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# EDITED TRANSCRIPT

VZ - Verizon Communications Inc at Wells Fargo Technology, Media & Telecom Conference

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## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

**Jennifer Fritzsche** *Wells Fargo Securities - Analyst*

## PRESENTATION

**Jennifer Fritzsche** - *Wells Fargo Securities - Analyst*

I think we'll get started here. Welcome, everyone. I'm Jennifer Fritzsche; I follow the telecommunications services sector for Wells and we're excited today to start our telecom group with Fran Shammo, the CFO of Verizon.

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

Good morning, everyone. Thanks for coming.

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**Jennifer Fritzsche** - *Wells Fargo Securities - Analyst*

Welcome, Fran. So, Fran, I will dividend my questions, Wireless and Wireline. We will start with Wireless.

You just reported a very strong third quarter and continue to show some of the best wireless margins and churn. Do you think these are metrics investors should be focused on? Or where are we in the growth? Is it still a net-add game or is it more -- certainly a cash flow game. But talk about how you look at the business

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

Well, I guess I would put it this way, we in Verizon always say we have to be an and company: you can't do one without the other. We want to grow and we want to create more profit, so that's how we go to business every single day. We want to gain more customers, but they have to be profitable customers that contribute more profit. And that's really what we're after.

It's not just a net-add, let's chase net-adds this quarter and have profits up or let's create profit, but in this dynamic, competitive environment you have to be very diligent in how you approach the marketplace. Especially with installment sales now, the promotional activity has really lessened now around equipment.

Before in the subsidy model, everyone highly promoted the equipment side of the equation. Well, that has gone now with the installment sale, so now it's around promoting your price points. The activity is changing a bit and so the fourth quarter is going to be interesting to see what is the promotional activity for the fourth quarter this year.

Of course, the fourth quarter every year is a very competitive consumer market. It's retail season so you have to be very competitive in that retail season, and obviously we will be competitive. We are launching -- we just launched two new products, go90 and hum, so we are preparing for that season.

And you're going to see more and more out of us about the additional services you can get by being a Verizon Wireless customer, but not necessarily only on Verizon Wireless. So we'll talk more about that. But I think it's a game of you have to chase your segments, but you have to generate a profit.

**Jennifer Fritzsche** - Wells Fargo Securities - Analyst

You talked last night about the fourth quarter. The fourth quarter kind of determines everything. I've seen -- I was mentioning last night I've seen some teaser advertising in Chicago about the simplicity of pricing. Should we expect to see more from that and will go90 be with that?

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

We've kind of shifted of how we are approaching the marketplace. Obviously we are running our Better Matters campaign, which is focused around better really does matter what it comes down to a network quality standpoint, but it's also around we have to be simple to deal with.

So John and his team have taken the approach of let's simplify the price plans to make it easier for customers to understand. What we found from the front line is we were in the mix of between the subsidy model and the installment model; it became very complex for our frontline employees to describe that to customers.

So we said, you know, we just need to be simple. The market has gone to installment. We are now just focused on installment sales with the simplicity of the price plans.

Now, as you know, that doesn't mean that if you are a current customer and want to come in and upgrade that you can't stay on your legacy bill. You can; you can still on the subsidy plan, but for new customers coming in it's the installment sale under the simplicity of the pricing. So that brings more efficiency and again goes to the profitability of we need to be more efficient to create more profit in this environment and that is what we are doing.

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**Jennifer Fritzsche** - Wells Fargo Securities - Analyst

Got it. Can you talk about the data buckets? I think it's XL, XXL. Have you seen customer migration to that larger data bucket?

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

As you've gone through the history here, and even in the voice world, you saw people as they bought up and bought more minutes. You are now seeing people by up in more buckets. And of course, with the shareable plan and with some of the things that we are launching around the usage, if you look at just the video consumption on the handset, our data growth is 75% year over year on the 4G LTE network and it's handling 87% of the data traffic.

So the growth in that has not slowed at all and, therefore, you need the bigger bundle and of course the pricing has become more competitive for those bigger bundles. So it's very similar to the legacy voice world.

