THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

VZ - Verizon Communications Inc at Bank of America Merrill Lynch Global Telecom & Media Conference

EVENT DATE/TIME: JUNE 07, 2016 / 12:35PM GMT

CORPORATE PARTICIPANTS

Fran Shammo *Verizon Communications Inc. - EVP & CFO*

CONFERENCE CALL PARTICIPANTS

Dave Barden *BofA Merrill Lynch - Analyst*

PRESENTATION

Dave Barden - *BofA Merrill Lynch - Analyst*

Okay, thanks everybody for joining us for the first afternoon session. I'm Dave Barden, Bank of America Merrill telecom analyst based in New York.

With me I'm very pleased to have with us in London Fran Shammo, the Chief Financial Officer of Verizon. Thanks, Fran for making the trip. Appreciate it.

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

Sure.

Dave Barden - *BofA Merrill Lynch - Analyst*

And the format I think we will do a little kind of fireside chat here to start off and we'll get to some Q&A from the guests towards the end and hopefully wrap it up in about 45 minutes or so. I guess it's an opportunity, Fran, I guess for us to kind of maybe really check in here. I think at the end of the first-quarter call you guys flagged that as a function of the strike that was ongoing at the time that you would want to maybe check in later in the quarter and kind of give people an update as to what might have been going on.

Obviously in the interval we've seen a resolution, at least appears to be a resolution awaiting ratification along those lines. So I wanted to kind of duly make that check in and see where we stand with the unions and kind of what you saw happen over the course of the quarter and any other color you can share.

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

Sure. Well thanks. Hello everyone.

First, let me just reference our forward-looking statement that's on our website and in front of you today. So let's just start out with coming out of the first quarter, obviously we had about [36,000] (corrected by company after the call) of our Wireline employees who went on strike. We have concluded that negotiation.

It was a [seven-week] (corrected by company after the call) long strike. And so when we look at the quarter we are looking at potentially a $0.05 to $0.07 impact to the earnings for the quarter related to that strike.

Why is that? It's really twofold. Number one, obviously we have to get management to go out.

We pay a lot of overtime to our management employees to cover for the strike. We also have to hire a lot of contractors that we then have to pay because we didn't fulfill the contract with them for the duration that we had. So there's a combination of that.

And then the other thing that we find, too, during a strike is most of our management employees work on repair and maintenance. So we don't do much installation. And if you think about accounting rules, when you do an installation on Fios, you actually get that to capitalize the labor as part of that installation.

Well, if you're only working on repair and maintenance jobs and not doing installation then you have a shift between capital to expense. So some of the pressure that we're seeing in the P&L is that shift. What you'll see is Wireline capital will actually come down in the second quarter.

So the cash piece of that is neutral to us. But for the P&L side you will see about a $0.05 to $0.07 impact to the bottom line for the quarter.

As far as the contract goes, I will talk more about the contract and some of the parameters around the contract on the second-quarter call. And the reason I won't do it right now is because the represented force has not ratified the contract which means they have not accepted the terms yet.

So we can't really talk about it until they ratify it. The ratification is scheduled for June 17. So we'll have more to say about that on the second-quarter call, David.

Dave Barden - *BofA Merrill Lynch - Analyst*

All right, maybe a couple of quick follow-ups on that. I guess number one, could you kind of talk about any impact that may be measurable on kind of the broadband, the Fios, the Wireless add side as it happened in the quarter?

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

Sure. So on the Wireless side of the house there really hasn't -- you really won't see any impact on the Wireless side of the house. So it'll be a normal quarter for Wireless.

As far as adds on Wireline go, as I said we spent most of our time on repairs and maintenance. So the actual net adds of Wireline will be negative for the quarter.

Now obviously our employees are back to work. We're doing installations here in the month of June. So I don't actually know the exact number that we'll end in the quarter because now we're in catch-up mode because we did have a pipeline build during the strike.

