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# EDITED TRANSCRIPT

VZ - Verizon Communications Inc at Deutsche Bank Media, Internet and Telecom Conference

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MARCH 06, 2017 / 5:45PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Internet and Telecom Conference

## CORPORATE PARTICIPANTS

**John Stratton** *Verizon Communications Inc. - EVP & President, Operations*

## CONFERENCE CALL PARTICIPANTS

**Matt Niknam** *Deutsche Bank - Analyst*

## PRESENTATION

**Matt Niknam** - *Deutsche Bank - Analyst*

Thank you, everyone, for joining us day one of our media and telco conference. For our lunch keynote, we are very pleased to have Verizon's President of Operations, John Stratton, joining us. Thank you, John.

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**John Stratton** - *Verizon Communications Inc. - EVP & President, Operations*

Good to be here, thank you.

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**Matt Niknam** - *Deutsche Bank - Analyst*

I'm Matt Niknam; I'm a telecom analyst at DB. So, John, maybe just to start; there's been a lot going on in the industry of late. We've got a lot to touch on, but maybe just as we get started, can you talk about some of the top priorities for the Company in 2017?

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**John Stratton** - *Verizon Communications Inc. - EVP & President, Operations*

Yes, happy to do it and thanks, Matt. It's very good to be here. Appreciate the opportunity. And just flashing on the screen now the Safe Harbor statement, so all of the usual cautions regarding the information we will convey here.

And certainly Safe Harbor and the competitive nature of our business, interesting juxtaposition of those two terms, but as you asked, Matt, about the key priorities for the business, as we look at 2017, it starts with where we always begin, which is around the evolution of our networks. While every year the flavor and the nature of the specifics there will shift as the technology evolves, that foundationally is where we are most focused.

I would say the next layer up from that is just that, the next layer up: the applications and services. We believe there's a real meaningful opportunity for us to diversify and create new value streams for the business in certain applications that we will probably talk about here this afternoon.

The next piece is in integration of the different resources and assets that we've acquired and that are pending close. We have a lot to do there in terms of integrating, particularly in the media and new services end of our business. Then, lastly, like every year just being disciplined in the way we allocate our resources, our capital, our human resources to ensure we are delivering great shareholder value.

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**Matt Niknam** - *Deutsche Bank - Analyst*

So you mentioned acquisitions and sort of -- there's been a little bit of a transformation, I would say, Verizon has undergone in recent years. Acquisitions, divestitures, but I think generally aimed at capturing the next leg of growth.

But I would say also, the bulk of the business is still embedded in Wireless. And as you think about that does Verizon have the pieces in place for growth and I'd say maybe keeping pace with GDP-type levels on a go-forward basis? And as a part of that what do you see as the key pillars of Verizon's future revenue strategy?



## MARCH 06, 2017 / 5:45PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Internet and Telecom Conference

### **John Stratton** - Verizon Communications Inc. - EVP & President, Operations

Listen, I would say first I think to answer your question sort of equivocally the answer is yes -- unequivocally, I guess, but that the answer there is, yes, that we really like the assets that we have. And if we start with the network business, as you said, Wireless is the main engine of our business and our network businesses broadly, of course, represent the vast majority of our embedded revenue streams.

Matt Ellis has recently talked about the revenue trajectories for the business and we remain sort of in that position where as we look out at year 2017 we expect to see roughly flat revenue performance at the top line versus where we were in 2016. But if you talk about pockets of growth, where will we find the means by which we grow the business as we go forward, as we think about this in purely organic terms, and staying with the Wireless business to begin with, there are a number of places that we're really zeroing in on and I would describe them this way. In no particular order, but I would describe them this way.

First, we do see that there are segments of the market where historically Verizon hasn't played as aggressively and so we have had, if you look at our general market share and have a look at that and then compare and contrast that to, at a segment-by-segment level, how we've performed you see immediately revealed some opportunities that we are facing in a more serious way.

The second area of opportunity is really very fundamental. And when we talk about the Wireless business, it has really become a simple strategy of acquiring and maintaining the account and then growing the value of the account. As the market gets to a point of near saturation, how do you expand the value within the account?

And so things that are obvious, like tablets and Wi-Fi hotspot, what we call jetpack-type opportunities, are evident. We will continue to look for those opportunities. More recently, things like connected devices like smart watches and the like create some sort of incremental value creation.

But there's other opportunities as well. We've built and created products that are now beginning to scale. So I look at in the telematics space we have Hughes Telematics, Telogis, Fleetmatics. Those are principally in the commercial markets, B2B, but we spun a product out which we call hum last year that now is creating some nice growth. So the chance to add devices of different types that tap the network is important.

