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VZ - Verizon Communications Inc at UBS Global Media and Communications Conference

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CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

John Hodulik *UBS - Analyst*

PRESENTATION

John Hodulik - *UBS - Analyst*

My name is John Hodulik; I am the telecom and cable analyst here at UBS and welcome to our 43rd Annual Global Media & Telecom Conference. Very pleased to have Fran Shammo, Executive Vice President and CFO of Verizon here as our next speaker.

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

Good morning, everyone.

John Hodulik - *UBS - Analyst*

Before we get started I just want to reiterate that we are using a new application this year. We trialed it at our tech conference last month called Crowd Mic. There's tents in front of everyone. You can download the application, connect to our Wi-Fi network here and then ask questions along the way. I will keep track of them here and pose them to Fran towards the end of the presentation.

So Fran, another year in the books for Verizon. How about we start by just giving us a quick rundown on what you saw were the big milestones for the Company last year and the big priorities as you look out into 2016?

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

Sure. Well, good morning, everyone. So as we entered into I would say entered into 2015, we came in with really four priorities. The first was to continue to invest in our networks and platforms so if you look at and go back to 2014, the priority was to get 100% control of our wireless asset and we executed that in February of 2014.

That then allowed us to go into 2015 and coming into 2015 we again will end up investing between $17.5 billion to $18 billion into our networks which the majority of that capital goes into our wireless and fiber networks.

The strategy is really we started to transform the Company to say that we wanted to be a mobile first fiber company and if you saw what we did in 2015 through our acquisition of AOL, we launched our go90 platform which is a mobile first platform for video. We launched things like Hum, which is building up on the platform around Telematics and HUGHES. We expanded that internationally out to China supporting Mercedes-Benz.

So if you look at some of the things that we executed in 2015 we started to build upon that mobile first and that fiber type strategy that we laid out from the beginning of 2015.

Then the second priority we said is that we would buy spectrum. We spent $10.4 billion in the auction to buy AWS 3 spectrum which really was very important spectrum for Verizon because it gives us the capacity to continue to build upon what we believe the go90 product and just regular 4G usage and the continued increase of that demand on the network. So again, we think the priority for us, the brand that we have built upon is the network is the priority and people want to be on the best network and they are willing to pay a slight premium to be on that best network and we think that is critical especially in the video world.

So then when you look at what else did we do, we kind of diverged away from some things. We sold off three properties in the south to Frontier and why did we do that? These were kind of islands within themselves, not really strategically fitting with other assets that we had. The fiber in those footprints was pretty well penetrated. In Texas we were in excess of 50% penetration so we felt that these were properties that we could monetize and return value back to our shareholder. That transaction will close in March of this year.

In addition we monetized our towers. Something we said we wouldn't do but we held out. We were the last in the US, we got the highest price for our towers, we monetized that. So when you look at those transactions, $15 billion in gross proceeds, we then took $5 billion of that and did an ASR. So year to date, another priority was to return value to our shareholder via the dividend but then we also executed the ASR. So if you look year to date, we have returned about $11 billion back to our shareholders in capital. So that was a priority.

And then the final priority is really around the balance sheet. So when we look at our balance sheet, as you know as we went into this installment receivable entity, we started to build a lot of consumer receivables on our balance sheet and we have been using securitization to generate cash flow from those receivables. And we have securitized [over $6 billion] (corrected by company after the call) worth of those receivables this year with the majority of banks, most of those banks being international banks because a lot of US banks can't handle securitization on their balance sheets. So that program has been running well for us.

But as we look into 2016, our priorities really don't change. It still continued to invest in those networks and platforms. Again, consider us as a flat CapEx type company. We will participate in the 600 spectrum, we will return to our shareholders on a very good dividend payout which our Board of Directors has demonstrated over the last many years of consistent policy.