It's a matter of how much we can get to that pipeline. But I would expect TV and broadband to be negative for the quarter.

Dave Barden - *BofA Merrill Lynch - Analyst*

Did this have an impact on DIRECTV or just the Fios side of it?

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

This would just be with our direct installations.

Dave Barden - *BofA Merrill Lynch - Analyst*

Got it. And I think that there was a question as to how long the strike lasted that it might have an impact on some of the legacy contractual expectations for healthcare contributions and other things that would be a benefit to the second half of the year.

Is there any risk to that now? Is that put to bed to a degree assuming ratification?

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

If we get it ratified I'll talk more about that on the second quarter. But that has been put to bed if the ratification goes through.

Dave Barden - *BofA Merrill Lynch - Analyst*

So really what we're, maybe if we were kind of thinking I know we're going to talk about the full year at the quarter, but if we're trying to wrap our heads around it, so maybe a $0.05, $0.06 in the second quarter plus whatever residual impact there is from that lag in installs in the second quarter rolling into 3Q but it sounds contained in general.

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

Yes, it's contained, but the $0.05 to [$0.07] (corrected by company after the call) will flow to the end of the year. We're not going to make that $0.05 to [$0.07] (corrected by company after the call) up at this point. So I would just roll that through.

Dave Barden - *BofA Merrill Lynch - Analyst*

And I know that a lot of people I've been speaking with here at the conference were kind of asking the question about -- let's ignore the new contract for a second, but in terms of 2017 growth I think that you've been talking that there would be more normal growth rate in 2017, which I think has been made to high single-digits kind of conversation. Does anything about this exercise materially alter that outlook?

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

No. When we talk about 2017 in our outlook I've referenced to the fact that I believe we will get back to a GDP-type growth Company on the top line. And I know I've gotten a lot of questions as to well, why do you think that way, Fran?

Well, some of it's just pure math. If you look at the Verizon Wireless side of the equation, Verizon Wireless service revenue is under pressure because of the switch from the subsidy model to the unsubsidized model. So service revenue is getting compressed here as we shift to equipment revenue.

Coming out of the first quarter that was a 6.2% decline. And we've said that as soon as we hit 50% of our customers on that unsubsidized pricing model, which coming out of the first quarter was 48%, as we get to 50% and start to turn the corner on that 50% the service revenue will also start to turn. So you're going to go from 6.2%, something less than that, and the decline will lessen and as we do our math forecast by fourth quarter of 2017 we'll actually be back to accretion in service revenue.

So pure math would show there's going to be a lot less headwind in 2017 that there was in 2016, plus you have the comps. And then when you role in some of the other things that we've been working on like AOL, go90, Verizon Digital Media Services, telematics, they start to gain more momentum in 2017. So that's what makes me comfortable to say GDP-type growth.

Then from a bottom-line perspective what we've said is the last two years we've had unusual transactions. Vodafone contributed a 10% one-time benefit to earnings per share.

So as you roll through the accounting benefit of the EIP plan, when you get to 2017 you get back to more of an equalized growth rate for the bottom line. And I'm not disclosing what that is. You can go back in time and look at Verizon's normal growth rates and that's what the box will be put in.

THOMSON REUTERS

Dave Barden - *BofA Merrill Lynch - Analyst*

So I guess another key topic relates to something you were talking about on EIP is there's a -- we were talking to AT&T about that this morning, too, was what expectations are for the handset cycle in 2017. We saw a very, very low upgrade rate in the first quarter.

It's unclear whether that's because people are choosing to keep their phones longer or because they are waiting to maybe make an upgrade in the back part of the year. And so there's this question as to whether 2016 will look more like the 2014 iPhone 6 upgrade cycle or the 2015 iPhone 6s upgrade cycle. Can you give us any color in terms of what your expectations are on that?

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

Yes, so it's actually too early to tell exactly what the trend represents. We saw a very similar trend back in the first quarter of 2014 where upgrades really slowed. And it's because people have been trained that there's an upgrade cycle every two years coming out of Apple.

