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EDITED TRANSCRIPT

VZ.N - Q4 2020 Verizon Communications Inc. Earnings Call

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OVERVIEW:

Co. reported 4Q20 consolidated operating revenue of \$34.7b and GAAP EPS of \$1.11. Expects 2021 adjusted EPS to be \$5.00-5.15.

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PRESENTATION

Operator

Good morning, and welcome to the Verizon Fourth Quarter 2020 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 fourth quarter earnings conference call. This is Brady Connor, and I'm here with our Chairman and Chief Executive Officer, Hans Vestberg; 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 we get started, I'd like to draw your attention to our safe harbor statement on Slide 2. Information in this presentation contains statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties. Discussions 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 posted 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. As a reminder, we are in the quiet period for spectrum Auction 107, so we will not be able to comment on our mid-band spectrum holdings or strategy at this time.

Now let's take a look at consolidated earnings for the fourth quarter and full year. In the fourth quarter, we reported earnings of \$1.11 per share, resulting in full year earnings of \$4.30 per share on a GAAP basis. Reported fourth quarter earnings include a pretax loss from special items of approximately \$523 million. This includes a net charge of \$404 million primarily related to severance, including voluntary separations under our existing plans and the annual mark-to-market for our pension and OPEB liabilities as well as a net loss of \$119 million primarily related to the disposition of the HuffPost business. Excluding the effects of these special items, adjusted earnings per share was \$1.21 in the fourth quarter and \$4.90 for the full year.

Let's now move to Slide 4 and take a closer look at our fourth quarter earnings profile. The impact to earnings from the adoption of accounting standards ASC 606 for revenue recognition is illustrated for comparability purposes and reflects a reduction in the benefit realized due to the deferral of commission expense versus the prior year. We also continue to monitor the ongoing impacts of COVID on our business. The year-over-year impacts of both ASC 606 and COVID were not significant in the fourth quarter.

The full year 2020 impacts from ASC 606 and COVID were \$0.09 and \$0.21, respectively, on both a reported and adjusted earnings per share basis. We do not expect the adoption of ASC 606 to have a significant impact on the comparability of 2021 results to 2020. Full year adjusted EPS growth of 1.9%, illustrated on the earnings waterfall slide, reflects the strong underlying performance of the business.

With that, I'll now turn the call over to Hans to take you through a recap of 2020.

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

Thank you, Brady, and a Happy New Year to all of you. First of all, 2020 was a challenging year. And I can only say that I'm super proud how Verizon responded to the changing environment during 2020. And we supported our customers, our employees and the society in a way that I've never seen before. So all in all, a great year. At the same time, we executed well on our strategy and saw that we had really good financial performance as well.

When it comes to our 2020 strategic priorities, let me just walk through the execution of them. First of all, strengthening and grow the core business, I'm really proud to announce that we continue to have the best network in the nation. We just got for the 15th time the overall best network with RootMetrics on all 7 different categories. That includes 5G, which is so important to us that we continue to have that lead. I'm also happy to announce that we won for the 26th consecutive time the J.D. Powers Award. It tells a lot about our network and technology team, how they have been building a network and how we continue to lead this market.

When it comes to the customer innovation, you have seen us working with our customers to give them richer offering and also even better performance of the network. This year, with Disney+, discovery+, also adding in the 5G iPhone from Apple has, of course, supported a lot of innovation that we're doing in the Verizon Consumer Group. And we see a great migration of our customers to unlimited and to the premium unlimited.

Finally, you can see also that Verizon Business Group has a year of investments to see that we are putting a foundation to be even stronger for the future, had good growth in the wireless and also in some areas like the public sector, a very good performance and also adding a lot of new customers on the enterprise side.

When it comes to us leveraging the assets to drive new growth, the commitments we did in February 2020 when it comes to 5G were all met or exceeded. I'm extremely happy with that. We now have 64 Ultra Wideband cities. We are more than 10 cities on our home 5G Ultra Wideband. We have 10 mobile edge compute centers public with Amazon. All in all, we deployed more than 5x more Ultra Wideband sites during 2020. And we launched the nationwide 5G that now is covering 230 million POPs in 2,700 cities.

On the financial side, a strong year ended, where we had more than 2% growth in the wireless service revenue. We also have growth on our EPS in the fourth quarter, over 7%. We had an operational cash flow full year of USD \$41.8 billion, which is a growth of 17%, a very strong year that put us in a good position when we go into 2021.

And finally, we have a really large focus on how to include all our 4 stakeholders in the work we're doing. And I'm really proud of the Citizen Verizon that we launched during last year, which is a great way for us to see that the society aspect is part of our strategy, where, of course, our focus on being carbon neutral is very important. And the second green bond was launched at the second half of 2020. So all in all, I have to say, it was a very different year but a great execution, where we hit all our strategic milestones at the same time as we pivoted and supported all our stakeholders.

At the November sell-side event, I presented the 5 vectors of growth. Those are the vectors that is based on our strategy of Network-as-a-Service. Those are also the enablers for us to get to GDP+. We have great traction on them and we also have done quite a lot in 2020, all the way from the 5G adoption to the customer differentiation that I talked a lot about, the new markets that we're addressing, still pending the acquisition of TracFone, but we have other segments we are addressing as well as the next-generation business-to-business application based on our unique mobile edge compute offering that we have with Amazon, also now with Microsoft and many other partners. And finally, the network monetization with our MVNO partners, which are enjoying the best network that we have and we're building.