And then from a balance sheet perspective and debt repayment, our focus is to get back to that A- rating but we will have to start to look at different options around the consumer receivables and some of those options are we are looking at the asset-backed security marketplace, we are starting to have conversations with the rating agencies around this. And if you think about that, this is putting us in the same parameter of companies like the auto manufacturers who have done this for years around consumer receivables and taking them out to the public market for asset-backed securities. There's a lot of efficiency in that marketplace to do this so that is something that we are looking at as we move into 2016 to strengthen our balance sheet.

John Hodulik - *UBS - Analyst*

Before we go into some of these prepared questions I have, but just quickly on that ABS, is that something we expect Verizon to do early next year and going forward and is it a function of just how large the securitization of the receivables has gotten?

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

Yes, when we think about -- we have monetized most of the $9 billion in serviced receivables this year and we still only have 22% of our customers on the installment plan. So if you think about really your max, once you get to 50%, it kind of levels out so we still have about 28% to go. So you consider that to ramp up so that securitization is going to more than double within 2016.

And we have securitized most of our approximately $9 billion portfolio of those receivables this year with the majority of banks [$6B of receivables sold as of Q3], most of those banks being international banks because a lot of US banks can't handle securitization on their balance sheets. So that program has been running well for us.

John Hodulik - *UBS - Analyst*

And the expected cost of financing should be similar to what you have been seeing up until now?

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

It is actually extremely efficient in the ABS market because you get to rate these receivables based on their classification and generally they are AAA, AA, these are very highly secure, highly rated, very prime type customer receivables. So these are very high rated receivables.

John Hodulik - *UBS - Analyst*

Got it. Okay. Now I think the biggest concern on investors' minds is competition in the wireless market. We have seen what I would say would be a more active promotional period here in the fourth quarter. How would you rate competition these days and is it a change from what we were seeing at the same time last year?

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

Yes, no, I mean actually I think the promotional activity this fourth quarter is probably I would rate it a little less than we saw a year ago but coming into this quarter I said everybody is going to do their thing in the fourth quarter, it is a high retail customer focused quarter. Everybody is going to run promotions like any retailer does and we should expect that and we are seeing that.

But I think last year was a much more dynamic year. Plus, on top of that, you had a new iphone configuration and new format which drove a lot of volume and coming into this fourth quarter I continued to say that I did not anticipate volume to be as much this fourth quarter as we had a year ago and I think if most of you watched the news around Black Friday, I think that is what you are seeing is you are seeing a less volume year than you did a year ago. Now in our sector that is more true than some others.

But I think we are seeing less volume than we had a year ago but I anticipated that so that is not a surprise to us.

John Hodulik - *UBS - Analyst*

And traditionally it is a little bit different now with the move to installments but traditionally lower volumes leads to better margins.

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

Yes, but that's not necessarily true in the installment environment because again with installment, you're already getting that benefit when you do an installment sale. So the margin perspective really doesn't move based on volume anymore like it did under the subsidy model.

John Hodulik - *UBS - Analyst*

One of the main strengths of Verizon has been the network quality. I mean do you believe that this level of spending that you have and the stable of spectrum you have built will help Verizon maintain the lead it has seen over its competitors in the past?

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

We do believe that the network is still the key ingredient to a very strong brand. And we have built the Company based on that brand and it has really driven us well for the last 20 years and we don't see that changing. In the video world, that connection and watching that video about the spinning wheel is very important. So we believe the network is as important in the video world as it was in the voice world and we will continue to invest in that.

The other thing too is you have to understand as well that the 4G technology requires a lot more densification in your network. So as you see and if you talk to manufacturers, you will hear that Verizon is by far ahead of the competition when it comes to small cell deployment and small cell technology and we are doing that because you have to stay ahead of that demand or else you're going to get congestion in your networks especially in a city like New York and Chicago and LA. These major concentrations of populations you need to densify that network.

So the majority of the wireless spend rate now is mostly dedicated to the densification which is around small cell in-building and diversified antenna systems to be able to stay ahead of that demand curve that we believe is still there. I mean this year alone we are seeing 50% to 75% increases in data usage on our network. We don't see that slowing in the near-term so we have to stay ahead of that and we believe that is critical for our success.

