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# EDITED TRANSCRIPT

VZ - Verizon Communications Inc at Oppenheimer Technology, Internet & Communications Conference

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## CORPORATE PARTICIPANTS

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## CONFERENCE CALL PARTICIPANTS

**Timothy Horan** *Oppenheimer & Co. - Analyst*

## PRESENTATION

**Timothy Horan** - *Oppenheimer & Co. - Analyst*

(audio in progress) I think what's going to be one of the more interesting presentations of the day, or discussions of the day. David Small runs, or is COO for Verizon Wireless and as you all know, wireless has just had an incredible amount of change the last year. There's a lot of controversy going on and a huge amount of growth. We are seeing wireless data volumes growing well above 50%; although David knows that a lot better than I do. I think you might have to start with the Safe Harbor. Do we have to say anything -- that's good up there. Perfect. Do you want to talk maybe a little bit about your background and what you focus on?

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**David Small** - *Verizon Communications Inc. - EVP & COO, Wireless Operations*

Sure. So I run operations for Verizon Wireless and I've been doing that about a year and half. Prior to that, I ran Verizon's enterprise business, the platform organization. So cloud, data center, security, healthcare, so on and so forth. Prior to that, I was the CTO for Verizon Wireless where I ran the wireless network. Prior to that, I was one of the four area heads for Verizon Wireless and prior to that, I had a number of roles in Verizon's wireline business.

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**Timothy Horan** - *Oppenheimer & Co. - Analyst*

So you've seen the whole gamut.

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**David Small** - *Verizon Communications Inc. - EVP & COO, Wireless Operations*

I have.

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**Timothy Horan** - *Oppenheimer & Co. - Analyst*

And what was your favorite job?

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**David Small** - *Verizon Communications Inc. - EVP & COO, Wireless Operations*

The one I'm in. That's always the right answer.

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**Timothy Horan** - *Oppenheimer & Co. - Analyst*

Can you maybe just update us broadly on Verizon's wireless strategy and maybe network strategy at a high level?



**David Small** - Verizon Communications Inc. - EVP & COO, Wireless Operations

Sure. So Verizon Wireless's strategy has been steadfast for many years and the notion and the approach is a high quality service, high reliability and a great customer experience and that's been our approach for many years and it will continue to be that way. We want our customers very loyal as evidenced by some of the performance metrics that we have and we do that by giving them a great service and great value.

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**Timothy Horan** - Oppenheimer & Co. - Analyst

And I'll include network and spectrum network as kind of the foundation of that. Can you maybe just update us on the network strategy? How do you maintain the quality?

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**David Small** - Verizon Communications Inc. - EVP & COO, Wireless Operations

Yes, so there's a number of approaches that we use to maintain and improve our overall network quality. I'll start with maybe a little bit more of a detail. We have 100 individuals across the country that drive over a million miles a year and the idea behind that is we are competitively testing our network. We are testing our competitors' networks to ensure we have the highest quality and we do that, but beyond that from a more strategic level, it's making sure that we have the right spectrum, the high quality spectrum with the right propagation characteristics and we do that at the right price. Then beyond that we use, from a reliability point of view, we are very, very committed towards fiber to our cell sites. We have generators, backup generators at the vast majority of cell sites for that reliable experience and the list just goes on and on, but I think our network reputation speaks for itself.

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**Timothy Horan** - Oppenheimer & Co. - Analyst

It certainly does and can you maybe talk about, as part of that, the spectrum portfolio. What percentage now is built out on LTE and kind of the migration that you're going to make from 2G, 3G, 4G and maybe even to LTE Advanced, when do you see that hitting and the ability to be able to essentially, I guess, sustain the 50% type of volume growth we're seeing?