All in all, this is built on the Verizon Intelligent Edge Network that we outlined some 3 years ago and giving us the opportunity to have great execution in the future. With that, I would like to hand over to Matt to go through the financials in a little bit more detail.

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

Thank you, Hans, and good morning, everyone. I would like to start by saying how proud I am with the Verizon team and the results we delivered in 2020.

In the fourth quarter, consolidated operating revenue was \$34.7 billion, down 0.2%. Total wireless service revenue growth and strong results in Verizon Media Group were offset by lower wireless equipment revenue and ongoing declines in legacy wireline products.

Adjusted EBITDA for the quarter was \$11.7 billion as compared to \$11.1 billion last year, a 5.3% increase driven by service and other revenue growth and disciplined spending. Full year consolidated adjusted EBITDA totaled \$47.1 billion. And adjusted EBITDA margin was 36.7%, 90 basis points higher than last year, including headwinds of approximately 40 basis points from the deferral of commission expense.

Our continued focus on our Business Excellence program has resulted in realized cumulative cash savings of \$9.5 billion. And we are well positioned to achieve our \$10 billion goal ahead of our year-end 2021 target. COVID has brought about new ways of working. And we believe some of these will be long term in nature. This will create additional savings opportunities beyond the current program.

As Brady mentioned, adjusted EPS for the fourth quarter was \$1.21, up 7.1% from \$1.13 a year ago. We are pleased to report 1.9% growth of full year adjusted EPS at the high end of our revised guidance, demonstrating the strength and resilience of our business.

Let's now turn to cash flow results on Slide 8. Our cash generation was exceptionally strong in 2020, reflecting our subscription-based business model and the quality of our customer base. This enabled us to continue to execute on our capital allocation model, investing in our business, increasing our dividend for the 14th straight year and strengthening our balance sheet.

Cash flow from operating activities totaled \$41.8 billion for the year, an increase of \$6 billion from the prior year, driven by continued performance and strength in the business, lower tax payments due to a one-time cash tax benefit received earlier in the year and reductions in working capital primarily due to lower wireless volumes.

Capital spending in 2020 totaled \$18.2 billion as we continued to support traffic growth on our 4G LTE network while expanding the reach and capacity of our 5G Ultra Wideband Network and launching our nationwide 5G network. As a result, free cash flow for the year was \$23.6 billion, up 32.4% year-over-year.

Throughout the year, we opportunistically diversified our debt portfolio, optimized our cost of borrowing and retained a higher level of cash as a result of the pandemic. We exited the quarter with net unsecured debt of \$96.3 billion. And our net unsecured debt-to-adjusted EBITDA ratio was approximately 2.0x versus our targeted range of 1.75 to 2.0x. We remain committed to our capital allocation model.

Now let's review our operating segment results, starting with Consumer on Slide 9. Our competitive position is based on compelling unlimited plans that provide choice to consumers paired with the best devices and attractive promotions, all built on the country's best network. This quarter, we launched our nationwide 5G service to coincide with the release of the iPhone 12 lineup, which fully supports our ultra wideband offering, enabling Verizon customers to utilize a full range of connectivity provided by this iconic device.

Partnerships remain a critical component of our value proposition. We recently added Discovery to our list of existing successful partnerships, which includes Apple and Disney. As the early cohort of Disney+ customers have come off of the initial free 12-month period, more than 2/3 have maintained their subscription, either through their Verizon direct billing relationship or by opting into one of our newest Mix & Match plans with the Disney bundle included.

Volume activity in the quarter was tempered by consumer behavior, given rising COVID cases and elevated store closures that limited foot traffic in addition to the retention offers in the market. As a result, the pool of consumers switching carriers was lower than a year ago.

Fourth quarter phone gross adds were down approximately 24% year-over-year, relatively consistent with declines experienced in the third quarter. We are pleased with the quality of the additions we are attracting as over 90% of new accounts came in on an unlimited plan and over 55% of these accounts opted for premium unlimited service. At quarter end, over 60% of our base was on an unlimited plan with more than 20% of our base taking a premium plan.

Our customer retention remains high with phone churn of 0.76% for the quarter, down 7 basis points from a year ago, contributing to postpaid phone net adds of 163,000. Disconnects related to customers in our Stay Connected program totaled more than 135,000 phones in the quarter.

Our Stay Connected program continued to see great results with approximately 95% of customers making a payment since entering the program, and collection cure rates are in line with our expectations. More than 50% of all customers in the program are current on their payments. December was the final month of service billings for the program and payment activity remained stable, though we will continue to closely monitor payment trends in 2021.

Turning to Fios. We continue to build on our strong third quarter with consumer Fios Internet net additions of 92,000, more than double the fourth quarter of 2019. Total Fios Internet net additions of 95,000 was the best fourth quarter we have had since 2014 and reflected strong demand for our gigabit offering as consumers continued to work and learn from home. Cord-cutting trends continued, resulting in consumer Fios Video net losses for the quarter of 72,000.

Now let's move to Slide 10 to discuss the Consumer financial performance. Consumer operating revenues for the fourth quarter were \$23.9 billion, down 1.2%. This was primarily driven by a 3.8% decline in wireless equipment revenue due to softer volumes in the quarter.

For the full year, total Consumer revenue decreased 2.8% to \$88.5 billion, driven by the decline in wireless equipment revenue. Consumer wireless service revenue for the quarter was \$13.6 billion, a 1.2% increase. The results reflect the resilience of our business as we recovered from a 2.7% decrease in the second quarter. In the fourth quarter, we delivered ARPA growth of 1.8% year-over-year even as TravelPass and other usage fees remain at subdued levels, demonstrating that our tiered approach to unlimited provides a strong foundation for delivering revenue growth.