John Hodulik - *UBS - Analyst*

And everything you guys have seen with small cell is there -- are there any early learnings as you guys roll this out? And have you started to roll out LTEU infrastructure yet?

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

So from a small cell perspective, what I would say is the technology from the manufacturers is changing, it is becoming much more efficient, much more cost-effective to deploy these small cells. So from that perspective that is good because the cost to serve is going down as time goes. So when we think about the revenue equation on service revenue declining because of the installment sale, the cost to serve is also declining and that is why our Verizon Wireless margin really hasn't changed. If you take out the effect of the installment sale, we are still staying around that 50% margin company which is critical for us.

As far as LTEU is concerned, I think we need to be a little careful when we talk about LTEU. This is all unlicensed spectrum I guess I will put it that way and we have not deployed unlicensed spectrum at this point in time. There is a lot of work being done at the FCC, we are helping to do trials with the FCC to put down some of the claims that LTE unlicensed will interfere with Wi-Fi, which is absolutely not true, it is actually complementary to Wi-Fi. So we are doing trials with the FCC to prove that out and we think that the unlicensed spectrum will be critical for the carriers to adopt in the industry. And I think if you talk to all carriers, they're going to say the same thing today, that that is a technology that should be deployed in our networks, it goes very well with our networks, we can manage that. It helps Wi-Fi because it eliminate some of the congestion in Wi-Fi. So it is a complementary technology but we have to work through the regulatory hurdles first.

John Hodulik - *UBS - Analyst*

Got you. Earlier you mentioned the $10 billion you spent on AWS 3 auctions. You've got another big potentially very large auction in terms of the amount of spectrum coming out next year. What is the latest from Verizon in terms of your level of participation?

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

We will participate in the auction but I think you have to put the auction in perspective. AWS 3 was a very high auction because it was spectrum that everyone needed for densification purposes. 600 spectrum is very good for coverage so if you look at the footprint of Verizon, we launched our LTE network on 700 contiguous across the US. So I have covered the US with 700. 600 is good spectrum. But there are places I could use it but there's a lot of places I can't. I would never deploy 600 in the city of New York, it just wouldn't make engineering sense or financial sense to do that.

We can gather capacity much more efficiently through small cell and densification rather than 600. But there are areas for 600 for us but the unknown here is first, we don't know who is participating so the broadcasters still have to go through their exercises to determine whether they're going to participate in the auction or not. And we won't know that until mid-January. So it is kind of hard to get your hands around this auction until everything is set in stone and right now it is still up in the air.

John Hodulik - *UBS - Analyst*

Are there other sources of spectrum for you? You talked earlier about all this growth in traffic on the network and we are just sort of seeing the tip of the iceberg in terms of mobile video. But as you look out over the next five years, this is probably the last big auction? Is it the secondary market where you guys will look for additional spectrum or do you think just densification alone will do it?

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

I always like to say all spectrum is not created equal so it depends what carrier you are, where it fits into your portfolio and if you look at Verizon, we are extremely efficient the way we deploy spectrum. But I think that from our perspective, I don't think we get enough credit on how we deploy spectrum and if you look at it today, we only use 40% of our spectrum for LTE and it is carrying 87% plus of the data traffic.

So if you think about that, 60% of our spectrum is still being utilized on CDMA EVDO technology. So when you think about the PCS spectrum that we have as CDMA EVDO declines which it is because everybody's going into 4G, we start to reallocate that spectrum to our LTE. Then you look at 850 which is also covered spectrum which I have in my portfolio over time, that will start to be reallocated over to LTE. So I still have 60% of a spectrum capacity sitting out there that I can move in time to create capacity within my network without really spending any additional money for spectrum.