And then the last thing I would say -- and maybe we get into this a little bit with some of the pricing that's happening in the market -- as the networks' capabilities expand and not just as we think about next-generation, meaning 5G, but even in the context of LTE, as capabilities and the tools for network management become more sophisticated and as the demands that certain applications create in these next few years become more specific, the chance for us to add services and service layers to what otherwise would be a monolithic, one-price-fits-all kind of the model we believe is very evident. We think that's a likely evolution of the market in terms of the pricing schemas and the way sort of the commercial markets develop.

### **Matt Niknam** - Deutsche Bank - Analyst

That's actually a good segue. So maybe why don't we sort of take it on there and think about Wireless, because there's obviously a lot to talk about?

You recently obviously introduced unlimited plans. You've shown yourself being very willing to reinvest savings in promotions to defend and retain share. But as you think about a more mature US wireless market, much more competitive backdrop, how does Verizon ultimately differentiate, number one, relative to your peers? And then, secondly, how do you think about that balance between growth and profitability?

### **John Stratton** - Verizon Communications Inc. - EVP & President, Operations

Yes, the answer to that last point was all the time. That balance is important. Growth versus profitability is something that we obsess on making sure we have the right balance and good discipline in terms of how we go. But you said it, we will compete and we like to be sort of thoughtful about how we do that.



## MARCH 06, 2017 / 5:45PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Internet and Telecom Conference

If I go back to the earlier point about how value is created for us in the market, that first focus is on the account and maintaining a good bit of loyalty and retention of those. We have a very, very nice base. It's a high-value, postpaid-oriented base.

We really watch very closely, particularly what we call phone churn, and you've heard us talk about that. The goal is to maintain that because that's the root from which further value is created and we will continue to stay focused on that as we go. The moves that we have made, whether it be -- from time to time the intensity around device kind of comes up a little bit.

Do you remember last September when the iPhone launched there was a little flurry of activity in the marketplace? And for us that's as much defensive as it is anything else. We want to preserve and maintain the base.

The unlimited pricing that launched recently last couple of weeks, we began to look at this in I want to say the second half of 2016 and you're really watching the sentiment of our consumers very closely to try to understand what was driving their wants and needs. Where were they going to need us to go?

We learned a lot from what we call Verizon 2.0, which was the pricing we launched in August or July of 2016. We had a chance to really sense from that that there was probably going to be a need for us to go to unlimited once we saw the market was moving there in a big way.

In order for us to get there and go there confidently, one, we wanted to make sure we had the ability to retain the rich base that we have so we positioned our offering sort of at the upper end of the market, which obviously was very purposeful. But we also wanted to make sure that we had everything that we needed in place from a network perspective so we never violate the fundamental brand proposition around the quality and reliability of the network. That is something that will be maintained as the most important part of differentiation for Verizon.

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### **Matt Niknam** - Deutsche Bank - Analyst

I guess I think back a year ago, six months ago and you had mentioned; I think Verizon had been the lone player who might've stayed out of the unlimited foray. So what I guess maybe drove the Company's change in thinking in terms of getting you more comfortable?

Was it network investments that were sort of proceeding better than planned and giving you more capacity? Was it more the marketplace that kind of pushed you in that direction? I want to better understand the Company's rationale heading in this direction.

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### **John Stratton** - Verizon Communications Inc. - EVP & President, Operations

Sure. Look, I think fundamentally in any business you want to make sure you have a reasonable association of revenue to cost. It just seems like something that's kind of important. And so in a metered-like style business where you consume X, you pay for X, that's obviously very straightforward.

But the markets have moved. If you look at where voice was, obviously many people in this room will remember when voice was a metered service, when text messaging was a metered service, and they ultimately shifted to a place where they become sort of a flat rate model. Data is going to be going through its own pace of evolution. And what we saw here was there are those who want to consume high volumes of data and I would say that, by and large, the tiered plans that we had had in the market did a reasonably good job of covering the vast, vast majority of users in terms of their actual requirement.

But there's another element to this which became increasingly important to consumers, which is the whole peace-of-mind factor and so -- the predictability of the bill and not having to worry about it. Or if you have one line on an account that has breakaway usage, which is typically someone who is 15 years old and just going, so the ability for us to care for that was a driver here.

Now you asked an important question, which is about network capacity and how did we think about that. Most of what we have been doing for the last three, four, five years has been all about ensuring that we could significantly scale on both dimensions: as you gain not only accounts but devices on accounts, which is rising nicely, and then the consumption per you have sort of a substantial trajectory of increased utilization.



## MARCH 06, 2017 / 5:45PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Internet and Telecom Conference

So densification of the networks; all of the small cell work that we've done is hugely important. The nature of our network today, if you step back and look at how does it compare and contrast to what it looked like four or five years ago, very, very different. The topology is dramatically different. The virtualization of the network that we've done; the centralized RAN, the radio access network work; the elements that we have taken in to enable better optimization of the networks has done remarkable things in terms of our ability to serve capacity.