For the full year, Consumer wireless service revenue was \$53.6 billion, relatively flat from 2019 levels. Consumer Fios revenue totaled \$2.8 billion, a 2.5% decline from a year ago. Customer credits related to regional sports networks negatively impacted Fios revenue by 4.2% in the quarter and also reduced our content expense. We expect Fios revenue to benefit as growth in the broadband base offsets the impact of the shift from the triple-play bundle to stand-alone service.

Consumer segment EBITDA grew 2.9% to \$9.9 billion. Margins were 41.5% in the quarter, up 160 basis points from last year, including headwinds of approximately 30 basis points from the deferral of commission expense. For the full year, EBITDA margins were 45.5%, an increase of 120 basis points from the prior year, including an impact of approximately 50 basis points from the deferral of commission expense.

Now let's move to our Business segment on Slide 11. Business wireless trends remained resilient throughout the year, and the fourth quarter was no different. Public sector demand remained strong on the success of our distance learning program and support for increased needs of states and local government agencies. Small and medium business trends improved sequentially, while we experienced modest pressures in enterprise.

Business segment phone gross adds for the quarter were down 11% from the prior year due to store closures and continued economic weakness. Segment postpaid phone churn was 0.98% in the quarter, which was down 2 basis points over the prior year. As a result, postpaid phone net adds were 116,000.

Let's now move to Slide 12 to review the Business financial performance. Operating revenues for the Business segment were \$8.1 billion in the fourth quarter, down slightly year-over-year. Full year operating revenues of \$31 billion represented a decline of 1.5% from the prior year. Wireless service revenue in the quarter accelerated to 7.1% year-over-year from 4.9% in the third quarter, which was more than offset by reductions in wireless equipment volumes and secular pressure on legacy wireline products.

Looking at wireless service revenue. Public sector had a particularly strong quarter and small and medium business growth improved for the second straight quarter, although it was still below pre-pandemic growth rates. Legacy wireline product trends appeared to be normalizing after initially benefiting from the transition to a work-from-home economy. The growth in advanced communication services continues to drive opportunities for the segment.

While we are pleased with the revenue performance of the Business segment and exit 2020 with momentum, there are uncertainties around how businesses will perform in 2021, given the challenges within the macro environment. The elevated demand experienced in public sector and parts of enterprise throughout 2020 could potentially create headwinds to growth in the Business segment, particularly in the back half of 2021.

Business segment EBITDA margin was 24.6% in the quarter, up 390 basis points from the year-ago period, reflecting the strength in wireless service revenue and the benefits of our transformation initiatives, including back-office digitalization and optimization. Full year margins of 25.4% were up slightly versus last year.

Now let's move on to Slide 13 to discuss Verizon Media Group. We are very pleased with Verizon Media Group performance. Total revenue for the quarter was \$2.3 billion, up approximately 11% from a year ago, the first quarter of year-over-year growth since the Yahoo! acquisition. Growth in the quarter was fueled by strong advertising trends with demand side platform revenue growing 41% compared to the prior year. Advertising strength came from political, consumer products, technology and retail, among other verticals.

The fourth quarter also saw continued high consumer engagement in commerce as offline-to-online shopping behaviors continued through the holiday season on our owned and operated properties. In particular, mail e-commerce revenue growth was 7x that of the prior year. And we saw continued strength in finance and news as daily active users grew 52% and 11%, respectively.

Let's now move on to Slide 14 for a quick look at overall wireless performance. Key metrics and financial data of the combined wireless products and services from the Consumer and Business segments are illustrated on this slide. Total wireless service revenue was up 2.2% year-over-year in the fourth quarter and up 0.7% for the full year. Additional details are provided in the financial and operating information and the supplemental earnings release schedules on our website.

Now let's focus on our outlook for 2021 on Slide 15. We are excited to deliver 2021 expectations that include accelerating revenue and earnings growth, driven by our 5 growth vectors as wireless service strengthens and 5G continues to scale. This year, we are providing an outlook for service and other revenue, which includes revenues from across all of our businesses but excludes wireless equipment revenue, given its variability, especially in the current environment.

For 2021, we expect service and other revenue growth of at least 2%, reflecting an acceleration of total wireless service and Fios revenue growth as well as continued momentum in Verizon Media, partially offset by ongoing legacy wireline product declines. Included in this outlook is total wireless service revenue growth of at least 3%, driven by our tiered unlimited plans, new customer contributions and ongoing strength in business.

For the full year, we expect to see adjusted earnings per share of \$5 to \$5.15, driven by recurring service and other revenue growth as well as ongoing cost initiatives. We assume no significant year-over-year impact from below-the-line items based on the 2021 opening balance sheet. The adjusted effective tax rate is expected to be in the range of 23% to 25%.

Our consolidated capital spend for full year 2021 is expected to be between \$17.5 billion and \$18.5 billion, consistent with the prior year and within our normal capital intensity range. Our focus for the year includes further expansion of our 5G Ultra Wideband Network in new and existing markets, densification of our network to manage future traffic demands and continued deployment of our fiber infrastructure.

Our cash flows in 2021 are expected to be driven by higher operating incomes, offset by taxes and working capital. We anticipate that our cash taxes in 2021 will be higher than in 2020, given expectations for higher pretax income this year and a one-time \$2.2 billion cash tax benefit received in the second quarter of 2020. Working capital was a tailwind in 2020 due to the lower equipment volumes, which we do not expect to repeat in 2021.