So this nomenclature and this philosophy that Verizon is spectrum short is just false. We have plenty of spectrum but also I think that there is an equation you have to look at. You get capacity through spectrum or through build and for years spectrum was a much more efficient way to get capacity because of the price of it. AWS-3 flipped that equation over. Now I am not saying that we should have walked away from AWS-3. You can't do that. You need both but spending $10.4 billion and getting the top 48 markets out of the 50 with AWS-3, I walked away from New York and Chicago because of the price. I'm building that through densification at almost 20% less cost than I would have in the spectrum. So from our standpoint, it is a financial but it is also an engineering type model and I think that we have the capacity to continue to grow our network at a very efficient cost base and that is what is important.

John Hodulik - *UBS - Analyst*

It has become clearer on the second quarter call that Comcast is going to test a wireless service I think in the second quarter next year using the Verizon Network. Does cable's potential entry into the wireless market change the equation for Verizon at all or the wireless industry in general?

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

Look, I think if we sat here and said it is only going to be the four carriers in the wireless industry I think that would be pretty stupid on our part. I think that if you look at the wireless world and you believe that the world is going to move to wireless, all wireless with no wires eventually the pie is going to get much bigger for the industry. And people are trying to figure out how they get a piece of that pie because if you are just a TV operator or some type of other operator, you are going to need to do something to your business to disrupt yourself in order to change with where the environment is going.

If you look at millennials, all they care about is broadband and video over mobile. They could care less about linear TV. So we ourselves are looking at how do we disrupt even our FiOS product and adopting to this new world. And I think that you have to look at all of your competitors and see what is going to happen in that industry.

But look, cable companies are going to enter into the wireless world using Wi-Fi as a first with LTE as a backup. There is technology challenges with some of that. There is going to be quality of services issues with that. But these are things that, they are smart guys, they're going to work through and we just have to be prepared to be able to compete with that. And again, I think it comes back to having that seamless network, quality of service is going to win in this marketplace and we have proven that time and time again and that is where we are going to put our bets.

John Hodulik - *UBS - Analyst*

Great, so let's pivot over to the go90 launch. Anything you can talk to us about in terms of early readings on usage or what content is being viewed or maybe the profile of the average user?

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

So we just launched this October 1, we really just started to advertise it in more mass media here starting Black Friday. So it is really early stages here.

But I think a couple of things that surprised us and maybe one or two things that have disappointed us. But the one thing that is a surprise to us is we have 10,000 titles, we sat with millennials after our launch, they gave us some feedback. We had some issues with the search engine. We've revised that, we have tailored it differently so that was maybe a disappointment that we didn't go out with the right search engine in the beginning. But now we have fixed that. We are getting very good positive feedback on that.

I think the pleasantries around this is we have created some unique exclusive content with DreamWorks and AwesomenessTV and those are starting to really elevate beyond our expectations. So viewership on those exclusives is really where we are really seeing a lot of the viewership go and the clipping and sharing feature is just starting to take off and we are just starting to advertise that more on the whole social side.

So we will go here. My anticipation is that we will start to release numbers sometime in 2016 to give the investor, our investors and the street some more viewership to how this product is going. But it is still in its infancy stage we are still working through some early startup issues but right now we are pretty pleased with what we are seeing.

John Hodulik - *UBS - Analyst*

I think when you launched you said that you would not be monetizing it via the AOL platform on the advertising side right from the get-go. Has that changed or when did that start, when do you think you can actually --?

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

Yes, you should anticipate that to happen in 2016 so we will go to what we will call a sponsored data model if you will and of course you have to be careful with that because that opens up net neutrality issues that we would have to be able to deliver that to others which we will make sure that we can the day that we launch that.

But the theory is we will have three different models to monetize go90. The first model is obviously you will just consume the data and you will pay for it through your data consumption. We are giving 2 gigs away for free for three months if you download the app and watch something. So that is how we are doing it now.

But the real model is through the sponsored data which is if you are a Verizon Wireless customer, you will get the data for free and we will monetize it via advertising.

But also if you are not a Verizon Wireless customer if you watch that on Wi-Fi and some others, you will also get that for free and we will monetize that through the advertising model.

And then of course if you look at premium content, and not sure what that is yet but there will be some premium content that where you have to pay an access charge to get access to that premium content and then it would fall under the sponsored data model.