And I think you look at it and say how is it trending? How is the performance vis-a-vis our competitors? And what we see is even the most recent J.D. Power, RootMetrics we're actually expanding the lead from a performance perspective, even with heavy loads. So we feel very confident about our ability to manage and maintain, not just the ability to deliver, but to deliver at very high quality the network experience.

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### **Matt Niknam** - Deutsche Bank - Analyst

Just going back to the unlimited plans themselves, any early color you can give since launching in terms of how they've been received in the marketplace?

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### **John Stratton** - Verizon Communications Inc. - EVP & President, Operations

We don't like to talk a lot about results outside of the quarterly cadence that we have for things like subscriber and financial results. What I would tell you is our results have been very interesting; what you would sort of expect. Pretty significant level of interest. Obviously, Verizon comes in with unlimited, that's a big deal. We put some pretty good media behind it, so we did see significant interest.

Not surprisingly, the first wave that you see, a lot of our own customers, so the migration has been very, very substantial. But also in terms of how it faces the market, a nice response broadly. So kind of what we expected to see. We did expect to see meaningful movement and we've seen that, but you've got to watch and see how it plays.

We're only a couple weeks into it, so there's a lot to be learned. We will watch and see how the quarter shakes out and then ultimately what the behaviors are of these consumers on those plans over time. So it will be a couple of billing cycles before we will really have a good sense for how that, in the end, all shakes out.

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### **John Stratton** - Verizon Communications Inc. - EVP & President, Operations

Sure, sure. Just staying on the theme of competition. You have got cable now who is talking more vocally around having a greater presence in wireless. Comcast and Charter obviously planning on launching offerings fairly soon. How do you think that changes the competitive landscape? And I guess more broadly, what are your thoughts on cable entering wireless?

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### **John Stratton** - Verizon Communications Inc. - EVP & President, Operations

Yes. Obviously, as you said, Comcast and Charter have signaled their intent to go forward and I know the guys from those companies have talked a bit about that. I think as we consider that play obviously they are triggering their MVNO on the Verizon network, so we don't have a whole lot of information, as is appropriate, about their specific plans. But certainly we are ready to go. From a -- we call reseller, but from an MVNO standpoint that is a business we've been in forever and it's good business, so we are happy to have it.

In terms of the retail side of my company and how we would see incremental competitors in the market, look, I think we feel pretty good about our ability to compete. What is our sort of brand position, state of our distribution and the like? All very solid.

Competition generally is good for an industry. It brings -- it draws attention to it and I think this has been a pretty dynamic market already. The addition of a couple more guys just bring it on, we will see how we go.



## MARCH 06, 2017 / 5:45PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Internet and Telecom Conference

**Matt Niknam** - *Deutsche Bank - Analyst*

We were talking before about growth opportunities. 5G has been a big one. Verizon has probably been the most vocal in the industry around your plans for 5G. Can you give us an update on what you are seeing in your trials? And, secondly, what milestones we should look for from here?

**John Stratton** - *Verizon Communications Inc. - EVP & President, Operations*

Yes, yes. It has been an important endeavor for us as we have worked to accelerate the development, evolution, and delivery of 5G services to the marketplace. As you know, Matt, it started back in 2015 when we were doing work on the science essentially, which was early-stage work on ensuring that there was a clear path for acceleration. How would we work with the silicon guys? How would we work with other carriers around the world; the infrastructure guys to prepare the market for first offering?

What we made -- the decision we made early on was that a two-staged approach to this technology would be the best approach; that is to stay starting with a fixed application, a fixed wireless application and moving to mobility in a second stage. And that remains our focus.

We shifted from our early sort of evangelism and early work on creating the Tech Forum and the like to actual lab trials and lab work in 2016 in a big way. And the idea of that in that phase was to really understand the limits, if you will, of the technology. What did we see or understand theoretically that we could then prove out in a lab environment? That was very, very informative to us and so each of these steps is like a building block of comprehension.

Where we are now is we've talked a little bit publicly about 11 markets around the US where we are now doing what we call precommercial trials. And so we will have and are in the process now of engaging live customers, regular, standard-issue folks, principally consumer but a little bit of business markets opportunity, for them to test and try the service.

Now this is a very different phase for us and we get to additional vetting of the technology, which of course remains important. So what changes? We have urban and suburban deployments. We have different densities in terms of buildings, foliage.

There's all kinds of factors that you now want to see in a real-world -- elevation in a building. What is the orientation to RF planning that has to be understood in order to see, again in a practical real-world environment, what it looks like?

So if you look at our list of 11 markets and if you saw in those markets where we are, they are quite diverse. But in addition to proving the technology here, we take a second and third wave of effort here to, one, understand the commercial implications and then the third to understand operational implications. So what do I mean?

The question that needs to be asked and answered is what is the propagation characteristic? What is the load per node, so to speak? What are the fundamental building blocks that will then inform the investment case? In the end, what we're trying to determine is the addressable market.