With that, I will turn the call back over to Hans to discuss our 2021 priorities.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thank you, Matt. Let me review the 2021 priorities based on the 4 pillars of strategic priorities. Starting with the core business, and as you heard Matt talking about accelerating the service revenue, I'm pleased that we're guiding for a plus 3% wireless service revenue growth in 2021. That's based on that we will continue to differentiate our value proposition for customers. We also will continue to invest in our Verizon Business Group to capture that potential we see in the Business segment with a new platform that we're developing together with our customers.

When it comes to our 5G and investing in our business, we have a big year in front of us in 2021. Again, we're going to almost double the amount of 5G Ultra Wideband sites. We're going to have 14,000 new sites coming in during 2021. That will enable us to continue to increase with plus 20 cities when it comes to 5G Ultra Wideband. And we're also going to add some plus 20 5G Home cities, at the same time, focusing very much on the 5G mobile edge compute with 10 more sites when it comes to the public side. And then on the private side, we will scale that network together with the demand that has come as we know already, all underpinned with the Verizon Intelligent Edge Network and the fiber that we are deploying.

When it comes to the financial, Matt talked about that we continue to focus on the accelerating the earnings per share growth, now with a guidance of \$5 to \$5.15 earnings per share. The year 2020 solidified our balance sheet. And we will be continued focused on the cash flow generation.

And finally, when it comes to our culture and our purpose, we have very much focused on the customer-centricity and the brand strength that we have built in the market. That will continue as well as we will have also the Citizen Verizon totally included in the overall strategy. You see that we are managing all the 4 stakeholders that is making the success for Verizon in the future.

So very clear, a year of execution. We have progressed 1 more year on the Verizon 2.0. We're in a great position. I'm really excited to go into 2021. I'm pleased to announce that we will have our normal Investor Day in the early part of 2021. We will come back with the exact date in due time.

And by that, I would like to hand over to Brady for Q&A.

Brady Connor - Verizon Communications Inc. - SVP of IR

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Phil Cusick of JPMorgan.

Philip Cusick - JPMorgan Chase & Co, Research Division - MD and Senior Analyst

Two if I can. First, Hans, can you talk about the strategy of revenue growth from here, given the higher promotional environment? Is it important that you grow accounts? Or can you make the revenue growth on the existing base? And clearly, you're looking for customers to move up to premium unlimited. Where is that mix now? And then second, where are we on the fiber builds? And how should that start to come through in revenue and expense management this year?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thank you, Phil. Let me start by the subscribers then. I mean, first of all, we came into the third quarter already, I mean, we have our model with the migration of customers, giving them a better network and a better experience. And that is really how we are managing our base. And we came with a good momentum in the third quarter. And as you saw in the fourth quarter, we had service revenue growing more than 2% as we said also in the guidance.

That's so important for us because we have a model, where our net addition is part of our strategy, how we move them up. And as Matt said, we have now more than 60% of our customers on unlimited. But more important, I mean, if you look in the fourth quarter, 90% of the new net adds took unlimited. And out of those, 55% took premium. And the premium is, of course, where we are adding in the 5G, we're adding in discovery+, Disney+. The way that our -- that Ronan and his team has worked with this migration pattern, we believe -- and as you heard in the guidance that Matt talked about, we believe that we can continue that work with organic service -- wireless service revenue growth with the model we now have. And we have proven the model over the years.

And let's also remember the Business side has performed very well when it comes to the wireless account. I mean we are so strong with the public sector, with the large enterprises on the wireless side. So that is giving us a lot of positives going into 2021 with the guidance we have of continued service revenue growth on the wireless side. And we'll constantly measure what the actions we're taking, but we feel good about it.

When it comes to the fiber question, yes, we continue to roll out fiber. We are probably in the year 3 or 4 right now. We -- I would say with the majority or vast majority of all the 5G sites, they have our own fiber. We are migrating our 4G sites also, where it's a good return on investment to our own fiber. And over time, we will also open up opportunities for resell to our enterprise customers and wholesale. So I think that we are seeing that benefit already on the 5G build because we are using our own fiber.

To get the full impact, we also have a couple of years left in order to have it in all the areas. But we have come a far way on the fiber build, and we will continue to do it where it makes sense for a return on investment. So we feel really good about that. And that's part of our Verizon Intelligent Edge Network.

Operator

The next question comes from Brett Feldman of Goldman Sachs.

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

I believe you called out in the release that COVID ended up being a \$0.02 benefit in the quarter. I imagine that was probably a mix of things that were good and bad. I was hoping you maybe could give us a little bit of insight into that. And then the EPS guidance that you gave for this year,

what are you assuming about the COVID impacts over the course of this year? And if you could give us any insight on how that breaks out? And then also one last question on guidance, does that factor in any potential future spectrum purchases? Or does it just reflect the portfolio spectrum you have today?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

I can start with the latter question, and Matt can come back to the first. So when it comes to our guidance for EPS in 2021, of course, there are uncertainties of the pandemic and so on. But some things we know. I mean the roaming charges will continue to be a headwind. We also think that as the pandemic and economic recoveries is coming back probably latter part of '21, the public sector will not have an equally strong year as they had in 2020. We also believe the SMB will continue to be subdued and have a challenge in '21. And as we saw during the full year, the switcher pool has been lower due to the traffic in the stores, et cetera. So that's were factored in.