And then finally what I would call the pay-per-view type monetization model which is really made for the multicast technology. So if you think about the Super Bowl and the multicast of the Super Bowl, if you are not sitting in front of a big screen and you want access to that Super Bowl, the NFL would give us the rights to do that under our current agreement. So we would be able to broadcast that NFL or a live concert somewhere or something like that. Multicast really comes into play and that would probably be more of a pay-per-view type model.

John Hodulik - *UBS - Analyst*

Got you. Speaking of premium content, you recently signed a deal with the NBA sort of I think that was high-profile sports rights that you guys have secured for go90. Maybe talk some color around that contract and we can we expect other deals like that as we look out with go90?

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

Sure. I think there is a lot of excitement being drawn around the go90 product especially via the advertisers and also the content producers. I mean the content producers are looking at this as -- this really is not a disruption to their linear TV models which makes it unique for them because now they can join in go90 and this gives them a different platform to monetize their content on without really disrupting the linear TV model.

So we are getting a lot of excitement from both the content providers and also the advertisers because if you listen to the last presentation, digital advertising and mobile advertising is what is taking off. That is what go90 is built on. So we are kind of getting in this ecosystem.

But with the NBA, I mean this was a huge deal for us, this was as much them as it was us and we are getting some different unique things from them under this contract. So you're going to see some exclusive interviews, Lebron James will be doing some things on go90 exclusive for us. So there are some players and some things that will happen just in the go90 platform with that contract which is pretty exciting for us.

John Hodulik - *UBS - Analyst*

I have to ask, would control of the Yahoo! assets move the ball forward in terms of monetization around go90?

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

Yahoo! who is that? I think it is way too premature to talk about Yahoo!. I mean their Board and investors have not decided what they're going to do with that asset. I think right now they are trying to figure out exactly what they are going to do. But it is like everything, it is just like with AOL, we look at everything across the spectrum and if we see there is a strategic fit and it makes sense for our shareholders and we can return value, we will look at it. But at this point it is way too premature to talk about that one.

John Hodulik - *UBS - Analyst*

Got you. Maybe shifting to the Hum product, could you first of all describe it for the audience here? And then maybe if possible expand on some early metrics around the product and the long-run growth curve that that business is facing?

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

Sure. So Hum is our product which is -- you can be on anybody's network, you don't have to be a Verizon Wireless customer to enjoy Hum. And if you notice, Hum really does not carry the Verizon brand and that is critical because if you look at products like Hum and go90, they don't carry the Verizon brand, it is kind of in the background because immediately if we carry the Verizon brand on our products people immediately join it that says I have to be a Verizon Wireless customer to enjoy that. Our Hum product you do not need to be a Verizon Wireless customer.

So there is 150 million vehicles today on the road that are not smart cars. So the technology is you can plug this into the bottom of your computer terminal in your car and you can turn your car via this plug-in and a little visor clip into a smart car just like you would enjoy with any other embedded smart technology in a Mercedes-Benz or a GM car with OnStar.

But it actually gives you more than that. There is a mechanic involved in the technology that when your check engine light comes on, most of us have no idea what that check engine light means and we might panic. This will tell you exactly what is wrong with the car in English and will tell you whether it is an emergency or it is not an emergency and it will tell you when you should take it to your mechanic for checking. So there is a lot of technology built into this.

If you have young teenage drivers you can fence it and you will get a text message if the teenage driver goes outside the fence if they are supposed to be at school and they are driving out to who knows where, you will get an alert that they of left the fence, maybe they're not at school now. So there is a lot of technology around this that we think is huge. And again you don't need to be a Verizon Wireless customer. This is a technology for your car.

So we just launched this on Black Friday. You are starting to see advertising around it, it is being distributed today in 2200 of our resale stores but you're going to start to see more distribution come here with big boxes that are interested in this. So you are going to see more and it is going to take us a little while to ramp but we are looking for high hopes in 2016 from the product.