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**David Small** - Verizon Communications Inc. - EVP & COO, Wireless Operations

So we started our LTE launch December of 2010 and we launched it with LTE on our 700 megahertz spectrum and that has and will continue to serve us very, very well from a coverage point of view. Beyond that, we lit up our AWS spectrum and some of you may have heard our announcements across the country around XLTE building that particular depth. Beyond that, we've started to re-farm some of our 1900 spectrum in various parts of the country and we will continue to do that. Beyond that, we have our 850 that is currently in use and we will over time see that migrate towards LTE usage as well.

And then the latest acquisition of AWS spectrum, we certainly have that in the toolkit as well, so from my vantage point, we've got very strong depth of high quality spectrum and beyond that, I think we have plenty of opportunity around additional cell densification, small cells, distributed antenna systems. And so you think about coverage and then pocket areas of capacity where you need it and I think we feel very good about where we're at. Beyond that, we're certainly doing some testing with LTE unlicensed, on unlicensed spectrum and we will continue to do that.

You had mentioned LTE Advanced and not to go immensely technical here, but there's really a couple of areas. The first one is carrier aggregation where you use two different swaths of spectrum in one experience and that is progressing very well from a testing point of view. And then there is another notion multiple input, multiple output on devices and from that regard making sure we have the right bands in devices, we've seen some good test results there.

So I'm very confident with all of the different options that I've laid out that we are in good shape for quite some time with the flexibility that we need to have to make it look -- whether it's spectrum or whether it's incremental capacity and capital, we have, obviously, the capability to do both.

**Timothy Horan** - *Oppenheimer & Co. - Analyst*

And can you talk about maybe what percentage of the POPs are covered with LTE now? What can you possibly get to and maybe the percentage of time on LTE?

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**David Small** - *Verizon Communications Inc. - EVP & COO, Wireless Operations*

Yes, so a couple of data points. We have about 306 million, 307 million POPs covered today, covered with some depth in terms of bandwidth and capacity. Look, we will continue to build out in pockets as customers demand it, but we've said for the last couple of years we are substantially or essentially complete, which we are. Today, if you look at our data traffic that's on the LTE network, the vast majority of our overall data traffic is on our LTE network today.

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**Timothy Horan** - *Oppenheimer & Co. - Analyst*

And can you maybe talk about -- I know a big issue at Verizon is having a consistent experience. I know speeds can vary from 1 MB up to 100 MBs. How do you measure consistency of performance?

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**David Small** - *Verizon Communications Inc. - EVP & COO, Wireless Operations*

So the first thing I would tell you is we've had a pretty steady and consistent capital budget. Beyond that, you see us shifting some from our wireline business over to our wireless business. So we will stay steady at the rate we have been from an overall capital intensity point of view and we feel that we are in a pretty good place regarding that ability to continue to deliver.

But beyond that, we look at a number of things. We look at again our own drive testing. We look at third-party testing. Our value proposition has always been on the downstream 5 to 12 megabits per second. And if you look at, from an engineering point of view, anywhere from 8 to 10 or 11 is generally where you get the most efficiencies coupling in spectrum with the infrastructure and the backhaul capability. And that's probably where you will see us stay. And we have a very large engineering team dedicated to making sure as we look at on a cell site by cell site basis and a sector by sector basis making sure that our throughput remains to the standard that we've set out to do. And when it hits that trigger point, we will obviously invest as we need to.

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**Timothy Horan** - *Oppenheimer & Co. - Analyst*

So what percentage of applications work well on less than 12 MBs or less as you guys think about it?

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**David Small** - *Verizon Communications Inc. - EVP & COO, Wireless Operations*

Yes, so from my vantage point for the average consumer that's doing email, certainly Web browsing, things of that nature, that's more than adequate and given the small screen sizes today, the vast majority of video can survive in that regard as well. So there frankly aren't a whole lot of, in my view at least yet, use cases where you would need significantly higher speeds. We may see that over time, but at this point we are in a pretty good place.

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**Timothy Horan** - *Oppenheimer & Co. - Analyst*

And would LTE Advanced give you significantly higher speeds or is it a lot more just more on the capacity front?