But the other thing that people don't realize is, yes, the service revenue per megabit is coming down on data, but the cost to deliver that megabit is also coming down. So when people look at the revenue slope of service revenue going down everyone gets concerned, but keep in mind the cost to serve that megabit is also down. The LTE network is 4 to 5 times more efficient than the 3G network was. You can see that cost per bit continuing to decline and that's why Verizon Wireless has continued to hold the profitability, even with all of this competitive environment going on. You have to work both sides of that equation.

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**Jennifer Fritzsche** - Wells Fargo Securities - Analyst

You've talked about the IoT, Internet of Things, being a large driver to your business, yet it was less than \$200 million in revenues in the last quarter. Can you talk about when we should see the needle move: a year, are we here and now? Whatever the timing is; when it will become a bigger top-line contributor?

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

I think that, unfortunately for the industry, we've been talking about this for four to five years and I think people are tired of us talking about it, but it's actually starting to take form now. But really some of the barriers to entry is there's so many things out there.

What we just launched was thinkspace, which is a platform that allows application developers to come in openly to that platform and develop Internet of Things technology and be able to test it on our network. We believe that that is going to really bring some of the technology to the forefront that can work off of the 4G LTE network and that's -- we're the first ones that have done that in the industry.

And we think that's a big step towards opening up the ecosystem to allow developers to come in freely, write their application software, test it on our network, and move forward. And they will be able to distribute that, so we don't need to be the distributor of each of that.

The other thing though is if you look at smart cities -- we just signed with Savannah, Georgia, and are launching the first smart city. And now that is gaining traction with other cities. This is critical for disaster management, emergency management, traffic disasters where you can reroute traffic in a very speedy fashion.

Parking spaces; I mean you start to get down into all this technology, it actually saves the city money because of the efficiency of it and it allows people to be more efficient with their time. So this technology is here and we will continue to move forward with that. We are bidding on some other cities right now as we speak, but Savannah is the first one.

Some of these things are taking a little longer than we have anticipated, but I do believe that you are going to start to see this revenue line ramp. And when I say start to see ramp, I mean we were growing this line item about 30% to 40% last year; that slowed a little bit this year because of some of the repricing we had to do with some of our major contracts, but that line item is going to start to take off in 2016 and 2017.

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**Jennifer Fritzsche** - *Wells Fargo Securities - Analyst*

Verizon was the first to commit to 5G or begin to test and you are going to begin to trial it. Does that -- can you talk a little bit about that? And does that help you with IoT as well?

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

IoT is really -- can be delivered over the 4G network. It does not need 5G. 5G is a very different technology.

5G; if you look at Japan and Korea, they are using 5G right now on a trial basis and they say they're going to be up and running for the Olympics. And they are delivering very high-speed data through that mechanism. They are actually running on 29 gigahertz spectrum.

So 5G is going to take a very high gigahertz spectrum in order to deliver that, but this is really for high-speed video delivery in very dense areas, because as you go up in spectrum gigahertz the amount of delivery shrinks. So you need to have a very densified network to be able to deliver that 5G network.

And this is very similar to 4G LTE. We were the first out of the gate. We said we were going to do it; the ecosystem developed and we want to make sure we set the standards for the industry and move forward. So that's what we're doing and we will be trialing this -- we are actually trialing now in our labs, but it will be more prevalent in 2016.

**Jennifer Fritzsche** - Wells Fargo Securities - Analyst

Perfect segue to my spectrum questions, which I will now ask. You said on your recent earnings call about the broadcast spectrum -- correct me if I'm wrong -- you'll be there, but there are some interference issues that you are cognizant of. How do you think about this auction? I know it's impossible to guess, because you don't even know how much spectrum is going to be offered. But as you sit now do you anticipate paying a similar amount in absolute dollars to what you did with the AWS-3 auction?

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

On the incentive auction, just so we level-set here, the FCC has told the broadcasters what they should expect out of the auction. The broadcasters are now going through their own models to decide whether they are going to actually join into the auction.

So right now, as a carrier, we actually don't even know what's going to be auctioned off until they get through that process and that process won't be completed until, I believe, mid-January. Once we know what's going to come to auction and once we understand all the rules around it, because there are very complicated rules around this spectrum, then we will decide what areas we may be interested in.