But on the other hand, we have line of sight to what we're doing because we're executing on a strategy when it comes to migration of our customers, what we're doing in Verizon Business Group and also Verizon Media Group. As Matt said, I mean, they were now, for the first time ever, have a year-on-year growth with 11%. All in all, that is giving us the confidence that we can live up to this guidance. But there are some uncertainties and there are some headwinds from COVID. But we think that with those assumptions we have, we can actually do this. And this is continued work with the EPS growth and acceleration that we have talked about for so many years right now. And we continue to show that we can do it with the assets we have and how we're executing. Matt?

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

Yes. Thanks, Hans. So Brett, just in summary on the COVID assumption and the EPS guidance, I think I'd say while certainly some level of pressures will continue to exist on the business throughout the year, I would say it's -- we're not overly pessimistic, but we're not overly optimistic either. We assume some level of pressures. But you saw from the second half of the year, our ability to still execute within that type of environment.

In terms of the fourth quarter, as you say, there was actually -- the COVID impact was actually a \$0.02 benefit. And what you saw there was there was a couple of one-timers, but primarily it was a case of the revenue pressures we saw declining versus what we've seen in 2Q and 3Q. You think media as an example, which had been significantly hit by COVID impacts earlier in the pandemic but certainly no impact in 4Q as we recorded that 11% revenue growth there.

So those revenue -- some of the revenue headwinds moderated in the fourth quarter. The expense benefits continued. That's why you saw the \$0.02 net benefit, which actually completely offsets the \$0.02 headwind from 606. So if you kind of think about in the fourth quarter, 606 and COVID having no net impact on the results, and that \$1.21 stands on its own, the 7% increase on a year-over-year basis.

Operator

Your next question comes from Simon Flannery of Morgan Stanley.

Simon Flannery - Morgan Stanley, Research Division - MD

Hans, I wonder if you could talk about 5G monetization in 2021. You mentioned the expansion of the network, the Ultra Wideband Network, more 5G Home locations, more mobile edge compute. So can you just take us through both on the Consumer side, particularly 5G Home and on the B2B side, what we should be looking for and what you're kind of including in your forecast for '21?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes, absolutely. No, we're excited about the 5G in 2021. I mean, on the mobility side, we're already seeing monetization happening. I mean, in the fourth quarter, with so many customers taking the premium and going for unlimited, that's sort of where we have our sweet spot with the 5G. And of course, with the Apple iPhone right now in 5G, that has now kicked off that. So that you will see through the year when it comes to our mobility case.

When it comes to 5G Home, we have very solid progress in 2020, came out with this new CPE. We added some 12 cities now with 5G Home with the NR technology. And our plan is doing 20-plus markets more in 2021. So now we're starting to get a solid foundation for the 5G Home. And as you heard in my remarks, I mean, we are doubling the amount of sites almost in 2021. So we're now getting to a very, very solid positioning there.

But I said before, on the Ultra Wideband build, we're building it mainly in the dense urban areas and then in stadiums, et cetera, in the beginning. So we covered less of houses or residential in the beginning. But as these continue right now, we're capturing more and more. So I'm really excited. We also know that the CPE is really good. So -- and the self-install is working well. So we're looking forward to seeing that happening over the year more and more.

On the 5G mobile edge compute, we have a great funnel of customers on the Business side. And we are not expecting that will be in significant revenues in the '21. But you're going to see a lot of customers signing up for the 5G mobile edge compute, both the private and the public, in '21 in order for us to have a very solid base going into '22.

So a lot of excitement around 5G. I think we have built it absolutely right. We have an opportunity in front of us that we have been working on for a couple of years right now. So I'm happy with my sales team. I'm happy with the technology team. And we have a big year in front of us.

Operator

The next question is 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

Great. I've got three quick ones. First, in terms of the 3%-plus service revenue growth, can you give us a sense in terms of whether that's weighted more towards subs or ARPA improvement? Obviously, you guys, in your commentary, talked about some of the headwinds to the sub growth. I'm just wondering if you guys think you can maintain sub growth as you look through the year. That's number one.

Number two, just any thoughts on the ability to continue to drive margin improvement in the business, given that -- considering you're close to achieving the \$10 billion in savings. And then lastly, sort of a follow-up to Brett's question, is the CapEx guide that we've heard, is that something that could be revised during the year if the circumstances change?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Let me start. I mean on the 3% growth, I think we have our strategy when it comes to how to grow it with the migration of customers and all of that. And as always, the team is validating how to make offerings, if we should be more aggressive or not. But we always think about doing long-term positive impact for our shareholders financially. And you have seen us now working for the last 2.5 years since we launched unlimited, we are doing the right things in order to make a long-term impact positively for shareholders and for our customers.

And so especially Ronan and the team there have quite a lot in the portfolio, but we have now proven that this model is working when it comes to migration of unlimited with the best network and adding in also new value-added services, everything from Disney+ to discovery+, Apple Music, and it might be more coming up in the year as well. So I'm confident that the guys have that in the portfolio. And as you heard about the Disney+,

it's -- I think it's just unheard of how we can help direct to consumers. I mean 2/3 are signing up or more than 2/3 are signing up to continue the service after 1 year. I think that is something standing out.

On the EBITDA, I will -- Matt will come back later on. But I can say that we continued with efficiency. And it's a reason why we are giving a guidance that we will grow the EPS again. And the majority or all of it is basically above the line, as Matt said. So this is operational improvements and improvements as we are growing our top line. Again, we have proven the model, the 5 vectors of growth. And now we're in the middle of executing.