We have a series of thresholds that we say above and below these thresholds is the sweet spot where we can deliver a great product at a cost and then, ultimately, at a retail price that would be appealing to the market and we also know inside each market what is the current state of competitive activity. So we have all of that being worked through.

And then, lastly, operations. And that is obviously also important to the case; but it says much can I automate? What are the what we call the OSS BSS, the systems and implementations deliveries, install? How do we work those aspects as well with the goal of being first to market in the US with a meaningful commercial deployment of 5G, which we expect in 2018?



MARCH 06, 2017 / 5:45PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Internet and Telecom Conference

**Matt Niknam** - Deutsche Bank - Analyst

That was going to be my next question on 2018. But if I'm thinking now about the vision for 5G, and let's -- mobility aside. I will get the mobility use cases later, but if I'm thinking about just fixed Wireless 2018, is the vision here really aimed at replacing cable's dominance of the broadband pipe into the home with the ability to presumably offer content over a 1 gig pipe? I just want to understand what the use case is internally within Verizon as we think about it?

**John Stratton** - Verizon Communications Inc. - EVP & President, Operations

That's like red meat for a Doberman right there. I -- you know, with the recognition that I probably don't want to show the entire playbook here a year out, what I would tell you is this: the way we are thinking about 5G, and particularly in the fixed application, is that increasingly for us the ability to leverage the full scale of our business is an important factor.

And what do I mean by that? There was a time when we had our Wireless business in a joint venture and as part of that joint venture you had, literally, a separate company called Verizon Wireless, joint venture with Vodafone of course, that had certain limitations to what we might do together deeply to integrate and leverage the assets, the resources, and the investments we made in the business.

As we think about 5G, and this actually -- it starts with 4G LTE densification; it starts with our fiber investments that we talk a lot about now. The ability for us to leverage the whole of our portfolio to create value is really, really important and 5G is no exception to that. What is it that we are going to deliver, where will deliver it, and what services can we create off of it are important.

I'm going to be a little bit obtuse here in terms of not describing with great precision the exact intended sort of market that we would pursue, but what I would say is that we look at the places where we are going to have those dense deliveries, what is the addressable market in those spaces, whether it be consumer, business, large enterprise? And then how is value created through either cost avoidance in my current business or new revenue creation? I'm sorry I can't be more specific than that.

**Matt Niknam** - Deutsche Bank - Analyst

We'll stay tuned. We will ask you about it next year again.

**John Stratton** - Verizon Communications Inc. - EVP & President, Operations

Okay, fair enough.

**Matt Niknam** - Deutsche Bank - Analyst

Then just in terms of forward-use cases, just to wrap up our discussion on 5G, when do ultimately think 5G goes mobile?

**John Stratton** - Verizon Communications Inc. - EVP & President, Operations

Our estimates at this point -- you saw out of Mobile World Congress last week some declarations about as early as 2019. We think that's a little bit optimistic, to be honest. I think what we would more likely see is maybe the end of 2019 into 2020 where you might see the first delivery of mobile-based 5G.

And remember also, to scale you have to seed the base of handsets and so you'll have that curve. It's a cost curve; there's an initial integration that needs to happen.



## MARCH 06, 2017 / 5:45PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Internet and Telecom Conference

But in the long run what we see in terms of the value there is that where the highest demand on these mobile wireless networks will occur is in the places that are most densely populated. Where 5G works best is those places where it's the most densely populated, so the mobile use case is a no-brainer as far as we're concerned.

The detail of it is remarkable. The reinvention that's required has surprised us. We believe that the work that we've done so far -- and I talk about RF design as a really critical point. We have run and managed and designed these networks a certain way for 20 years and the 5G paradigm is completely different. And I think that's going to surprise some people.

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### **Matt Niknam** - Deutsche Bank - Analyst

That's interesting; you mentioned dense urban footprint. So fiber comes to mind, it's kind of a big buzzword these days, and if you think about a critical component for 5G networks, you think millimeter-wave spectrum but you think fiber as well. Can you talk about your comfort level with access to fiber needed to support 5G nationally?

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### **John Stratton** - Verizon Communications Inc. - EVP & President, Operations

Yes, we are really comfortable. There's a lot of different options out there and so we are -- I think it's fair to say that we have the largest deployment of fiber in the US today. Probably good data that would back that up. We have some internal facts that we rely on, so this is something we do today.

When we talk about the broader extensions of fiber, people think about fiber for Verizon as being Fios, but obviously the former VZ business, the backbone network that we have in our enterprise business; the XO acquisition, 45 of 50 top cities, metro rings, densities there; all the dark fiber that we've deployed with the densification of our cellular network, there's an awful lot of fiber out there. And what we find is that it is a market-by-market calculation.

So if we go into a particular market, depending on the size of the business opportunity, will kind of shake out for us build versus buy. I don't think you'll see us building because there's no one to buy from. I can't imagine that scenario, although I suppose it's possible, but we haven't really seen that yet. It's really an economic decision about how well we will sweat or leverage the asset against how many of our lines of business, if you follow my meaning.