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**David Small** - Verizon Communications Inc. - EVP & COO, Wireless Operations

It would be both. So when you certainly think about spectrum and the carrier aggregation, when we lit up some of our sites and we added the AWS spectrum in some markets, New York in particular, we did see a significant uplift. But anytime you're engineering and you're adding capacity, you'll see that lift and then you'll see it come down over the course of time to where consumers are using it and you get in a good balance spot.

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**Timothy Horan** - Oppenheimer & Co. - Analyst

Can you talk a little bit about what the data volumes are growing on your network and do you see any change in that at all?

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**David Small** - Verizon Communications Inc. - EVP & COO, Wireless Operations

We have not seen much deviation from our generally 50% year-over-year-over-year consumption of data. And as we continue to invest and we continue to launch new pricing where in certain cases we will do a little bit of an uptick, in other cases we will add a little bit of value to a consumer and their data bundle, you'll see some shifts back and forth there, but I don't expect much deviation from the 50% up year-over-year.

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**Timothy Horan** - Oppenheimer & Co. - Analyst

Is there a lot of elasticity? If consumers are spending too much, will they really try to use a lot less data, or do you see much correlation?

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**David Small** - Verizon Communications Inc. - EVP & COO, Wireless Operations

Not to a great extent. Clearly, consumers do watch what they consume. We have a number of tools out there because we want to make sure consumers don't have a reason to think about another provider and so we have a number of usage monitoring tools, we have data alerts and things of that nature. So from that vantage point, no. I think as consumers continue to see more and more value as they are on the go and the value of mobility increases, we will continue to see high demand for our services.

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**Timothy Horan** - Oppenheimer & Co. - Analyst

So 50% volume growth and you're charging it sounds like for volumes now would suggest that if pricing stayed perfect, you would be able to grow revenues 50%, or not that much, but -- so how do you try to balance that where you can grow revenues at a reasonable rate? It's a very, very large industry. Consumers can only spend so much. How do you think about trying to balance out maybe to try to get 5% revenue growth or whatever number you are targeting?

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**David Small** - Verizon Communications Inc. - EVP & COO, Wireless Operations

Yes, I won't talk about targeting revenue growth. I'll leave that for Fran and Mike and others to do. I will tell you though that we look very intensely at our overall return on invested capital. And if you think about some of the benefits that we have seen over the years and will continue to see those. As an example, if you think about the cost to carry a megabyte over an LTE network versus an EVDO network, it's significant savings on the order of 60%, 70%, 80% reduction overall from a hardware point of view.

Beyond that though, we have made a number of investments in dark fiber around the country and the idea behind dark fiber is that once you have that long-term lease on the fiber, you control the amount of bandwidth that you put on each end of it and it allows you to scale up in a very, very cost-effective way.



**Timothy Horan** - *Oppenheimer & Co. - Analyst*

What percentage of your sites now have fiber generally and maybe can you talk about maybe roughly what percentages is dark versus buying lit services at a high level?

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**David Small** - *Verizon Communications Inc. - EVP & COO, Wireless Operations*

Yes. I don't think we've publicly said it, but I can assure you that the vast, vast, vast majority of our sites are on fiber today. In fact, we were a leader in that regard. Way back when in the industry, you had certain providers that would light up with very low bandwidth coming from that tower and Verizon's approach was always let's put what we need to give a great customer experience.

Beyond that, I won't disclose what percentage of sites are on dark fiber. What I will tell you though is beyond just the connection from the tower back to a hub location or a node, we have a number of dark fiber rings as well. So those cost efficiencies can work their way beyond just that first hop and can work its way all the way back in some cases to our mobile switching centers.

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**Timothy Horan** - *Oppenheimer & Co. - Analyst*

And I know you mentioned some technologies. Can you maybe talk about what you're expecting from CRAN and maybe unlicensed LTE and some of the new database technologies that are coming up for sharing spectrum a little bit more? How important do you see that? How much capacity could that add on to the network?