John Hodulik - *UBS - Analyst*

Got you. You recently announced the restructuring of the wireless unit reducing the number of regions and taking out some headcount. Can you help quantify the impact that they may have in 2016?

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

Yes, I'm not going to exactly quantify that. What I will do, John, is I will go back to what Lowell and I have guided to as what we called plateauing or flat EPS for the year and that goes into all the cost savings that we have plus the math of the installment sale.

But let me just take a backdrop on the Verizon Wireless restructure. If you look at Verizon Wireless, the structure of wireless has not changed since the beginning of time and we ran it as four areas in 26 regions. And when we created Verizon Wireless, I mean when you go back in time you have to remember you were competing against people like Price Communications and Rural Cellular and a lot of like very mom and pop type cellular companies that eventually got all bought up and now we are down to four main carriers.

And so what John and his team looked at was the structure of that just didn't makes sense going forward, it wasn't efficient for us to compete with. So we went to six markets, we still will be very close to our customers from a store and distribution perspective.

But all the sales and marketing and finance and everything else is being moved into more of what I would call centers of excellence if you will. And that is going to bring a lot of the efficiency for us to move into the future with the wireless product and be more cohesive if you will and less bureaucratic. So that was the basis of it.

But if you look at what we have done over the years, I mean last year alone in the wireline organization, we have gone down 8000 people. So this is something that we do year in and year out from a cost structure making sure that we are as efficient as we possibly can and we still have more work to do but this is just something that we do on a regular basis. So I'm not going to specifically quantify headcount or dollars. It just goes into the overall mix of what we do year in and year out.

John Hodulik - *UBS - Analyst*

As far as the margins are concerned I remember five to 10 years ago we -- the big question was whether or not you could get into the mid-40s. Now you are solidly into the 50s. Can margins on the wireless side go higher from here or how should we think of the profitability sort of looking out over the next few years?

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

What I would say is first let's not focus in on service margin because that is actually irrelevant now because of the way the math works with installment sales. So we have been looking at the EBITDA margin and of course that is what we're trying to get everybody focused on. But look, we have run this Company as an AND Company for a long time. We grow and we grow profits. So we grow customers and we grow profit and that is our mantra internally. So both sides of that equation are important to us and I think as you have seen over time even with wireline, wireline we are starting to incrementally increase the profitability of our wireline company even with all the secular pressure that that company has with enterprise and everything else.

But we continue to become a more efficient company and wireless, this restructure and you're going to see more change within that organization as we go to market and things that we do to make us more efficient. Yes, I mean it is important for us to increase our margins and I believe we can do that.

John Hodulik - *UBS - Analyst*

Lastly on wireless, you are eliminating the traditional subsidy plan for new customers starting in a few weeks. One, talk about the importance of that in terms of efficiency or potential profitability but -- I'm sure you guys researched this, do you expect it to have any impact on gross adds or your ability to attract new customers? Are there customers that still want the subsidy plan and will be able to get it?

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

Just to be clear for new customers walking in, we only allow them to take the installment sale. With our embedded base if you are a current customer who wants to upgrade if you want to keep the subsidy pricing and the subsidy model, we allow you to do that. But that is less and less as time goes because most people are jumping into the installment sale and subsidy model.

So if you look out this year, we are saying that our take rate in the fourth quarter will be somewhere around 70% take rate on installment sale and we are looking at that increasing into 2016 as we go more to 100% installment sale. So that will just continue to grow up to that 75% point which is where some of our competitors are. It will never get to 100% because enterprise companies will not do business on an installment sale basis so it will never get to 100% but we do consider that to continue to grow.

It really has not changed anything. If anything, it has helped our retention rate. So we have become more competitive with the other providers, our current base is excited about what we have done and you saw that in the churn rate coming out of the third quarter where we increased and benefited 7 basis points year-over-year on reduction of churn. And I said you should anticipate that in the fourth quarter and I feel very comfortable with where our churn metric is coming out of the fourth quarter.

So I think we are hitting on all cylinders and again the fourth quarter I think will be a high-growth quarter for us just like it is every year and I anticipate that we will continue to do that.

