brady talked you through this in the prepared remarks, when you look at the first quarter results, we're up \$0.03 year-over-year all in from an adjusted EPS standpoint. That included \$0.04 of pressure from the accounting. And in addition to that, the ETR year-over-year was up about 100 basis points. So that year-over-year increase in the underlying earnings of the business was strong. And you touched on one piece of that. Certainly, the benefit of VSP -- the Voluntary Separation Program was helpful in that. But when you look at the wireless business, and you see that 4.4% service revenue growth and you see the EBITDA margin when you adjust for the impact of the accounting over 48%, we feel very strong about the operational performance of the business on a good growth on a year-over-year basis. And we have good momentum coming out to the first quarter and as we head into the rest of the year. So that was the reason for the change in guidance.

Operator

The next question comes from Mike McCormack of Guggenheim Partners.

Michael McCormack - Guggenheim Securities, LLC, Research Division - MD & Telecommunications Senior Analyst

Matt, maybe just a quick comment on the wireline revenue side. How much of any we saw from an FX perspective headwind, and then maybe if you can try to bifurcate between the competitive landscape versus technology migration? And then, I guess, I'll beat the YouTube TV one more time. Just sort of thinking about -- and maybe this is for Hans. As you think about the synthetic double-play economics for consumers, it doesn't appear, at least on paper from what I've seen, that there's a significant discount you're offering. Maybe we haven't seen everything yet, but sort of the rack rate of \$50 a month for YouTube TV, plus a naked broadband or stand-alone broadband product, how do you think about those economics?



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And how competitive will that be against current double-play offers, and, I guess, also the risk of cannibalization of the current Fios TV customer base?

Matt Ellis - Verizon Communications Inc. - Executive VP & CFO

Thanks, Mike. So on your question around the wireline revenue, there was a little bit of headwind from the FX, primarily in the enterprise space, but they didn't offset the ongoing pressures that we see from the technology shifts. So we would expect some of those trends to continue as we go through the quarter. We certainly expect the partner solutions revenue trend to improve versus the number we saw in 1Q, but still be negative on a year-over-year basis. But we are continuing to expand the offerings that we have across the wireline business based off fiber-based products and newer technologies. Those are continuing to grow as we go forward and offset and decline in legacy products. And in addition to that, wireline revenue has opportunities as a result of our fiber build. We're able to offer our services to small medium business, to enterprise, to even on a wholesale partner basis, in geographies that we historically haven't. So that will bring some incremental revenue opportunities to our wireline customer base in addition to what we're doing with new products as we move forward.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

When it comes to the YouTube TV and what we offered in our initial 5G Home launch, that was sort of a stand-alone offering. This is -- what we're doing right now, we're doing an overall agreement with YouTube TV to offer to our home and mobility and Fios customers. And the final commercials we have not decided yet, but, clearly, we will do a competitive offering for our customers, but we're also creating the optionality for our customers to get YouTube TV. And again, it comes back to our main strategy that we are focusing on doing the network. We're doing the platform and we're doing the integration, but we're not taking sort of the investments of TV platform, nor for the content. We see that is our role in this ecosystem. And remember, we have the best distribution, the best network and a great brand. And that's what can attract a partnership like with YouTube TV. So that's a little bit different thinking.

Operator

Your last question will come from Walter Piecyk of BTIG.