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### **Matt Niknam** - Deutsche Bank - Analyst

Yes. Just staying on the Wireless theme, you've talked about returning to service revenue growth in the Wireless business in 2018. You've got I think it's about two-thirds of the postpaid phone base now on unsubsidized price plans, but you've also got newer unlimited plans, which may have puts and takes in terms of migration.

What I want to sort of understand is A), if you think about unlimited, has the thinking around returning to service revenue growth in 2018 changed at all, number one? Number two, what is left in terms of pricing power for operators now that the industry has gone unlimited on a broad basis?

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### **John Stratton** - Verizon Communications Inc. - EVP & President, Operations

So just a couple of points, some color commentary on that. You described it very well; the phenomenon that we've been working our way through was the introduction of what we call DPP, or the device payment programs, the EIP stuff. All of that carried through 2016 and into 2017.

As you said, we're about two-thirds of the base now on DPP and what you saw as we increased -- when we went past the 50% mark sort of second quarter of last year, you began to see our service revenue dilution improving quarter after quarter. We have said and Matt has said I think a couple of weeks ago that 2017 we expect to be better than 2016 and then returning to growth in 2018.



## MARCH 06, 2017 / 5:45PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Internet and Telecom Conference

On the effect of unlimited, look, I think what we will see here in the beginning, you'll get optimizers here. We've seen a pretty huge rush to unlimited and the first guys that you see come across are typically the ones who benefit greatest sort of on their bottom of the bill, particularly in the single-line versus the multi-line side of that.

But overall, what we have said and we continue to believe is that this will be effectively -- this is not a dilutive thing from an ARPU perspective. We think it's at least an even play because of where we priced it and how we laid it in.

In terms of how value is created, I kind of hinted at this a moment ago. I think that the industry -- beyond just Verizon, I think that the industry is going to with the continued evolution of LTE and then definitely with 5G. But the range of options that are enabled by the technology, the tools and the sophistication that we can bring to the pricing models to consumer value creation are pretty meaningful. So as bandwidth expands, as latency shrinks, certain applications are going to be really well oriented to increase level of sort of performance from the network and other applications have a very low dependency on high-bandwidth delivery and the like.

Even in an -- unlimited speaks to the units and I think the dimension that we expect to see value created around is service tiers for different applications, different customers based on their orientation, what they are seeking to do with the wireless network. So we actually think there's another gear that the industry will hit in terms of value creation above kind of a commoditized one price fits all sort of view, if that makes sense.

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### **Matt Niknam** - Deutsche Bank - Analyst

Yes. So on margins; we talked about revenue, but as we think about margins -- and to be fair this has been -- we've seen fairly aggressive whether it's price promotions, whether it's handset subsidies, coming back in the market in some way, shape, or form. How do you think about the trajectory for wireless margins going forward? And then maybe if you can talk about incremental opportunities for cost savings in the cost structure.

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### **John Stratton** - Verizon Communications Inc. - EVP & President, Operations

Yes, it's pretty competitive so there's definitely a need to be really, really focused on the cost lines in particular as we go. And this is not new; of course the last couple of years has been that way and I suspect it will remain this way for a little while. It's probably prudent to plan accordingly.

But when we look at SG&A inside the Wireless business, it's come down reasonably well these last couple years, but I tell you I still think we have a lot of opportunity to continue to drive efficiency in that business. And I would tell you on two principle levels: one is on network delivery.

We have the lowest cost provider profile today, the lowest cost per gigabyte. That's not by accident. We've designed efficiency into the evolutionary path of the network, but we have more than we can do there.

Virtualization, I mentioned briefly a moment ago, is an area that is just in its early stages. We are maybe a third of the way through the journey to full-stage virtualization of the network, which has significant implications to the cost to provision as we go.

The ability for us to leverage things like unlicensed spectrum for example, to do self-optimizing networks, less touch. As the network technology expands to more cells you have to have the ability to manage it in an automated way, so there's a huge level of effort that's going on in that side of the business.

The other is in service engagement with the consumer and what we are seeing is a very interesting phenomenon. One, is for years we've said just stop doing dumb stuff; make it a little easier for the customer to do business with you and don't cause the call to happen in the first place. So improve your processes, improve your execution.

We've seen year after year that the calls from the base continue to go down and I think most of that has been process reengineering, Lean Six Sigma-related efforts that we've had inside the business to improve the fundamental operating process. But there's another factor here that is important. What we see is there's a generational change in terms of the attitude of our consumers about how they expect and want to be served.



## MARCH 06, 2017 / 5:45PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Internet and Telecom Conference

Increasingly, their first instinct is to engage with us in a digital manner. So whether it be online through desktop or increasingly through mobile, that has now become a primary channel of service engagement with consumers, which is two things. One, it's more efficient from a cost perspective, but it's also more pleasing for the consumer.