John Hodulik - *UBS - Analyst*

Now quickly shifting to the wireline side, maybe update us on the deal when you expect it to close and then could you talk about some of the cost-cutting initiatives on the wireline side as you complete that and look out to 2016?

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

So we got final California PUC approval just a week ago which was the last hurdle from a regulatory perspective. We have some other regulatory hurdles to go through, some other government approvals but we anticipate that they will be coming in a month or so and we anticipate that we will be ready to close sometime at the end of the first quarter so sometime in the end of March.

From a cost-cutting perspective, I mean we have been at this now for almost year. We will be at one year when we finally close this transaction. I think we will make a lot of progress but probably not to the tune that we wanted when we announced because of the union contract. So the union contract is still not closed, we are still in negotiation with the representation and it is going very slow. So that is going to hinder some cost savings that we had counted on with that new contract. So until that kicks in, we won't realize that but I look at that as more of a timing issue, not necessarily a give up issue if you will. So that will come in 2016 it is just a matter of when we can solidify this final contract.

John Hodulik - *UBS - Analyst*

Got you. Now Verizon has sold off a lot of wireline assets over the years mostly on the LEC side or the local exchange side. Are there any more assets to sell that Verizon would contemplate if the market was right?

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

Well, I think the way I would put it is Lowell and I are extremely happy with the asset portfolio that we have right now but as we always say, we continue to look at all things and it is just like the towers, the towers is a great example where we said we weren't interested in selling our towers, weren't interested in selling our towers and then obviously we got to a great financial position with that where we could monetize it, return some value to our shareholder and we sold our towers.

So what would sit here and say is we look at everything every day and if something makes sense where we can return value to our shareholder and it is not a strategic fit and it doesn't play out over the next long-term for us then obviously we would look at that. So we are open to all concepts both from an acquisition standpoint and a divestiture standpoint but it has to make sense to us.

John Hodulik - *UBS - Analyst*

So how strategic is the wireline footprint, whether it is the local exchange business and the FiOS business or the old MCI business to the wireless market?

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

Look, I think that we placed our bet, we said that we would be a mobile first fiber company and broadband if you will and we spent a lot of time and money investing in that broadband infrastructure and FiOS and now we have probably one of the plum markets in the United States which is the East Coast from DC all the way up to Boston. And I think if you're going to launch a broadband market that is probably where you would want to do it because of the population.

So given our penetration of that market, there is still a lot of growth there for that market for us both in broadband and even in TV. We are one of the few companies who are still continuing to grow our TV product.

So we still think that there is a lot of growth there so it is strategic to us right now. But the other thing too is that if a company came in and offered me 10 times EBITDA, we would have to seriously take a look at it. But I think it is a difficult transaction because of the unfunded liabilities. You have $30 billion of unfunded OPEB and pension and that makes that a difficult transaction.

On the enterprise side, look, the enterprise business is critical to us from a government relation standpoint and also from a municipalities standpoint and an enterprise standpoint and we sometimes forget that wireless has a major enterprise business within it. Now we classify within wireless and not the enterprise business but it all talks to one another. And so we think that they are critical assets for that area. And if you put it into perspective with our smart city technology and some of the other things we are working on, we have credibility with the municipalities because of the relationships we have had through our MCI assets and our wireless assets.

So when we go to them to talk about smart city like we did in Savannah, they listened and then we get the business. So there is some credibility there that is brought by these assets that you don't necessarily see in the wireline portfolio but again you have to look at how we bring these assets together and look at it on an overall corporate basis.

John Hodulik - *UBS - Analyst*

Got you. Now with the assets sold to Frontier, how should we think about growth in the wireline business on a sort of pro forma basis?

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

I will talk more about that when we get to the end of the first quarter to set the guideline if you will. But look, Lowell and I are determined to continue to grow the profitability of wireline so no matter what is reset, we will continue to grow the profitability of wireline.