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**David Small** - *Verizon Communications Inc. - EVP & COO, Wireless Operations*

Yes, so let me start with Wi-Fi. As a general rule, we like Wi-Fi. It does help from an offload point of view, but there are several characteristics about Wi-Fi that are probably pretty important to mention. The first one is it's obviously unlicensed, which means that anyone who wants to grab access to it can do so. And this really came true to me many years ago when I was in New York City at the top of the Port Authority and I fired up my laptop and opened up the access manager and found dozens and dozens of Wi-Fi signals, all in that concentrated area and this was seven, eight years ago. So you have literally hundreds of Wi-Fi signals propagating in a lot of dense market areas. And so you have to make sure -- there's certainly value of license over unlicensed and so our high-level approach has been we will use license spectrum for connectivity, but we will use unlicensed and we are doing a lot with testing of this with incremental capacity on a bursty-type basis.

So the other elements of Wi-Fi, the technology has not been perfected in terms of Wi-Fi handoffs. We've already covered the security element and when everybody is trying to grab after a limited resource, it's not usually the stellar experience they would see on our network and for those reasons, we will always position our network over Wi-Fi.

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**Timothy Horan** - *Oppenheimer & Co. - Analyst*

I know the FCC has freed up some spectrum for the 3.5 gigahertz range that they'll allow some unlicensed, but using it with LTE and using more possibly combining that with CRAN could potentially, seems to me, add a lot of capacity onto the network if you are doing small enough sites. Have you been trialing that, are you --?

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**David Small** - *Verizon Communications Inc. - EVP & COO, Wireless Operations*

Yes, we are doing some trialing with the 5 gigahertz and again, in certain cases from an offload point of view. You mentioned CRAN. It's interesting to think about network evolutions over many, many years and these cycles and it certainly seems like now we are migrating towards this notion of distributed intelligence -- not intelligence, but distributed capability coupled with centralized intelligence. And in that regard, what that allows you to do is if you have a consumer getting ready from a handoff point of view, to go from one site to another and there are multiple sites on what

we call a neighbor list of which they can transition to, there's an ability to look at which particular site node has the greatest amount of capacity and will give that customer the greatest experience. And so by bringing some of that intelligence back to the baseband unit, that allows for a better experience and certainly you can handle pockets of capacity demand much greater than you can with a macro network.

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**Timothy Horan** - *Oppenheimer & Co. - Analyst*

Can you talk a little bit about maybe how many small cells or other nodes you'd like to have on the network in a couple years, or maybe how many do you have now? Just a concept for thinking how you are going to grow that.

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**David Small** - *Verizon Communications Inc. - EVP & COO, Wireless Operations*

Yes, so I won't give you precise numbers. A lot of it's going to depend on network demand and capacity demand and customer demand. I would tell you that we've stated this, our macro build is largely done. You'll still see us do some macro cells, but going forward you'll see us do a lot more in-building, a lot more DAS and a lot more small cells.

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**Timothy Horan** - *Oppenheimer & Co. - Analyst*

Can you talk about what percentage of your traffic now is on small cells and maybe what percentage it could be in a few years, how you're kind of thinking about it?

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**David Small** - *Verizon Communications Inc. - EVP & COO, Wireless Operations*

Yes, I won't state exactly what we see on our network today. I would tell you it's not a majority. Over time, it will depend on customer patterns, mobile patterns, but we would see that uptick. But I can't give you a precise this is where we think end state it's going to be.

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**Timothy Horan** - *Oppenheimer & Co. - Analyst*

So your network quality has been well ahead of your peers for a long time. Sprint specifically, Softbank last week stated that they have some technology that they think can really revolutionize their network in a couple years and be the highest quality lowest cost network out there. Are there any specific technologies that you think they are looking to deploy or other things they are looking to do with the network that they might be able to leapfrog Verizon?