So we're coming up to that two-year cycle at the end of this year. It's going to depend on what that device looks like, I have no idea what that looks like. So that will drive some of the behaviors.

But the other thing that we don't know is did the slowdown happen because people are expecting another upgrade? Or did the slowdown happen because this EIP thing has been in the makes now for two to three years and are people now saying I got a 20% to 25% reduction in my bill, I'm going to keep the same phone and just pay the service pricing at the reduced rate?

I can't answer that question because our first generation of EIP just matured the first quarter. So I need some time to see what the trend is on the upgrade cycle.

My personal view is that I think that the upgrade will look more like 2015 than it did in 2014 for a bunch of different reasons. And keep in mind, though, that the volume of upgrade now going into the future because of the installment plan and EIP, whatever you want call it, there's less impact. In the old days when volume went up profits went down.

That's going to be more equalized now because you don't have that huge subsidy that you're taking in a high-volume quarter. So again I would expect the P&L to look more like 2015 than it did in 2014 as the EIP model continues to mature.

Dave Barden - *BofA Merrill Lynch - Analyst*

Got it. And just on as you say the maturation of the EIP business, I think that you've publicly talked about looking at it looking at financing of handsets or factoring of handsets or financing handsets in new ways. Is there any update on kind of how that's unfolding?

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

Yes, so I've said the last couple of times publicly that we have been looking at for over a year now alternatives to really looking at ways to finance the handsets because I don't want to be in the finance business. So we've looked at -- we have been securitizing through our membership banks on an off-balance-sheet-type basis. So strictly a securitization.

A couple of things with that. One, that cash then when we securitize, which is about $2 billion a quarter, flows through cash flow from operations. But it's generally at a little bit higher cost and it also kind of degrades our rating because the rating agencies take that securitization and add it back to our unsecured debt.

So one of the things that we've been looking at is what if we convert it to the asset-backed security market, which is a public market, and also using banks to be an on balance sheet would be more like the ABS-type instrument. We've been working with the rating agencies over the last year on how they would view us being more of an asset-backed security in securing these investments. And if you've looked at it, both S&P and Fitch have recently written up that they will treat the industry, if you will, more of a captive on this type of asset-backed security.

So that actually gives us a benefit in our ratings from the debt perspective because this now will not be added to my unsecured debt. It will be treated as a separate pool of financing, short-term asset-backed security debt similar to the auto industry and so forth.

So there's a benefit from a borrowing perspective because a lot of this will be rated AAA. So there's a benefit to my borrowing cost. And it also gives me a rating benefit.

Now, one thing you should be aware of for the second quarter is I will not be securitizing anything in the second quarter on the off-balance-sheet method. So you will see about a $2 billion swing in cash flow from operations because I'm not going to securitize via the old instrument.

What you will see then, though, is going into the third quarter, so we have a little bit of a time issue here, going into the third quarter, you'll see us go out to the public market to start financing the old securitization in the on balance sheet method. So you are going to see this geography change in cash flow because this will now be included in financing rather than cash flow from operations.

So you will see a geography change for us as we build up the public market versus the off-balance-sheet weaning that off. You will continue to see that for about the next year as we move into a full-fledged asset-backed security model and then cash flow from operations again will equalize out and get back to a normal view. So we will talk more about this on the second quarter, but we will be changing the way we finance these receivables.

Dave Barden - *BofA Merrill Lynch - Analyst*

So a couple of questions. So first of all, these are handset receivables?

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

These are strictly consumer EIP-type receivables. The 24-month-type receivables.

Dave Barden - *BofA Merrill Lynch - Analyst*

What is the kind of cost differential on a couple billion dollars of quarterly financing that you are getting?

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

Well, I will wait until we do that and then you will be able to see that. I'm not gonna get into the actual cost differential.

But there is a cost benefit to using the asset-backed security market. But it's a beneficial because of the high quality of our base and some of this will be rated as AAA. So there's a cost benefit there rather than just using off-balance-sheet securitization with the banks.