Walter Piecyk - BTIG, LLC, Research Division - Co-Head of Research and MD

Two questions. First, I want to go back to Craig's question. Hans, you mentioned that millimeter wave's not your coverage spectrum. I think that's a little different than what you guys have talked about before. So maybe we can talk about that dynamic spectrum sharing. Can you talk specifically about what -- when next year that would be available, which spectrum bands you would be putting the 5G NR on in order to enable that for coverage? And then, Craig, on the -- going back to Hodulik's question on the expenses because I kind of got lost with all those numbers. I'm not sure what you're referring to on the 42%, 47%. If we just look at network expense and SG&A as your aggregate OpEx for wireless, it's up 10% year-on-year. How much of that is -- has to do with this commission accounting? And is this the kind of run rate, particularly in the SG&A side, that we should expect going forward each quarter? Or is there some kind of one-time impacts on just the overall level of this OpEx, particularly in SG&A?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

If I start with the first question there, I don't think we have changed anything about what we thought about millimeter wave, how we're going to deploy that. And we're deploying massively at the moment. Remember, the majority of all the traffic is in dense urban areas, where we now initially are focusing, of course, getting an even greater experience for our customers in the 5G experience -- the real 5G experience. At the same time, we get the owners economics of having the best spectrum position there. When it comes to dynamic spectrum sharing and which spectrum we're going to use, et cetera, and when it will come into play. It will come into play next year. Right now, we're in discussion. But of course, it's going to be whatever low band you want to have, mid-band and high band. That's how it works. But over time, all of the spectrum will be sort of exposed to dynamic spectrum sharing. The good thing is for being a leader like Verizon, we can impact on the ecosystem how this will be done, and that's



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why we are in discussions with the chipset manufacturers and the equipment manufacturers to have the best solution, and, again, using the engineering skills of the Verizon team.

Matt Ellis - Verizon Communications Inc. - Executive VP & CFO

Yes. So Walt, on the wireless margin, the reported number was 47.4%, as we mentioned in the prepared remarks. There was 85 basis points of pressure from the combination of the 2 new accounting standards, but the vast majority of that pressure came from the deferred commission expense. So as you think about the language we've used over the past few quarters related to the revenue recognition standard, you had the benefit last year. And then we said you'd have year-over-year headwinds in both '19 and '20 as you --- until you get to a run rate on the amortization of those commission expenses being close to the actual cash expense upfront. So about 85 points of pressure, a lot of that's showing up in the SG&A line, as you point out. And that will continue throughout the year to a varying degree. In addition to that, we did have a little bit of change in shaping of the advertising spending in wireless over the course of the year, a little more in 1Q this year than last year. I expect that will equal itself out over the course of the year as a whole. But the big impact was the impact of the deferred commission expense. So that's why we called out the 85 basis points, so that you can get to 48.3% from the 47.4% and compare that year-over-year. And you see that wireless margins on a like-for-like basis actually grew year-over-year on an increase in revenue. So we think very strong quality of earnings within wireless in first quarter.

Walter Piecyk - BTIG, LLC, Research Division - Co-Head of Research and MD

Got it. The confusion is, I think a lot of people look at margins on the service revenue as kind of a more appropriate way to look at margins, which appear to be down. There's total revenue with equipment is -- I mean, does your operating margins really have anything to do with equipment?

Matt Ellis - Verizon Communications Inc. - Executive VP & CFO

Not significant, but that's why we put the -- made sure the 85 basis points was in the commentary, so that we give people a little more transparency and do the comparison year-over-year. So hopefully that helps.

Brady Connor - Verizon Communications Inc. - SVP of IR

Okay, thanks. That's all the time we have for questions. Before we end the call, I'd like to turn it back over to Hans for some closing comments.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thanks, Brady. Thanks, Matt. Just to sum up, I mean, the 5G era is here, and we're positioning the company for long-term growth by taking advantage of the full array of opportunities it has to offer. I think during the first quarter, again, we delivered solid financial and operational performance in a competitive marketplace. We remain confident in our strategy and priorities, led by building the best network, creating platforms to further monetize data usage, maintaining a disciplined capital allocation model and creating value for our customers and shareholders. By that, I would like to thank you all for attending this call today, and have a great day.

Brady Connor - Verizon Communications Inc. - SVP of IR

Thanks, everyone.

Operator

Ladies and gentlemen, this does conclude the conference call for today. Thank you for your participation and for using Verizon Conference Services. You may now disconnect.



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