The satisfaction levels when someone is able to come in, engage quickly with us, and then be done with their business and not have to call, not have to go to a store much, much higher. So we actually believe that's another gear we could hit here as we go forward.

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### **Matt Niknam** - Deutsche Bank - Analyst

Just to sort of tie it back to the outlook for Wireless margins, maybe over time; certainly it sounds like there is a lot of efficiencies. But Verizon I think has been somewhat unique in the sense that you have reinvested a lot of your scale, especially relative to some of the larger peers in the industry. So we take all these points together, how are you thinking about the potential for the business to expand margins versus maybe keeping them stable and reinvesting to maintain more share?

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### **John Stratton** - Verizon Communications Inc. - EVP & President, Operations

I don't want to get in trouble with my CFO on this one. He is a new guy and he's a pretty big guy.

So just as I think about that, I think what we've described, which I think is a good way for me to characterize this here, is that the bottom line of the business reasonably tracks with the service revenue of the business. So as we find those opportunities, as we tap those points where we've gained ground in terms of whether it's organic or some of the new market stuff that we are getting into, as those begin to fuel meaningfully the top line, we will see that passing through to the bottom line.

I think in terms of the overall sort of margin profile, that's a pretty reliable way to think about it. Because we know that for every bit of pressure we see on price compression and the like, it just redoubles our efforts, ensuring that we have taken any sort of costs that can be addressed out of the base.

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### **Matt Niknam** - Deutsche Bank - Analyst

Let's go to the Wireline side of the business. Typically it doesn't get a lot of airtime, but I want to sort of better understand. You guys have had several recent divestitures: the CTF properties were sold off, data centers were sold off. How does Verizon's Wireline business play into the Company's overall strategy today, just given how much smaller it has become in recent years?

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### **John Stratton** - Verizon Communications Inc. - EVP & President, Operations

The divestitures -- Lowell's most important job is managing the portfolio, right? One of many things, but it's certainly critical. And so the way we think about gaining assets and some of the things we've invested in and shedding assets, for us it's sort of the natural part of stewardship of the overall business.

As I think about Wireline, Wireline is an incredibly interesting business; and you're right, it gets some short shrift. It's not as obvious as some of the others, but it is a fascinating business. There's really four different portfolios. And if I think about the consumer portfolio, the wholesale business, the small medium business piece, and the large enterprise businesses, every one of those is its own thing. It serves a different and discrete set of geographies and set of customers and different product sets.

Inside those portfolios are product portfolios that have very different states. You have the traditional legacy, principally copper-based services, that are in secular decline and they are a big piece of the revenue stream there. So if they are dropping it 4%, 5%, 6% per annum, that puts a tremendous amount of pressure on the top line.



## MARCH 06, 2017 / 5:45PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Internet and Telecom Conference

But underneath that you have the strategic next-generation services, IP-based services like ethernet, or Fios in the consumer vernacular, some of the advanced services that we sell in our enterprise group, which are actually growing pretty nicely. In the end, it's a lot of activity. What I would tell you at a very high elevation is you probably see for the next couple of years what I would see as a continuing modest decline in the top line, significant energy continued to be applied to the cost line so as to enable reasonable returns and good margins.

When I say good margins in the Wireline context, we have guided to 20%-plus EBITDA margins. It bumps a little bit. You get a little bit of seasonality in that number, but if you look at 2017 sort of low 20% is what we think about.

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### **Matt Niknam** - Deutsche Bank - Analyst

Okay. Fiber has been a huge focus of late within Wireline, so I want to better understand, number one, how does XO fit into the strategy there? And then, secondly, just the kinds of cost savings that introduces, whether it's economics of building out more fiber versus buying; try to better understand I guess what you could do with XO as part of the Verizon portfolio.

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### **John Stratton** - Verizon Communications Inc. - EVP & President, Operations

It's a nice fit, it really is and some integrations are easier than others. When I think about some of the work that Marni does on the media stuff, that is an entirely different business.

This is network business. This is Wireline network business. We've been doing it for like 100 years and so we have a pretty good idea about how we would work -- we are working with the XO team to integrate.

They are great; the management team we really like and the assets themselves are very complementary. We talked about the metro rings, 45 of the top 50 markets. And again, as you consider the importance of fiber, and interestingly fiber is -- while there is a wire involved, it's increasingly a wireless asset. It's a wireless -- asset is probably the wrong word -- but a resource that we use to propagate our cell densities.

So as you think about these cities and the need for us to densify the network in those cities, it is a fundamental building block for that. And then of course it brings the opportunity for us to grow the small and medium business, which is principally where XO was focused, in a meaningful way.

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### **Matt Niknam** - Deutsche Bank - Analyst

I want to tie this back to our initial discussion. We were talking about organic growth opportunities. Let's look at the other side. Let's look at potential inorganic -- and I don't want to get into too many specifics, but I will say there's a new administration in DC; obviously growing talk of greater potential for strategic activity in the industry.