Dave Barden - *BofA Merrill Lynch - Analyst*

So it's not just that what will happen is we'll take this kind of securitization out of the unsecured basket and bring overall leverage down. That should probably give us a benefit for the totality of the debt. But there's an actual cost benefit for the ABS market versus a securitized bank market today?

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

That is correct.

Dave Barden - *BofA Merrill Lynch - Analyst*

What is your visibility that the ABS market for these receivables is big enough to accommodate your needs?

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

We've done a lot of work. Scott Krohn here is in this room with me as the Treasurer.

And he has done some roadshows with individuals and investors who would buy this type of security. And from a Company like Verizon and the quality of these receivables, there's demand out there for this.

Dave Barden - *BofA Merrill Lynch - Analyst*

And you think that's maybe uniquely the purview of Verizon to kind of develop this market? Maybe you would say that some other handset receivables aren't going to make the cut?

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

Well, I'm certainly not developing the market. The auto industry has been in this market for years. So this is a pretty steady market.

Yes, for our industry this is new for the industry but this market has been out there for years. So, again, we'll talk a lot more about this. Once we go public with the instrument you will be able to see it and we can talk more about that.

Dave Barden - *BofA Merrill Lynch - Analyst*

Got it. And so just another kind of more asset and cash flow related item, we've heard that there continues to be pretty healthy activity in the data center sales market. We just had a pretty healthy multiple from the Equinix sale to Digital Realty at 13 times, CenturyLink has their assets up for sale as we heard and they seem to be pretty positive about the activity level around it.

It's been quiet from Verizon for a little while on this issue. I was wondering could you give us an update on that one, too?

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

Well, we're progressing. Part of our slowdown was that a lot of the buyers wanted to see financial statements by data center. And obviously at a Company our size we don't keep financial statements by data center.

So we had to go back and put some financials together for the investors to see exactly by data center what the revenue and costs were and commitments and so forth. So we've worked through that. And so I would anticipate over the next three months we'll have more to report whether we move forward or we don't move forward.

Dave Barden - *BofA Merrill Lynch - Analyst*

Got it. You're going to hate me for doing this but I just have to go ahead and ask you about the Wall Street Journal article that just came out five minutes ago that everyone just emailed me about to ask you about.

That we're in the second round now. We've heard reports about AT&T being in the market for maybe these assets. What does it mean to Verizon if they win -- if you win or don't win does it matter to Verizon?

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

Related to what?

Dave Barden - *BofA Merrill Lynch - Analyst*

Yahoo.

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

I didn't really know what you were talking about.

Dave Barden - *BofA Merrill Lynch - Analyst*

I was trying not to use the word. I thought you just kind of -- I thought I'd slip it by.

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

Look, I'm not going to talk a lot about Yahoo process or Yahoo itself. But look, obviously we've gone on a strategic roadmap here around mobile-first activity.

We purchased AOL for the ad tech platform. AOL has brought a lot of viewership to the platforms. And you're going to see us over this next three to six months start to cross-pollinate our products utilizing the Verizon Digital Media Services platform.

And when I say cross-pollinate I mean the go90 asset more integrated with the AOL asset so that we can broaden the viewership. And really I mean when you get down to it, viewership matters because viewership drives advertising dollars which drives the top-line revenue. So when you think about viewership Yahoo has viewership.

So that's all I'm going to say about that. We'll see whether we move forward or we don't move forward. But that's really -- it doesn't really matter to me whether we do or we don't.

We have to build upon what we have and build upon what we have is creating more views to our platforms to generate advertising dollars, to monetize the data feeds that we're talking about and the content that we have. So that's really the general purpose of this.

Dave Barden - *BofA Merrill Lynch - Analyst*

So I want to use that as a jumping up platform to maybe zoom out a bit. And then because I think that in Europe there's been all sorts of quad play models and MVNOs and in the US, too, we've probably seen a more starkly divided approach to the market.