But the other thing to level-set here, too, is this is low-end spectrum, 600 megahertz. It's very good for coverage, not good for capacity.

We built our LTE network on 700 megahertz contiguous across the United States, so the 600 megahertz would not be our top priority spectrum. There may be some areas where we could be interested to do fill-ins, but it does interfere with 700. It's not that it's not usable with our spectrum, but it would just be more -- a little bit more costly to deploy because there's a lot of interference between 600 and 700.

So we'll just have to wait, Jennifer, to see where it comes out. But right now the AWS-3 auction was around a lot of capacity and there are major carriers who needed that spectrum for capacity. This spectrum is unique for some, but not for all. And I would say, for us, it would be nice to have, but not an actual priority for us like AWS-3 was.

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**Jennifer Fritzsche** - Wells Fargo Securities - Analyst

So if I'm hearing you right, you're saying that you would like more capacity spectrum versus coverage spectrum, which immediately leads into the question about Dish and Charlie Ergen's spectrum. I know I've asked you this I think the last two years. And so, as we sit here today, he has a lot of AWS spectrum, 40 megahertz of contiguous spectrum. How do you think about that?

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

I guess we couldn't avoid this question. Look, I think the first level-set here is we went into the AWS-3 auction we spent \$10.4 billion. If I wanted more spectrum, I would've bought it in the auction.

What we did was we walked away from Chicago and New York, because we said the price got way too high, and if you look at just the math at a very simple level, in order to buy New York and Chicago and a couple other markets it was \$6 billion additional cost for spectrum. I can build the same capacity for \$1.5 billion.

The spectrum won't be launched until three years from now, so 2018. My build will be done by 2018. I will have the exact amount of capacity I would have had if I bought that spectrum. So from our perspective \$1.5 billion versus \$6 billion is a pretty simple equation, so why would I go out and buy spectrum and be held hostage by a third-party? It makes no logical sense to do that.

At this point, yes, Charlie has great spectrum, but not at the price that he paid for it because we walked away in the auction. So there's no reason to have this discussion and we've talked about this before -- I am not interested in Dish.

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**Jennifer Fritzsche** - Wells Fargo Securities - Analyst

And you also have some of that spectrum maybe being re-auctioned, if you look at that -- is that a near-term option?

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

It gives us another opportunity to go to the well again and, obviously, we will take a look at that when the FCC decides that they will re-auction that, but that's probably not going to happen until several, several months after the 600 is completed. So that probably puts us late 2016, maybe 2017 at the earliest, and that will be an opportunity for us to relook it.

But if you put the two and two together and you move forward here, you can get capacity two ways. You can either build capacity or you buy spectrum for capacity. Historically, spectrum was always cheaper to buy for capacity than build was. That equation splits in the AWS-3 auction.

We can continue to densify with our small cell technology, our DAS technology. Now you are getting into RAN, which is more dynamic antennas. You can actually have the ability to tilt antennas and turn antennas. There's a lot of technology out there that the manufacturers are working on that gives you more capacity and makes your spectrum even more efficient to use, so you have to put that all together.

The other thing that I think people downplay for us in this speculation of, well, Verizon is spectrum sure is we forget that we have PCS and we have 850. And the other issue is that only 40% of our spectrum today is used for LTE traffic; 60% is being still used within the CDMA network.

And as CDMA starts to migrate to 4G as it is, we're moving that PCS over to LTE and then we will eventually move the 850 over to LTE, so we have plenty of runway here for capacity purposes. So I'm not a situation where I have to be held hostage by anyone to pay any price for spectrum.

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**Jennifer Fritzsche** - Wells Fargo Securities - Analyst

Is then unlicensed part of the plan as well? That's another whole area of topic.

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

Unlicensed is maturing. We have LTE-U and then we have other unlicensed spectrum, and, of course, we are working with the FCC because there's a lot of consternation that there's too much interference. Actually unlicensed LTE actually helps the interference, not hurt the interference.