And finally, on CapEx, this is what we need to do right now. We -- the technology team has all the means they have to execute on a strategy with assets we have today. The only thing I can say, as I said I'm not sure 100 times before, we will only increase CapEx if we find something that has a really good return on investment. And then we'll come back and talk about it. Right now, we have everything that we need to execute the plans that we have in front of us.

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

Yes. So hey, John, so back to your couple of questions around the guide. As you think about the 3% service revenue, it's really a combination of subs and ARPA. Hans obviously talked through all of the things that will drive the ARPA side of the equation. But we certainly do expect subs growth, account growth. And net add growth is important to our business as well. We will do that in a disciplined way. We're not going to chase unprofitable growth. But you should expect to see volume growth in the business as well as ARPA growth.

And then the margin improvement, cost savings where, as you mentioned, we're close to the achieving the \$10 billion program well ahead of the end of 2021 timeline that we put in place. But just because we hit that doesn't mean we'll stop. There's significant opportunities to continue to make our business more efficient. The teams are very focused on those. And the \$10 billion goal won't change us -- won't slow us down at all from continuing with that.

As you think about margin improvement, obviously, revenue will be a big driver of that and then you combine that with the cost savings. The one thing I would say is as we have an improvement in EBITDA margin dollars, if we have equipment revenue increase this year, which we would certainly be glad to see an indication of the overall economic activity picking up, you'd see an impact of that in the EBIT margin. So you could have EBIT dollars grow, but margins not grow as much, just because of the impact on the numerator and denominator from the equipment revenue. But we're certainly very much focused on the dollar side to that equation and excited with the guide we have for the year.

Operator

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

David Barden - BofA Merrill Lynch, Research Division - MD

Hans, I guess, the first question for you, just on the strategy side with the sale of the HuffPost, is this the beginning of a dismantling of the Verizon Media business? Is it on the block? What is the game plan for that unit as we think longer term for Verizon?

And then I guess the second question would be for Matt. Matt, you called out that the 2H '21 might have some tough comps for the Business side of the business. Could you kind of elaborate a little bit on what that might be and what the numbers might look like?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thank you. On the Verizon Media Group, I just want to remember you that we started this journey somewhere in 2018, resetting the overall strategy of Verizon Media Group. We started with that. We started to take out cost. We changed the product portfolio. We went into a very clear brand value of trust and privacy.

The team has just done an outstanding job. I mean they have been bringing this from sort of going down with a decrease in growth of 15% to 20% per quarter. And now they're turning around with extremely sharp products as including also consolidating some, I'm not sure if it was 10 or 15 different ad tech platforms to 1. I think it's a great -- we have put them in a position that we're really happy with. So I'm looking for how these guys will execute. And we are now in the position where I wanted it to be.

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

And then David, on your question on the VBG volumes. So certainly, as you think about what we've seen this year, especially in the public sector part of Verizon Business Group, very, very strong year. Obviously, some of that is due to the circumstances that we've seen across the country. So I would actually be very happy if we saw some pressure on those volumes in the second half of the year. That would mean good things were happening elsewhere that would be very supportive of our Consumer business, very supportive of our SMB businesses as well.

So certainly, it's part of some of the uncertainty that exists as we think about the year. But just wanted to call out the fact that if we see the improvements we expect, we may see the -- some impact there on the public sector side of our Verizon Business Group volumes. But as I say, I think that would be more than offset by other parts of the business. So what you've seen and what we expect in '21 is a continuation of what you saw in 2020 is that as we have so many different parts of the business, irrespective of how the macro environment plays out, we can put together very strong consolidated results.

Operator

The next question comes from Craig Moffett of MoffettNathanson.

Craig Moffett - *MoffettNathanson LLC - Founding Partner*

I wonder if we could just talk about the competitive environment in wireless for a moment. Your gross additions remain, especially in Consumer but across Consumer and Business, way down. Your churn rate remains very good and your sort of ARPU shows signs of improving. That's sort of a different story than what we've seen for the last few years, which it sort of speaks to perhaps a moderation of competitive intensity but clearly a weakening of your ability to acquire new subscribers. I wonder if you could just talk about that for a bit and talk about how you see that evolving in the 5G era as we -- particularly now that more and more of the handsets that are being sold are 5G handsets.

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

Thank you. First of all, I think the competitive landscape is always there and competition is also equal. I think that we just have a little bit different strategy. I mean, first of all, quality net adds is for us very, very important. And as you can see, we are adding these very important net adds. We want quality customers that likes our network, that likes our offerings and our experience. And if you look at what we have done in the last 2.5 years with our migration story, that's exactly what we have done. And that's what you see impact in the fourth quarter.

We're growing our service revenue as well as the guidance for next year. So we are confident with the strategy we have, and that might not be the same strategy that others have, that we can grow. And that's part of the 5 growth vectors we have to get to GDP+. And with the guidance that Matt gave or we gave with plus 3% on the wireless service revenue, I think we have all the confidence in the model we have and how we'll work with. But it's also true that the switcher pool during 2020 in the fourth quarter was lower due to COVID, less traffic and all of that. So -- but all in all, we are very pleased with the high-quality net additions that we are getting and that we can create growth with that and continues on. Matt?

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

Yes. Thanks, Hans. Craig, I think the retention side of the business is performing very, very well. And we're doing that through the quality of the network, the quality of the customer experience and not having to do anything additional to drive that type of retention numbers that you see. So it's been a very strong story there. And we would expect that to continue.