There's a national video wireless platform. There's some regional video WiFi MVNO platforms that are emerging. And there's Verizon which has basically kind of a nationwide wireless first type of model.

I'm wondering how you describe the landscape emerging in the US and why the mobile-first strategy is the best one as opposed to having a video like legacy linear video business that goes along with it to probably content rights and all these other things.

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

Yes, so let's start at a real macro level. So as we look at the world, if you will, and we look at our ecosystem, we look at it it says the world is moving to a broadband wireless world. Now I'm really when I see world I'm really talking the US.

But I do think the world is moving to a wireless world. That's where people are going to consume content. That's where people are going to want to consume their data and their TV.

So when we look at the US, broadband wireless, that's three to five years, that's where people how people will consume. So when you think about the macro and you look at just the broadband piece, obviously we believe we have the state-of-the-art broadband connection with our Fios asset. But that's East Coast centric.

And we'll continue to build on that. Obviously we've said we would build out Boston now because it makes sense, from an LTE perspective we can spend $300 million over the next three years to make that more palatable to expand Fios. So we'll continue to expand that broadband connection via fiber where it makes financial sense for us.

The next piece is wireless. So when you look at wireless, the wireless pie just continues to grow. And why does it continue to grow?

Well, if you look at the millennial population, how they consume content is mostly via wireless and then secondary broadband. If you look at Internet of Things, that is all wireless. Now some Internet of Things will run off of WiFi but for the majority as you look at the mobile world and you think about autonomous cars and you think about smart cities and medical devices that track people, that's going to run off of a wireless network.

And you can already see from the first quarter we launched hum in the fourth quarter and we had over 100,000 adds. And that marketplace is 150 million vehicles in the United States. So the pie is going to grow.

So if you look at the industry and the pie grows more people are going to want to enter that pie. But it doesn't mean that the four carriers who provide wireless service get any less of the pie because the pie grows. So the industry itself I believe will continue to grow.

Now as far as how we play in that, we believe that Fios will continue to penetrate and grow because we are underpenetrated in the marketplaces we have but it's a contained footprint. So then when we go to wireless, why do we think that our Wireless strategy is right? Well, look, if you look at the population and how people digest content, most people are not going to look at long-form content on a mobile device.

They are going to sit in their house, they are going to digest that through a broadband connection. Linear TV is still here but we all know that linear TV is slowly declining and will continue to slowly decline over time. And this population that we're talking about with 30 and below is gradually disconnecting linear TV and going to get their content from other means, whether it's over-the-top or short-form content for mobile.

So when we look at the ecosystem we believe that there's a large opportunity in mobile-first content. So if you look at what we've done with go90 it has sports, which you consider is long form, it has news and then it has this creative content that's bringing some of the viewership into the view.

The other thing though, too, is if you look at what I've done I'm not asking the consumer to subscribe to anything. So they are not paying for a subscription. It's free to the consumer.

And you don't need to be a Verizon customer to download that app and consumer that data. You can be sitting in your home, technically all go90 is over-the-top, and you can be sitting on someone else's wireless network and enjoying that. So I'm attacking a population that is more than just the Verizon Wireless population.

I'm attacking people who are sitting at home that want to digest that go90 content and people who are mobile that want to digest that mobile content. So we believe that the future is I want to fill up the 10 times a day that you have 10 minutes free I want you to come to my platform and digest 10 minutes of content from go90. And that's really the theory of the business case.

I'm not downplaying the over-the-top model. There are plenty of competitors today, whether you look at Netflix, Hulu, whether it be Apple, others, who come along the way to want to do over-the-top.

That ecosystem is going to be there. But the question is that's going to be so congested and what we're trying to do is create something that's very unique and different than everybody else with linear TV.

Dave Barden - *BofA Merrill Lynch - Analyst*

So let me ask just a follow-up question, it seems like one of the premises of the strategy is that the long-form content isn't going to get consumed in the mobile environment because what's getting consumed in the mobile environment right now is short form. But are those two things necessarily true?