And, again, Wi-Fi is complementary to LTE. The other big thing is Wi-Fi is not a managed network like LTE, so when you put unlicensed with LTE and you can manage both of them, it actually creates better, if you will, synergy between Wi-Fi unlicensed and LTE unlicensed. So we think it's a benefit.

We are working with the FCC to be able to do those trials and prove those points with the manufacturers. So I think we're on our way there, but it's too early to say.

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**Jennifer Fritzsche** - Wells Fargo Securities - Analyst

I want to bring up the CapEx question, because basically that's very important to a lot of people in this audience. How should we consider your CapEx going forward? You've talked about being a fairly flat CapEx spender, but you are selling what you might call island three markets to Frontier and that CapEx associated with it is roughly \$200 million -- excuse me, \$600 million? Is that right?

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

Yes. The properties in the south are about \$600 million a year, which is in the contractual obligation for Frontier, so that won't close until the end of the first quarter. So you're going to have one quarter of, if you split the year, \$150 million of CapEx, so you should see about a \$450 million decrease year to year.

Now our guidance was \$17.5 billion to \$18 billion, so if you take that out you are still around that \$17.5 billion mark. So I would say consistently what we have said is consider us as a flat overall company without much change in CapEx.

Now within the units you're going to see more of a mix change. You will see more in Wireless and less in Wireline, and a lot of that is because the FiOS build is starting to come to a close. We still have obligations that we have to fulfill in New York and Philadelphia. We will continue to fulfill them. But the real build is starting to slow down, so that is the synergy that we get with that.

The other thing, too, is if you think about FiOS we've been at this now for 10 years. We've been connecting ONTs on the side of homes. As those homes start to reconnect, there's no capital investment anymore.

So as you start to penetrate the entire population, even though they are not our current customer, when we go to reconnect that there's no CapEx involved because we have already laid the fiber, the ONT is on the side of the house, and it's just a reconnect. So you start to get the synergy in the CapEx within that FiOS territory. So that's why you see Wireline continue to slow, while Wireless will take on that CapEx because of the densification efforts.

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**Jennifer Fritzsche** - Wells Fargo Securities - Analyst

So more of the Wireless CapEx then would be directed towards small cells versus macro sites? Is that a fair assessment?

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

More around densification, small cells, DAS systems, and now the RAN technology that will be coming in for the antennas.

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**Jennifer Fritzsche** - Wells Fargo Securities - Analyst

Okay. Let's shift to go90, because there has been -- unfortunately, I missed the field trip in New Jersey last week, but I heard a lot of excitement coming out of it. Can you talk about how the launch has gone so far? You just signed a big NBA agreement. I assume we're going to begin to hear a lot about go90.

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

We soft launched on October 1. You are starting to see some of the billboards around some of the subways and all; maybe a little bit of TV, but we really aren't going to blast this out until closer to the real big Black Friday holiday. You will start to see more and more as the month goes on and a real ramp-up.

We have over 10,000 titles in that product right now. We have a lot of live content. If you watched, we've now launched three exclusive contents within AwesomenessTV, who has created them for us. They are exclusive to us.

The ramp is going up. It's still too immature to talk about metrics within that and I probably would not anticipate talking about metrics until the end of the first quarter. So we will have to deal with that as we go, but right now, preliminarily, it's going well. The launch is going well. The feedback has been great.



It's still an immature product, so we still have some development work to do there. And as we go it's going to mature and we're going to continue to add in more and more content. So with like the NBA we're getting some exclusive content from the NBA that they're going to create on their own that is going to be part of go90 that you won't get anywhere else. So some of these agreements are going to be key to the success of this product.

Now you look at the other side of the coin, which is how do we monetize this via the advertisers. They are starting to come in and look at this and say, okay, there's something here. And we are starting to build more and more awareness around the advertising community around how we specifically can give them demographics in a total concept.

Not violating any privacy laws here, but we can tell them okay, we have 18- to 24-year-olds in New York City. That's very appealing to advertisers. So that's going to grow as time goes and that is how we're going to monetize this product.

It's still in an infancy stage, but it's growing pretty rapidly.

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**Jennifer Fritzsche** - Wells Fargo Securities - Analyst

The mobile video environment is a competitive one. I guess how do -- the question I get is how can you differentiate when you have Hulu and Netflix out there?