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**David Small** - *Verizon Communications Inc. - EVP & COO, Wireless Operations*

Yes, I will let Sprint and Softbank speak for themselves. I would tell you our track record speaks for itself and if you look at Sprint's history over the course of a long time, they've made a number of different pivots in terms of what they've tried to do with Clearwire and with Network Vision. And I compare and contrast that with our approach, which is a very methodical this is what we're going to do and this is the spectrum we're going to use and these are the technology choices we are going to make and we continue to do that. So I'll let them answer. I'm sure they've made some comments. I'm skeptical, but I'll have to let them answer that.

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**Timothy Horan** - *Oppenheimer & Co. - Analyst*

From what I understand, they are also looking to use backhaul, maybe non-line-of-sight backhaul with some of the excess spectrum they have with the 2.5 gigahertz range and it would seem to be a way to deploy lots more small cells cost effectively. Have you looked at maybe using spectrum for backhaul for some of these small cell locations or other locations?

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**David Small** - Verizon Communications Inc. - EVP & COO, Wireless Operations

Not to a great extent. We have found the ubiquity of dark fiber in many of our major metropolitan areas. Of course, in our own wireline footprint, we use our own fiber where we can and in other locations, we still see a very robust dark fiber environment out there. So I would tell you never say never, but at this point that's not on our roadmap.

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**Timothy Horan** - Oppenheimer & Co. - Analyst

So you see plenty of fiber. And is the cost that you're paying for fiber, is that declining to a degree that it continues to make it economic?

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**David Small** - Verizon Communications Inc. - EVP & COO, Wireless Operations

Yes. And beyond the fact that there's a competitive market, there are a lot of folks out there that would like to do business with us long term and we're certainly seeing those investors of those businesses being willing for a customer like ourselves to invest and build good fiber, reliable fiber and they are staffing their locations appropriately such that in the event something were to occur they can quickly respond, and we are seeing a willingness across the country to do that.

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**Timothy Horan** - Oppenheimer & Co. - Analyst

Switching gears onto the marketing front a little bit. You guys came up with some new rate plans Friday, was it, Thursday, Friday? Can you maybe talk about what they are and how they compare to what you had before and will the consumers be paying more, the same, less? Why do this basically?

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**David Small** - Verizon Communications Inc. - EVP & COO, Wireless Operations

So I would tell you the foundation of what we did in terms of launching, and it will launch this Thursday, we call it the Verizon Plan and the notion was around simplicity. We think we certainly have some ability to lessen the complexity in the wireless industry and we are going to take a leadership position to do that. And so we have essentially a small, a medium, a large and an extra large, overly original I know, but that being said, it's this really simplistic and we are able to categorize consumers and their usage patterns in a very simple way to help them guide what data allocation that they might need.

Beyond that, we are migrating more heavily into device payment, formerly known as Edge and again, this simplistic notion of Edge or what some of our counterparts call it, there are a lot of confusing names out there, so we thought device payment would be very intuitive -- beyond that in terms of some of the elements -- look, we added a couple of GBs of data at the higher end to a promotional package that we've had in the past. That's worked very well for us. Another area you had mentioned, a price-up, and this notion of the line access fee that we have -- so all smartphones will be at \$20 in an installment environment with this new payment and in some cases, it was \$15 before, so there's an incremental \$5 price-up. So we feel that we've done the right things for consumers to drive continued demand from our existing customers, as well as attract new customers, which we certainly expect to do with this plan.

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**Timothy Horan** - Oppenheimer & Co. - Analyst

And these data buckets, are they higher than your previous data buckets at the same price point or --?