Can you talk about how you view inorganic growth opportunities today, both in terms of where you see the greatest opportunity to add scale for the future and then how -- this may be -- the second part may be more in Matt's wheelhouse, but the Company's commitment to delevering and how that may impact the view?

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### **John Stratton** - Verizon Communications Inc. - EVP & President, Operations

You know, it's funny; there's huge speculation out there. It's like every day there's another rumor; not just about our company, but just in the industry broadly and I think that's a pretty natural consequence of the looming end to the spectrum auction. Everybody is quiet so there's 1,000 different sort of stories that flow from what might happen next and then it's fueled by potential change in the regulatory environment with the new administration.



## MARCH 06, 2017 / 5:45PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Internet and Telecom Conference

So obviously we look at all this stuff all the time. You could go back over 20 years, we would say the same thing, which is that it's our job to continuously survey the marketplace and to look at understand and see where there may be assets or opportunities that would be complementary to our long-term strategy.

It's important that M&A -- we talk about this all the time, M&A is not strategy. M&A is an option that can potentially help you to fulfill the vision that you have for the business. And certainly the environmental conditions for M&A, therefore, shouldn't be a strategy itself.

But what we do recognize is that we should continue to survey the marketplace. If there is an opportunity for us to augment the business and accelerate our intended vision for the Company, then we would certainly look very hard at it.

Now Matt and Lowell have both described our desire to deleverage the business to bring back to what we call pre-Vodafone transaction levels. We've said 2018-2019 is the timeline within which we would do that, and that remains our commitment. That remains what we are focused on achieving.

If there was a meaningful opportunity for us to accelerate the long-term value creation for our shareholders, we would certainly look at it, but obviously that point about deleveraging would be a critical component to it. It's not the only factor, but certainly would be an important factor in our deliberation.

So there's nothing right now that we see out in front of us. We love the assets that we have. We do believe there is significant opportunity for us to grow. We have a lot to do in terms of integrating those assets we've recently acquired and I think that's going to keep us pretty busy here in 2017 and beyond.

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**Matt Niknam** - Deutsche Bank - Analyst

Just following on to that, how do you ultimately see the industry structure evolving, let's say, over the next one to three years, whether it's intra-wireless, broader conversions between wireless and wireline/cable? Any thoughts just in terms of looking at the crystal ball?

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**John Stratton** - Verizon Communications Inc. - EVP & President, Operations

Yes, we need a new crystal ball. I mean there's like 437 different ways this thing can play out, which is kind of cool; it keeps your attention.

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**Matt Niknam** - Deutsche Bank - Analyst

It's only going to grow the next couple weeks.

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**John Stratton** - Verizon Communications Inc. - EVP & President, Operations

Yes, no doubt. You got to show up every day. But, look, what we think about in that area is that you want to make sure that you are in a position where regardless of the changes environmentally you've positioned the business to compete. You have conditioned the business to continue to create value for its shareholders. That's the thing that is most important to us. That is a durable strategy that guides the business.

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**Matt Niknam** - Deutsche Bank - Analyst

One other -- we're on the topic of regulatory changes. I guess as you think about the potential for corporate tax reform and the potential for less cumbersome regulatory oversight, how does that impact how you think about investment priorities for 2017 across the business, whether it's Wireless or Wireline?



MARCH 06, 2017 / 5:45PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Internet and Telecom Conference

**John Stratton** - Verizon Communications Inc. - EVP & President, Operations

Matt and his team have done a lot of work on this. We talk about scenario planning, all the different things that can happen in the environment.

And certainly as we look at the broadest notion of tax reform and what may come of it, we are obviously in favor of it. We are very supportive. We think that will be good for industry. We think enabling further investment in our industry is always a positive.

On the other sides, from the broader discussion about beyond tax regulatory environment, listen, I think that the moves that Ajit Pai has made already are pretty extraordinary in such a short period of time. A great example of sort of a lighter-touch regulatory climate would be his move recently on stepping down the work that was being done on sponsored data.

We talk about net neutrality and it's a lightning rod for public opinion, as it should be. And as we, Verizon, think about net neutrality, we have for years described very specifically, like on our website, plain as day, our support and advocacy for the fundamental principles of net neutrality.

What we have a problem with is the Title II stuff where you take 1930s era regulatory frameworks and apply them to a competitive, dynamic technology business in the 21st century to us makes no sense at all. I think, for us, the ability to see a level field -- some of the things that are being discussed now in terms of privacy -- again, another area that we have been strongly advocating about the importance of protecting consumer data and their right to ensure that that is managed in a very careful and smart way. But that the rules that apply to whether it be ISPs, web companies, anybody who is in that same arena, should be governed by the same set of principles. So the leveling of that structure between FCC and FTC we think is very healthy.