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

Keep in mind that Hulu and Netflix are really more over-the-top linear TV products. go90 is a mobile-only product. It's very different content; it's short clips. Now we do have some episodic-type things in there, but it really is around that short clip.

Most mobile users on average view 20 to 30 minutes a day, not in all one session. If you look at what go90 does is these exclusive products we have are time-dated, so we will run one episode in the morning; we may run another episode in the afternoon. People are going to come back and visit at certain times of the day to see those live-type events.

It's very different content. No one else does live content on the mobile handset. Everything is a refresh of something that was already broadcasted, so when you talk about NFL streaming, you talk about NBA, you talk about soccer that we've launched these are all live events. And the concerts. Everything will be more live and that's really the differentiator here.

Netflix does nothing live. Hulu doesn't do anything live. They're more of your traditional over-the-top products. That's not what go90 is meant for.

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**Jennifer Fritzsche** - Wells Fargo Securities - Analyst

And advertisers seem -- you've signed a deal with Publicis. What is the temperature of advertisers right now? Is that mobile is clearly key; we heard Marni at CTIA.

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

Yes, it's growing. You have to understand that -- not to digress here, but we talk about the quad play a lot. Millennials don't even know what a quad play is. Millennials only want Internet and wireless.

So when you talk about the advertisers, the only way that they can approach that audience is either via the Internet -- but now you have ad blocking -- or via the mobile handset. And within the go90 app, since the advertisement is built into the app, the ad block technology does not block it. So it's very appealing to them and it's an audience that they are really not getting to today.





Now, of course, Facebook and Google and everybody attacks that audience, but this is something unique for them. Again, it's more we can really more strategically advertise the demographics because of the information that we have from the usage. So it's very different and it's very appealing to them and that's going to grow over time.

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**Jennifer Fritzsche** - Wells Fargo Securities - Analyst

With all of this as the backdrop of AOL, there's just definitely seems to be a courting of the Millennials area, which is -- you've typically been under indexed in. Should we expect that to change? You can see it even just in the recent advertising.

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

Yes, you definitely should see it change, and I've got this question which is, you know, Fran, we really don't see Verizon on the brand of go90. We don't really see Verizon on the brand of hum, which is the vehicle IoT that we just launched. Part of that is because we don't want -- we want to make sure that the user community doesn't connect Verizon that I have to be a Verizon Wireless customer only to enjoy this content on go90 or I only can be a Verizon Wireless customer to plug in hum to my car.

You can be on anybody's network. You don't need to be on Verizon's network. Now hum runs off the Verizon Wireless network, but you can be anybody's customer today and still plug that module into your car and it will work.

Similar with go90, you don't need to be a Verizon Wireless customer to download that app into your tablet or your phone and enjoy the content. And that is the critical ingredient. We're going after more of the population, not just Verizon Wireless's population.

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**Jennifer Fritzsche** - Wells Fargo Securities - Analyst

Comcast, cable, the questions there. That came up on the call that they had lit up there MVNO rights. I'm not sure of the exact way to say it. I think that surprised some.

You've mentioned that you view Wi-Fi as complementary and don't see it as a mobile network. I guess how -- or a near-term threat. But long term do you think cable will play a bigger role in the wireless industry?

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

I'm not going to talk about the agreement we have with Comcast. You can ask them about that. But, look, I think -- if you look at this industry and it's wireless, and if you look at the Millennial population, as we just said, it's either broadband or it's wireless. Everybody wants to have a piece of the pie in wireless, so we know that more and more people are going to try to enter into this wireless world.

Now, the barrier to entry to become a wireless operator is pretty high and just because if you buy spectrum doesn't mean you can build a network overnight to launch that spectrum. As others have said, we don't necessarily need to be an operator to enter this environment. We can do it in other ways.

So I think, look, we will continue to monitor the competitive environment and I think what Verizon has proven over many, many years is we compete effectively with anyone. And so we will continue to monitor it and we will compete effectively. And that is the reason why also that we're launching products like hum and launching products like go90. We are broadening what we're going to be to the consumer and that's going to be key to our success.