**David Small** - Verizon Communications Inc. - EVP & COO, Wireless Operations

Yes, so one price plan is I think \$10 less. Another price plan again we added another 2GB, but the real value in these price plans is to -- obviously it is intuitive -- but this notion of making sure customers get the most value, seeing the value in the higher end plans that we have and on a cost per GB basis. As they consume more, it becomes more cost-effective for them and it becomes more financially attractive for us. So I would tell you that, in some cases, it's a little bit lower. In other cases, it's a little bit higher, but we think it's going to drive a lot of consumer demand.

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**Timothy Horan** - Oppenheimer & Co. - Analyst

And why is that? Why do you think it will drive consumer demand?

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**David Small** - Verizon Communications Inc. - EVP & COO, Wireless Operations

Well, we try very hard to make sure our customers understand their consumption patterns. We have a number of tools that are available for them to look at their consumption, but when you're in our business and you want to sell more data and you want consumers to value the data in a greater way because of their mobility lifestyle, sending out warnings that say you're getting close to the end of your allocation, that's not a great message to have. In fact, on an interesting note, we did a lot of research on this with millennials and for millennials who are still on their parent's plan, what millennials told us is that, in some ways, they felt like Verizon was telling on them, telling their parents about their data consumption.

So for that and many other reasons, this notion of adding more value and having consumers move up in the curve in terms of their consumption we think this is good for the industry and we think it's good for consumers and we certainly think it's good for us from an investment point of view.

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**Timothy Horan** - Oppenheimer & Co. - Analyst

Are you still going to push the family plans?

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**David Small** - Verizon Communications Inc. - EVP & COO, Wireless Operations

Yes. We have -- look, our small package and our medium package are really meant to cater to those individual lines. With smartphone data consumption increasing year-over-year-over-year, we think 3GB of capacity is a good place for a single line to be. For those who don't use quite as much, 1GB would be more than adequate for browsing and for email. But we really do want to move customers up into these larger plans. And so a family of two could certainly get value out of the 6GB and then beyond that, the 12 really takes care of the vast majority of other customers. But that being said, we have higher that we are not going to advertise, but we have them for consumers who need more. But we will certainly push the family plan.

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**Timothy Horan** - Oppenheimer & Co. - Analyst

The 12GB would not work in the Horan household. I don't know about other households.

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**David Small** - Verizon Communications Inc. - EVP & COO, Wireless Operations

It doesn't work in mine either.

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**Timothy Horan** - Oppenheimer & Co. - Analyst

Great stuff. And you think this is going to help you gain some marketshare? How do your new price points compare to some of your competitors?

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**David Small** - Verizon Communications Inc. - EVP & COO, Wireless Operations

Yes, we think we're in a pretty good place here. I'll let the competition speak for themselves here. From our vantage point, look, we've always been a premium brand and our expectation is consumers or our knowledge -- the reality is consumers value the things that we do and the capabilities that they have and the coverage where and when and in the data throughputs and capacity that they need. We think consumers will continue to be attracted to this.

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**Timothy Horan** - Oppenheimer & Co. - Analyst

So it seems like the industry -- we had some price competition started 18 months ago or so with some of the carriers with smaller marketshare. It's felt to me that consumers have wanted value plans moved around. So we had a higher churn for a while, but churn really seems to have come down quite a bit now. Not to put words in your mouth, but I guess what percentage of your base now do you think is still susceptible to maybe leaving or can churn stay down at these levels for a sustained time?

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**David Small** - Verizon Communications Inc. - EVP & COO, Wireless Operations

Yes, so we had very good second-quarter postpaid churn at 0.90%. Second quarter is usually seasonal, so I would not expect 0.90%. But we have seen good 3%, 4%, 5% year-over-year basis point improvement in postpaid churn. We are not seeing anything that would cause that to deviate in a pretty significant way. Beyond that though, I would tell you from a porting point of view, and we look obviously every day, we look at porting. We don't talk too much about the port ratios, but there are a couple of things that are pretty interesting. And that is if you look at our total universe of postpaid disconnects in any given month, those that we lost to porting are not the majority of what we see from a disconnect point of view. So we feel very good about where we're at from a competitive environment point of view and I expect our churn will continue to show levels of improvement that we've seen in the past.