Craig Moffett - MoffettNathanson LLC - Founding Partner

And if I could just squeeze in one more question if I could because -- and sorry to change topics. But your video strategy seems to be now quite different in wireline and wireless, where in wireless, you're clearly with Disney and Discovery. You're sort of playing the Switzerland neutral arms dealer.

I wonder if it raises any questions about for Fios. Does it make sense to stay in the video business as you currently have it, where you're still selling a direct package? Or would it make sense to move to a similar strategy for the wireline side, where you sort of offer more third-party aggregators, if you will, across your network?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thank you, Craig. No, first of all, you're absolutely right. On the wireless side, our D2C strategy is great. We have a platform that nobody else when it comes to distribution, brand and network. And we can cope with this. We're not going to have 100 different type of offerings. But the discovery+, the Disney+, they are sort of super A brands that we want to work with or Apple Music. We will look for more of these to see that they're fitting into our customer base, that they like it and are willing both to upgrade and migrate. So we'll continue with that.

On the Fios side, of course, we will continue with the video right now. But you have seen us also, starting with Mix & Match, starting to shop up this because ultimately, I want our customers to have choices. And I want them to choose. If they want the D2C solution or if they want a linear or they want over-the-top, they should be able to choose it. And look at the numbers in the fourth quarter again. We continue to grow our Fios Internet customers and we have a decline in the video customers. That's good for us, I mean, financially. But ultimately, it is to meet our customers' needs.

And I think the whole setup that we did in Verizon 2.0 is just catered for us to do things that we never thought about before. We have a Consumer division thinking about how are we now delivering to consumers. And that's what you see in the numbers. That's what you see in the numbers that we have. We have the same in Verizon Business Group. They are thinking totally different we have done before. And we still have more to do with platforms and things to be even more scalable and be able to bring more to the bottom line. But I have to say, I'm pleased. And I hope that you guys, what you see, are pleased as well. I mean the strategy is working. We have the 5 vectors of growth. We're going into 2021, we have proof points on all those 5, including the video strategy you asked about.

Operator

The next question comes from Michael Rollins of Citi.

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

Two questions if I could. First, if you look at the improvement in postpaid churn year-over-year, can you unpack what portion of that might be coming from the pandemic and the lower switcher pool versus what's coming from the Verizon initiatives on the network strategy, the tiering and content bundling that you're doing or any other factors that you think may be improving retention? And then secondly, on the wireline business, is there at some point down the road a step-function opportunity to take margins up, especially as you've continued to fiberize the local footprint?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thank you. I will start and will let Matt make some comments as well. But on the postpaid churn, I think that we are just having a great moment with our customers. They love our network and the performance we have and the additions we're doing with 5G and 5G Ultra Wideband. At the same time, our offerings are so distinct and different than anybody else in the market, where they can go to the unlimited premium together with discovery+ or Disney+ or Disney+ plus, plus. We have ESPN and Hulu included. I think nobody else has those type of things in the market. And our partners, at least if you ask them, I think you should, are very happy and pleased on how we can deal with this. We are happy with it, both from a retention but also from a bottom line side. We were making money on this, which is the whole idea with the Network-as-a-Service that we're building on the Verizon Intelligent Edge Network.

On the wireline side, I think the whole idea of the Verizon Business Group is really to see that we are working these year-over-year. This is nothing that you fix in a month or a quarter or 2. This is things that we need to invest in a billing system, direct-to-consumer, call centers, everything being set up to deliver scalable platforms for our customer in the Business side. That will, over time, improve our margins in the Verizon Business Group. And I think that if you look at 2020, I mean, it was a good performance of them, still doing investments in order to get where we want to get over time. And then we add to that new opportunities, like 5G mobile edge compute. Matt?

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

Yes. So just back on the postpaid churn, Mike, for a second. The -- certainly, there is a pandemic contribution, but as Hans mentioned, a lot of Verizon-specific pieces, too. I'd also point out that the fourth quarter churn number included the impact. If you think about the Stay Connected customers, there was a delay in those customers going all the way through a collections process and so on.

And so you had a positive benefit from that in Q2 and 3Q, a little bit of a catch-up in 4Q. But even with that, a very strong churn number, and it's just based off of the best network experience as you saw confirmed again by RootMetrics yesterday. When you put that together with everything else we do, customers who get on the Verizon network want to stay on the Verizon network.

Operator

The next question comes from Doug Mitchelson of Crédit Suisse.

Doug Mitchelson - Crédit Suisse AG, Research Division - MD

Hans, I just wondered -- I was hoping you reflect back on the arrival of 5G in the United States. And the prompt is I think a lot of people thought the iPhone 12 being the 5G and having all your bands in it would start a bit of a super cycle or not a bit of one, but a super cycle for consumers adopting 5G in the United States.

So I'm just curious how much of it sort of not happening in that way as due to the pandemic and the lack of getting people to retail versus the lack of applications that would really just sort of delight consumers and get them to upgrade and how you think that's going to evolve over the next year or 2 or 3. Is it going to be sort of a slow walk? Or is there something exciting around the quarter?

And then for Matt, I'm just curious, beyond working capital, any other free cash flow swing factors for 2021? And is there any way to size or quantify working capital? It's kind of hard to tell looking historically what normal might be.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

When we talk about devices and what's happening with the upgrades and so on, I mean, remember also that the Apple 5G phone came out, I would say, late in the fourth quarter. That's when this all started, at the same time as we had the pandemic. Still, I would say we are very pleased what we have seen with our customer migrating to 5G. Remember, we have a fair share or a big share of Apple users in our base.