Can you not have both, would it maybe not potentially be interesting to have both? Or are you limited from having both because you don't have 20 million video customers that you can go to the content companies with and fight for those rights and present an option for the customers that they maybe do not have today?

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

Well, I guess I would argue this. Most of our long-form viewership content is on sports. So if you look at NFL, you look at the NBA, you look at Mexico Soccer League right now they are watching that for an hour, hour and a half.

And I'm not saying they are not watching it on their mobile device, they are. But it sports.

So when you think about linear content, today whether you're a Comcast subscriber, a Fios subscriber, a DIRECTV subscriber, you have the ability to take all that content out of your home today and view it on mobile. All you have to do is authenticate back to your subscription in the home.

And again I come back to the differentiation here is I'm not asking you to subscribe to anything. You don't have to pay for a subscription. You can just download the app and watch where you want to watch without authenticating to any other authentication or subscription model.

And that's really the difference here. I'm not saying that long-form content won't be digested and I'm not saying that eventually we may not add long-form content. But right now out of the gate the concentration is around mobile-first content that's short form, 10 minutes max to 12, sports is outside of that, but it's this news and short clip form that we're going after.

Dave Barden - *BofA Merrill Lynch - Analyst*

Got it. And I know you've talked about maybe sharing more on go90 and what it's become as a business from a metrics standpoint. Is there any kind of color you can give us at this stage or is that still down the road?

THOMSON REUTERS

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

So I said that third quarter would be about the timing of to when we will start release some if you want statistics or metrics around the go90 platform and maybe some of the AOL assets. So we will have to mature this as we go but probably in the third quarter.

And the reason for that is because we've started out with go90 there. We had to do some things with the platform. That is all now done and if you look at some of the ratings around go90 they are starting to go up and it was because of some platform and platform issues.

Now that we're through that you'll start to see some momentum gain again. And we're putting some really creative content out there with some of the complex and AwesomenessTV and Hearst deals that we've done. So more to come but end of third quarter is more the timing that we're looking at.

Dave Barden - *BofA Merrill Lynch - Analyst*

Perfect. And so let's kind up take that again and zoom out a little bit which is if what you're saying is right and you believe that kind of where we're moving is a more mobile environment, what that does is it suggests that the guys who are in the legacy linear environment want to become more mobile.

It just so happens that both of these guys not only have very strong -- and when I say both of these guys I mean the two cable companies -- have very strong WiFi footprints, they also have access to an MVNO with Verizon. And a lot of people wonder whether Verizon has written itself into a problem with that relationship because you've enabled the cable companies to get the exact thing that they would need to be able to compete against the thing that you're trying to take away from them. How do you put the MVNO with cable companies into context?

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

Well, again, I'm not going to specifically deal with the agreement itself. But, as I said before this pie grows. We went into MVNO with open eyes when we acquired the spectrum.

I would do that agreement again today. It was a good agreement. We would certainly do that again today.

And we've been in the reseller business, whether you call it an MVNO or a reseller business we've been in the reseller business for the last 24 years that I've been part of Verizon. So this is not a different ecosystem.

And look, as I said at the very beginning, the pie grows and we know that people are going to want to come into that pie. Cable may come in, others may come in. But I think what we've shown over the history is Verizon is a pretty fierce competitor.

So there is a quality of service with our network that you can't get with others. WiFi is an unmanaged network. There is quality of service today on WiFi.

Most people in this room would realize that when WiFi gets clogged quality of service goes significantly down. It's an unmanaged network. You can't manage that.

So there are differences in that perspective. So when we look at scenario and play out who could come in, how could they compete, look, we're prepared for that. We're not sitting there on our hands saying life is good and we're not expecting competition.

We're fine with competition and we believe we can compete in any environment. So we're separating ourselves with other things like go90. You look at 5G, we haven't even talked about 5G and the capability that 5G brings to the table, that I think also puts some cable companies on their back heels as potential competition for them.