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**Timothy Horan** - Oppenheimer & Co. - Analyst

Can you talk a little bit about some of the more value-added applications or higher-end applications, maybe Voice over LTE and video? Voice over LTE, as you measure the quality -- and do you consider the high definition voice Voice over LTE?

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**David Small** - Verizon Communications Inc. - EVP & COO, Wireless Operations

Yes.

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**Timothy Horan** - Oppenheimer & Co. - Analyst

And as you measure the quality or consumers measure the quality in Voice over LTE, what's the experience been?

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**David Small** - Verizon Communications Inc. - EVP & COO, Wireless Operations

It's been pretty good. We have almost 4 million customers on our Advanced Calling 1.0, which is our first foray into VoLTE and the 100 individuals that I talked about earlier that do a massive amount of driving and testing of the network, we have another -- they will continue to test our VoLTE capability, but beyond that we have another group of engineers, system performance engineers that are looking day in, day out and working with our handset manufacturers, working with our hardware providers and testing our overall network. And so the expectation is that we will continue to improve it.



I want to give you one data point that I think would be helpful. From the time we launched our voice service until the time we felt like the dropped call rate of 0.4, which is a good place for consumers to be, it took us quite some time to get there, many, many years. It took us half of that time to get to pretty close performance metrics with Voice over LTE or Advanced Calling. So we feel very good about the service and we -- 4 million customers today almost testing it every day and having very good experiences. Our call-in rate on those customers is not any higher than what we would see from a non-Advanced Calling 1.0 consumer. And I do think they very much value that experience, but again remember that our overall voice experience is significantly better than some of our counterparts in the industry. So we had a higher bar to cross and I think we've done that fairly well.

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**Timothy Horan** - *Oppenheimer & Co. - Analyst*

And is the voice quality -- not just dropped calls -- but is the quality better than --?

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**David Small** - *Verizon Communications Inc. - EVP & COO, Wireless Operations*

Oh, yes, absolutely. You will hear -- actually, you won't hear -- you'll have incredible call performance characteristics. Now both ends have to be Advanced Calling 1.0. So if you are just calling a non-Advanced Calling 1.0 consumer, you won't see that same benefit, but certainly when both ends are, you see night and day difference.

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**Timothy Horan** - *Oppenheimer & Co. - Analyst*

So I will have to shut it on for my whole family, but I was worried about data usage, so it does use some data. Can you maybe talk about what the average usage is per --?

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**David Small** - *Verizon Communications Inc. - EVP & COO, Wireless Operations*

Yes, well, I would tell you so we do mediate out for our Advanced Calling customers all the data that's consumed for voice, we mediate that out, so you won't see an impact to your data consumption. Beyond that though, I would tell you that it is a much, much more efficient way to carry a voice call on our network. And so part of our strategy around re-farming spectrum, so on and so forth, a lot of that -- not a lot, but some of that is predicated on delivering that voice quality over a data stream, which will provide much more attractive economics.

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**Timothy Horan** - *Oppenheimer & Co. - Analyst*

And when might you start to see devices that don't have any CDMA voice capability in there?

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**David Small** - *Verizon Communications Inc. - EVP & COO, Wireless Operations*

We are going through a natural evolution where you talk about here's a feature, consumer; if you would like to try this, feel free to do so. At some point, we will migrate to an out-of-the-box default on position and we are working that aggressively. And then you'll see the next phase when it gets to the place where performance-wise we give that Verizon Wireless type of experience then we will pivot towards taking CDMA out of devices. I would also tell you though with a lot of our partners knowing that that is going to happen, we've been able to get much, much more attractive pricing on handsets with CDMA in them. So we really get that benefit.

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**Timothy Horan** - *Oppenheimer & Co. - Analyst*

Congratulations. And maybe any update on video? When can we expect that? Can most of your devices support it at this point?