So I think that this is a pretty normal, maybe some a little bit subdued, but it's very normal upgrade cycle that we will see. And 5G will just getting better and better. I mean that's what's happening. I mean we are fortifying our network. We're improving the performance constantly. I remember when I talked about Ultra Wideband reaching maybe 1 gigabit per second, now we're up to 4, 5. So there's so much more to do. And the same goes for our nationwide, improving all the time, performance better. So I think that is coming together as the accessibility to phones are coming out much more and all the main brands have a 5G phone and all of them with ultra wideband.

So I think that we will see that continuing into '21 and '22. But there are longer cycles today when it comes to customers migrating to new phone. They're very attached to it. But I think this is no different than 4G cycle. I think we actually are -- this is going faster than the 4G cycle. It's just that our memories are so short, so we don't remember that. But clearly, this is equal to, to better than what we saw in the 4G cycle that happened some 10 years ago, which I refer to myself when I talk about my memory, so nobody else. Okay, Matt.

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

Thanks, Hans. So on the cash flow question, Doug, so when you talk about the swing factors, obviously, it starts with higher earnings for the year. Above-the-line earnings will be obviously the largest driver in the cash flow for 2021. In terms of things that potentially go the other way from a cash flow standpoint, we would expect obviously higher earnings will lead to higher cash taxes. But in addition to that, we had the \$2.2 billion one-time cash tax benefit in the second quarter last year that obviously won't repeat. So that will be a year-over-year difference in the cash flow.

And then working capital, as you say, the biggest item working capital is going to be in the receivables side, predominantly on the handsets. Obviously, as volumes go down, the amount of device payment contracts with customers we're doing goes down as well. So even if we don't see an uptick in volumes this year, if they're just flat year-over-year, you have the removal of that tailwind from last year. So all in all, you're going to see the increase from higher earnings with some offsets from cash taxes and hopefully, on the equipment receivables side are going to be the key factors in there.

Operator

The next question comes from Peter Supino of Bernstein.

Peter Supino - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

I wondered if you could discuss the service revenue outlook, and specifically within Consumer, the incremental margin characteristics of the service revenue growth that you expect. How -- do you expect that revenue to be any more or less profitable than a normal level of service revenue?

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

I think that was outlined in the guidance for 2021. We are looking for profitable growth. And that is how Verizon has worked as long as I recall. Now I haven't been here all my life, but we work with profitable growth. And that is in the Consumer group as well. We will see that we have the best offers for our customers and we will manage our P&L at the same time. And we will be aggressive, if it's needed, to get long-term effects. But as you can see from the guidance, it's a profitable growth we're looking for. We should be able to both grow as well as making that a profitable growth. And that's in the guidance.

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

Yes. So Peter, I think that's exactly it. If the 3-plus percent service revenue guide is going to drive -- is driving the EPS growth, that's in the guide as well. So certainly, it's profitable growth. In terms of comparing it to historical incremental revenue, I think there is obviously different components all the time.

But absolutely, everything that we're doing to step customers up from a revenue standpoint also creates incremental lifetime value with those customers. So you should expect that to be a continuation of how we approach the marketplace that we bring customers on, and we do it in a way that creates significant economic value for us over the long term as we provide best-in-class experiences for those customers. Nothing changes there in our mindset.

Operator

The last question comes from Colby Synesael of Cowen.

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

Just want to circle back on CapEx for a moment. I feel like messaging earlier in the year was that CapEx in 2021 would be up. And if you look at Street expectations, they were indeed expecting CapEx to be up in '21 versus '20. So I'm just trying to get a sense what might have changed to have the CapEx guidance flat year-over-year.

Secondly, Biden is proposing increasing the corporate tax rate to 28%. I'm curious how you think about that and whether that would have a huge impact on free cash flow and dividend coverage. Or do you think that there will be offsets that you'd be able to kind of absorb much of that increase? And then just as a housekeeping, is TracFone included in your 2021 guidance?

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

Yes. So thanks, Colby. And maybe I'll go in reverse order there. We -- while we expect TracFone to close in the second half of the year, our guidance is -- doesn't assume any significant impact on the EPS during the year. But we'll update that if necessary, during the year.

Corporate taxes, our assumption, as you heard in the guide, 23% to 25%. That's where we've been the last few years. Obviously, we do our outlook based off of what is on the legislative books. And so we do it based on what's there right now. We look forward to seeing how the new administration works on a number of different issues. And if that changes the way we look at the business going forward, we'll obviously talk about that at the appropriate time. But we're very confident in the business.

Look, we had good dividend coverage when we had a much higher tax rate not too many years ago. So while we certainly believe that the current rate has been very helpful in job creation and in economic growth creation, we're certainly very comfortable with how our business is set up as the administration is looking at different things.

And in terms of CapEx, I think what you're seeing is a very efficient capital deployment model within the company. That's why you see a guide that's in line year-over-year as we continue to do all of the things that we've done, whether that be on LTE, the 5G build. You heard Hans talk about our goals for the ultra wideband build this year, continuing the fiber build-out. And so I think the team has got a very good momentum going there. As they've got more into those things, the efficiencies continue. That's why you see the guide where it is.

Brady Connor - *Verizon Communications Inc. - SVP of IR*

Yes. Thanks, Colby. Let me hand it back over to you, Brad, and we'll close up the call.

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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