We like what we see so far. We think it's going to be conducive to growth. We think it should allow the natural potential of our industries to be unleashed in really meaningful ways.

**Matt Niknam** - Deutsche Bank - Analyst

Any expectations on timing; when you may see the reclassification back outside Title II?

**John Stratton** - Verizon Communications Inc. - EVP & President, Operations

Hard to say. There's a lot to do down there so we will keep an eye on it. Craig Silliman, who is our General Counsel, and his team obviously deeply involved, but we will keep monitoring the progress as they go.

**Matt Niknam** - Deutsche Bank - Analyst

Just we were talking about the changes as a result of the new administration. On the enterprise side, this is another part of Wireline that doesn't usually get a lot of airtime, but have you seen any changes in sentiment from larger corporate customers indicating maybe a greater willingness to spend and invest this year versus more prior periods, just by way of the more business-friendly backdrop?

**John Stratton** - Verizon Communications Inc. - EVP & President, Operations

We have seen other trends in enterprise that are more to do with how large enterprise clients buy and it's virtualization, no longer sort of needing to host everything in their own facilities, the as-a-Service model, etc., that has been a huge shift in the last couple of years. We expect that to continue and again it almost feels generational. The CIO you work with today has a different orientation than the one that may have preceded him or her and that's important.



## MARCH 06, 2017 / 5:45PM, VZ - Verizon Communications Inc at Deutsche Bank Media, Internet and Telecom Conference

In terms of sentiment about broader growth in investment, we haven't seen it yet. I'm optimistic about some of the changes that we see more broadly in the environment, but at this point in time there's nothing really that has quite happened yet. Tax reform is still a discussion; it hasn't occurred, etc.

So what we will be watching for very closely is, as the environment shifts, if there's a move to greater growth, we will certainly look to be in a position to capitalize on that as it comes.

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**Matt Niknam** - Deutsche Bank - Analyst

So we've covered a lot of different buckets. If we tie this all together -- I'm going to go back to the crystal ball. But if we're sitting here a year from now, what do you think we will look back on as key milestones or key achievements from Verizon in the year 2017?

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**John Stratton** - Verizon Communications Inc. - EVP & President, Operations

Listen, I think it's back to those fundamentals I described in the beginning. Hopefully we will find that as we look back at the year continued strength of our Wireless network performance. That is the fundamental and so the ability for us to leverage that into value creation for our shareholders becomes, as always, the center of the picture for us.

So strength in Wireless as driven by the brand position and the service that we provide to our consumers is, by far, the most important thing that we think about. We will expect to see as we go through 2017 and into 2018 that all the work to integrate all the different businesses that we have acquired over the last 18 months or so is well through. We're at a place where we are really sort of feeling that surge of growth that comes with proper integration as we go.

And all the work that we are doing to build these ecosystems that we talked about, whether it be next-generation wireless 5G, the deep fiber deployment that we've described to support densification and ultimately next generation, the applications and services, particularly telematics, smart cities, are really beginning to ramp in a meaningful way. To us that is the mark of a really strong year for the business.

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**Matt Niknam** - Deutsche Bank - Analyst

I think we're just about out of time so we will leave it there.

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**John Stratton** - Verizon Communications Inc. - EVP & President, Operations

You're pretty good at this. That's all right.

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**Matt Niknam** - Deutsche Bank - Analyst

Thank you again, John. Much appreciated.

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**John Stratton** - Verizon Communications Inc. - EVP & President, Operations

My pleasure.

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**Editor**

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On September 9, 2016, Yahoo! Inc. ("Yahoo") filed with the Securities and Exchange Commission (the "SEC") a preliminary proxy statement regarding the proposed sale of Yahoo's operating business to Verizon Communications Inc. ("Verizon") and related transactions, and the definitive version of which will be sent or provided to Yahoo stockholders. BEFORE MAKING ANY VOTING DECISION, YAHOO'S STOCKHOLDERS ARE STRONGLY ADVISED TO READ YAHOO'S PROXY STATEMENT IN ITS ENTIRETY (INCLUDING ANY AMENDMENTS OR SUPPLEMENTS THERETO WHEN THEY BECOME AVAILABLE) AND ANY OTHER DOCUMENTS FILED WITH THE SEC IN CONNECTION WITH THE PROPOSED TRANSACTIONS OR INCORPORATED BY REFERENCE THEREIN BECAUSE THEY CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTIONS. Investors and stockholders can obtain a free copy of Yahoo's proxy statement, any amendments or supplements to the proxy statement, and other documents filed by Yahoo with the SEC in connection with the proposed transactions for no charge at the SEC's website at [www.sec.gov](http://www.sec.gov), on the Investor Relations page of Yahoo's website [investor.yahoo.net](http://investor.yahoo.net) or by writing to Investor Relations, Yahoo! Inc., 701 First Avenue, Sunnyvale, CA 94089.

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