**David Small** - Verizon Communications Inc. - EVP & COO, Wireless Operations

Yes, so we have some information out there, some of it leaked, in terms of our new video product. You can expect that towards the latter part of the summer and in that particular regard, we feel very good about it. It's not just for Verizon Wireless consumers; it will be for all mobile subscribers who want to take advantage of video on the go. In terms of video itself, we do see high, high demand for video on our network, which is in part driving that 50% year-over-year consumption.

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**Timothy Horan** - Oppenheimer & Co. - Analyst

Great. Any questions from the audience? I was remiss in my last presentation. We have one here.

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**Unidentified Audience Member**

(inaudible - microphone inaccessible)

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**David Small** - Verizon Communications Inc. - EVP & COO, Wireless Operations

Yes, so part of our approach within our business is around simplification. And we have been actually working on this pricing for some time. We wanted to have it ready. We felt that now was a very good time for a couple of reasons. One, for the fact that a lot of people are in back-to-school shopping mode across the country and so we think this is an opportune time for that and then usually around this time of year or a month or two out, there could be a significant device launch and we want to have this pricing ready for that as well.

So look, this was not a reaction in any way, shape or form. This was something that we've had in the works for quite some time. We've had it essentially at the ready and we also knew this dovetailed very well with what we wanted to do in terms of device payment, or installment plans and so the timing worked very well there as well.

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**Unidentified Audience Member**

(inaudible - microphone inaccessible)

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**David Small** - Verizon Communications Inc. - EVP & COO, Wireless Operations

Yes, so machine to machine or Internet of Things, we think there's great opportunity there. We made an acquisition several years ago of Hughes Telematics, now Verizon Telematics. And the thing that I would point out in that regard is that connectivity to the vehicle in and of itself, while valuable and while high margin, it's not high revenue. What we have found is the value in the margin and the opportunity moves beyond the connectivity to the platform itself. So if you are driving down the road and you have a connected car for automatic crash notification, things of that nature, we generally look at that as a sub-\$1 a month revenue opportunity. But we also, through Verizon Telematics, we run Embrace for Mercedes-Benz and in that regard, that's a \$20 plus monthly ARPU. So there's a drastic value differential and we are really -- while we will take the connection business all day long, we really find the value in moving up the stack and we've worked in a number of different verticals -- healthcare, obviously transportation is a very big one that we play in and we play in a number of other verticals as well.

Anyone who is buying an airline ticket or buying a soft drink, or frankly interacting in any number of other things on a day-by-day basis they are more than likely using machine to machine internet connectivity through our network. So we think there's tremendous upside. We did \$155 million in the first quarter, \$165 million in the second quarter. So that gives you a sense of the ramp, but again we look at the overall value proposition, not just the connectivity.

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**Timothy Horan** - *Oppenheimer & Co. - Analyst*

And to maybe just wrap up on a very high level, can you talk about is there a lot of opportunity to improve productivity or reduce overall operating expenses and if so, how at a very high level?

**David Small** - *Verizon Communications Inc. - EVP & COO, Wireless Operations*

Yes, so back to this notion of simplification. What we found in our stores is that our employees were explaining our Edge or now Device Payment and they were explaining it in the context of the two-year subsidy model. And so what we found was incremental time was consumed in explaining it. So part of this notion of migrating towards an all-installment environment will reduce the overall transaction time in a store. But beyond that, we've set very, very aggressive goals for how much time we want a consumer to spend in our store. And through IT enhancements, through process simplification and through a number of other tools, we see some very good opportunity for further productivity. But that's just one element of many areas where we see incremental opportunity.

**Timothy Horan** - *Oppenheimer & Co. - Analyst*

Thank you for your time, David. Thanks, everybody. Have a great day.

**David Small** - *Verizon Communications Inc. - EVP & COO, Wireless Operations*

All right. Thank you, Tim.

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