So look, we're not standing still. We're moving forward.

Dave Barden - *BofA Merrill Lynch - Analyst*

So let me ask one question related to that and then let's go ahead and talk for a nanosecond about 5G if that's possible. So if you say that the MVNO is a good deal, you would do it again, so if Altice came to Verizon and said could we please have a deal that you've done with other cable companies you'd say sign on the dotted line?

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

Yes, we have to. I mean we would have to do that because that's part of some of our DOJ and equal and net neutrality type thing. So yes, we're perfectly fine with that.

The way we set up go90, by the way, is go90 is actually run out of let's call it AOL for a better term because we really haven't named anything. Go90 actually buys under that same agreement from wireless. So wireless itself is an entity that has to generate profit based on the utilization of their network.

They're wholesaling now to go90 and if Comcast does MVNO they'll wholesale through that MVNO to Comcast and so forth. So from Verizon Wireless's perspective I'm perfectly fine with the MVNO.

Dave Barden - *BofA Merrill Lynch - Analyst*

Okay. So just touching on 5G for a second, I mean look, we've all got varying levels of familiarity with what 5G is supposed to be and what not. I think Verizon kind of really catalyzed the conversation and there's a lot of good reasons to get regulators off the dime, to get vendors innovating.

But I think as an investor we get kind of confused as to what exactly we're supposed to put into our income statement forecast for 2018 because Verizon has got 5G. So I guess there's two ways to look at it, there's the CapEx side, what does it mean to the investment and then what does it mean to the returns? Is this -- tell me what I should do to my model for 5G?

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

Okay. So here's the way you think about it. First, let's start with CapEx.

Keep in mind that 5G is not a replacement technology for LTE. LTE will be here for a very long time and be the predominant voice text data platform for mobile. Let's classify it as that for all intents and purposes.

So when you look at LTE, currently what we're doing at Verizon is we are densifying the network. So when I say densifying, we are doing a lot of small cells, a lot of inbuilding, a lot of antenna systems. And we're doing that for the densification capacity needs to deliver performance to customers who continue to use LTE.

View that as that's a prerequisite to being able to launch 5G at some point down the road. Because 5G is a line of sight technology it runs off a very high frequency, we're looking at 28 to 39 gigahertz. It's a line of sight so you have to have a densified network in order to have that line of sight.

So when you think about small cells the more small cells you have the better 5G you will be able to create. Think about that, though, as we are incurring the capital to install those small cells today to deliver LTE. I will come over the top and just install 5G into that cell and then the only thing that happens beyond that is what happens in the home that I would be doing with Fios today but at a much reduced cost because there's no labor to dig up your front lawn, lay in fiber, I'll be able to stick something whether it's on window or somewhere to receive that line of sight signal, deliver it to a router and then you have WiFi in the home.

So think about it at that rate. So there's really no CapEx increase that comes along with 5G.

As far as what's the use case, the use case right now is fixed wireless broadband. And it can get it is being designed -- 5G is designed for 1 gigabit of speed. Now I know others will claim a lot more, it's the same with LTE, when you have an empty network you can get a lot of speed out of something that has nobody on it.

But it's being designed for 1 gigabit of data. And that's what being proven in Japan and Korea, who are much further ahead than the US in deployment. So when you think about the use case it's fixed wireless broadband.

As far as modeling goes, I think there's two hurdles that we still have to get through before we start talking about a wide commercial launch here in the US. One is the standards have to be set around 5G.

We would love to set that standard on a global basis and we're working with South Korea and Japan on trying to establish that to get that standard set. The reason you want the standard set is because it makes it much more efficient for everybody to buy the hardware from the manufacturers because they only have to build to one spec. And that's beneficial to the industry and beneficial to the manufacturer.