You have to remember these Frontier properties were higher profit properties than the ones we are keeping but as I said with the stranded costs, we will try to work out of that as much as possible. But critical for us right now is the cost structure and the current union negotiation that we are having and we need to get the cost structure of this Company correct and part of that is getting a beneficial union contract for our shareholders and our employees.

John Hodulik - *UBS - Analyst*

Got you. And any appetite to roll out more FiOS within their remaining territory?

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

We have gone beyond our LFA requirements today. We continue to build down streets where there is a lot of small businesses. There could be some opportunities but right now we are focused on fulfilling the LFAs we have especially here in New York City and Philadelphia which are the two main markets we still need to complete.

John Hodulik - *UBS - Analyst*

And then lastly on the wireless business, custom TV, it sounded like from a previous call that it exceeded your expectations in terms of demand. Maybe talk a little bit about your view on that product now, what are the learnings as it relates to the traditional TV business for you.

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

It is still going very well. It is still about one-third of the incoming. We still have people migrating from our current base. But as we said before, this was a great way to demonstrate what the consumer wants which is they only want what they want, they don't want to pay for things they never watch. So it gives them the ability to package the way they want.

What we did see, one of the disappointments was when you do custom TV you get a basic package and you get to pick two other packages. We thought people would pick three, people are only picking two and what we are seeing is they are picking more nonsports than sports. So the people that are going to custom TV are generally people who do not watch a lot of sports. So that was kind of an insight that we didn't have before.

But also, we also said that this was a runway that we knew that was not a forever runway because of some other contractual agreements that we have with our content providers. So you will see some changes coming into 2016 around custom TV because we will have to do that to rebundle if you will. But to date it has been very successful for us. It is a topline pressure because the revenue on this is less than revenue on a normal TV product so there is a little bit of pressure in the wireline topline but it actually contributes more profit because the content cost is lower.

So from a cashflow standpoint and a content profitability standpoint, it actually is better for us.

John Hodulik - *UBS - Analyst*

Great. I think we have time for one more question from me. Maybe if we just look out to 2016, you talked about CapEx being roughly flat but could you just go over your capital allocation priorities as you look into the new year?

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

So we guided $17.5 billion to $18 million this year so if you just do pure math, the Frontier properties is approximately $600 million. We will have those properties for one quarter so that is about 150 so if you do the math on all of that, you are probably talking in the neighborhood of $17.5 or around that going forward so consistency.

But the capital allocation is continuing to really be the majority around wireless, you will see wireless continue to grow within our portfolio, wireline continue to slow in the portfolio. Some of that is because the FiOS build is starting to taper off. Also if you look at -- we have been in the market now almost over 10 years, we have a lot of ONTs on the side of home so when a home reconnects, I don't have to deploy new capital to get the reconnection so again you are starting to see the efficiency of that footprint.

So wireline will continue to decrease, wireless will continue to increase and the wireless piece is all around densification of the network. So I don't think you are going to see too much differentiation in allocation. Now why doesn't CapEx go down with that formula? Because we are taking all the excess capital and investing it in what Marni Walden is running around go90 and Hum and these platforms that are going to really escalate our revenue stream. AOL is another one so we are giving them more capital to do what we need to do and that is where the growth is going to come from.

John Hodulik - *UBS - Analyst*

Got you. Any questions from the audience?

QUESTIONS AND ANSWERS

Unidentified Audience Member

(inaudible - microphone inaccessible)

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

Sure. So virtualization of network, look, that is around SDN software development networks. We've been working on that for two years, that is not something new. So really what that is is LTE runs off of data centers so you need data centers and you need servers and you need a lot of software and that is just the nature of the technology.

So yes, we are developing and that is part of our CapEx program and of course the difference is I'm not saying that our CapEx is coming down like some others and that is because I am reinvesting in growth products.

And then the second question was around the A- rating. We gave a guideline of 2018 to 2019 to get back to an A- rating.

John Hodulik - *UBS - Analyst*

Any other questions? Okay, great. Fran, we really appreciate you being here.

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

Thank you very much.