The second is obviously spectrum because there's no 28 to 39 gigahertz spectrum in large swaths today that's available to be used other than what we actually have an option on on XO. And when we did the XO deal, which hopefully will close late this year, early next year, we have an option to buy the 28 gigahertz if the standard is set. If the standard is not set at 28 and goes to 39 then obviously we wouldn't exercise that option.

But we have to work with the FCC, the FCC has to work with the Department of Justice to free up that spectrum and get it to the marketplace. So the timing of that - I don't know.

But in order to go commercial we have to have more spectrum than what's there today. And it's not like you can, I mean it's not inconceivable that you could bundle what there's today like AWS but it would be extremely inefficient and very, very costly.

So you need to get 28 and 39 because of the millimeterwave and how you deliver this signal. So it's spectrum that still has to come.

Dave Barden - *BofA Merrill Lynch - Analyst*

We've got maybe five more minutes left. Are there questions that people want to throw out there? Or I can keep going.

Free questions for me. All right, next question would be just regulatory kind of real quick, maybe we could do a lightning round if you want.

So the special access order, I'm not so sure I understand. Does Verizon oppose it but reluctantly endorse a technology-neutral push if it's going to happen? Or do you guys now support it and if so why did the support change?

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

Well, first off we don't like regulation period. But if we're going to be regulated, and it appears that that's where the FCC wants to go, then all we're saying is if you're going to regulate then regulate the entire ecosystem.

And this goes for whether it's open access on networks or it's privacy. Get it across the ecosystem, don't pick winners and losers. So that's really the basis of it.

Dave Barden - *BofA Merrill Lynch - Analyst*

So you'd prefer it not to happen but if it's going to happen better to be technology neutral than not?

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

Correct.

Dave Barden - *BofA Merrill Lynch - Analyst*

And the upside that you see for that would be well, at the cost of potentially some net revenues in territory, the opportunity is to leverage the cable platform more independently I guess to deploy fiber builds for 5G end markets, there's a silver lining in the cloud?

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

All we're saying is if you're going to regulate Verizon and AT&T on access then regulate everybody that has networks which includes the cable companies, period. So don't pick winners and losers. If you're my going to open it up to everybody open it up to everybody and force everybody to open their networks, don't pick winners and losers.

The same with privacy. If you're going to regulate the carriers on privacy then regulate the other people on the other side of the equation who don't follow any privacy rules. Make the ecosystem equal across the board and that's all we're saying.

Dave Barden - *BofA Merrill Lynch - Analyst*

That was my second one was on privacy. So the FCC has assumed some authority to set privacy rules for carriers.

The FTC, with the Fair Trade Commission, is regulating privacy for the Internet carriers. And you've got AOL kind of in the middle somewhere. How does that all work for Verizon?

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

Well, it's a line that's a problem because you have two different regulatory agencies. And the FCC requires us to abide by one set of rules and the FTC is much more open. So if you look at Google and Facebook it seems that they can pretty much do anything and not get any penalty for privacy violation.

We are contained that says we're not allowed to use any individual data unless there's an opt in or opt out feature. So all we're saying is if you're going to regulate, again, regulate the entire ecosystem, make a fair playing field across the ecosystem and get it right if you're going to regulate.

Dave Barden - *BofA Merrill Lynch - Analyst*

And maybe just a last question, we've been waiting for Open Internet Order to kind of get resolved in the courts here. Any timing update that we're going to see, any outcomes, intelligence that you've gotten from the ground?

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

I don't have any timing at this point. But the one comment I would make is look, this doesn't really change the way we do business. Net neutrality, we abide by net neutrality.

There is no carrier out there that has ever been accused of prioritizing data. So the way we've set our operations up we're in full compliance with it, again we just don't think regulation benefits innovation and anyone else.

Dave Barden - *BofA Merrill Lynch - Analyst*

Anyone else got a last one? All right, Fran, thank you so much.

Fran Shammo - *Verizon Communications Inc. - EVP & CFO*

Thank you, everyone. I appreciate it. David, thank you.