**Jennifer Fritzsche** - Wells Fargo Securities - Analyst

Not to ask you to comment on specific carriers, but can you comment on the overall competitive environment right now and as we sat here a year ago? How do you feel about it? Things have shifted to EIP, to your point earlier so less promotion around the handset, but how do you think of pricing here?

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

Look, fourth quarter, as I said, is always a very competitive quarter. So we will have to wait to see what the competitiveness is around this quarter, but I do think that from a pricing perspective I wouldn't -- we will probably see some promotional pricing in the fourth quarter, which we always do. But I think that where pricing is today I think you are starting to get down to a point where you have to generate cash flow.

It's great to add customers on your network, but at some point, if you don't start to invest in the network and you just give data away for free, your network is going to start to suffer. And you need that cash flow to reinvest in the network.

You saw three years ago here in New York City where we ran into a little bit of constraint. Now we got out of it because we had the resources where we had the ability to get out of it, but if you fall too far behind, it becomes a real struggle to move out of that. Because it's not like I can wake up tomorrow and say, oh, I think I'm going to put 1,000 small cells up in New York City.

It takes almost a year to year and a half to get a small cell site up in a city like New York, because you have to go through the rights. You have to get the leasing on the building. You have to discuss it with the landlord. You have to get a right-of-way for the fiber back to the main cell tower. This is not something that can happen overnight; you have to preplan for this.

And that's part of the reason, Jennifer, we have always said we are going to be consistent capital company. The reason for that is, as we project usage out for the data network, we don't see it slowing. So we need to continue to build for that future demand and you need to be two years ahead of that demand or else you're going to fall behind.

That's where I think pricing wise I think we're going to see some stabilization here, but I would anticipate some promotional activity in the fourth quarter, which we do every year.

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**Jennifer Fritzsche** - Wells Fargo Securities - Analyst

Okay. On cost cutting, there has been a lot of press talking about your wireless cost cutting and decentralization in many of the regions. Can you quantify some of these savings? I just want to be clear that your comment earlier this fall about the plateau in earnings for 2016 incorporated these cost-cutting measures.

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

I think if you look at us over the last two to three years, we've been talking about our Verizon Lean Six Sigma approach. We've been talking about the efficiencies. We've been talking about process improvements to become a more efficient company. This is just for us to continue to mature and be able to deliver the services to the consumer in a more efficient way.

And so what you've seen from Wireless is the Wireless structure had not changed in approximately 18 years. The environment around us has significantly changed in the last 18 years. So if you go back, we were competing with a lot of regional players, people like Rural Cellular, Price Communications way back then, so you were dealing with it in a very localized area so we needed to be very close to that customer and make decisions on the fly.



You are now dealing with major national players, so that structure kind of out matured itself. We need to get to a structure where we can efficiently make quicker decisions more broadly and get rid of some of the bureaucracy within the environment. And that's what John did and we believe that this structure will be a lot more efficient for us to operate under so we have a lot of internal support for that.

I'm not to disclose any numbers, because year after year, if you look back at Wireline and look at the headcount in Wireline, last year we went down 8,000 people in Wireline. Now a lot of that was through attrition, through process improvement and so forth, and that's what we do on a year-after-year basis. So this is just part of our continuing mantra.

I think this one got a lot of attention because it was the first time that we really had a major reorganization within the Wireless unit. But this is something that we will continue to do as we look at the consumer and how we attack the consumer market.

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**Jennifer Fritzsche** - Wells Fargo Securities - Analyst

And that was factored in to the comment, though, about plateauing?

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

Yes, it was.

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**Jennifer Fritzsche** - Wells Fargo Securities - Analyst

Okay. Shifting to Wireline, I am just going to start with the elephant in the room. Also in recent press reports, this Friday after the close I believe, was a story about Verizon divesting about \$10 billion in Wireline assets, specifically Terremark and MCI. Can you provide commentary here on those assets and how they would -- they do or do not fit into your future strategic (multiple speakers)?

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

Now this excludes you, Jennifer, but I think these are the same reporters and bankers who keep telling me I'm going to buy Dish. They are factless, they are conjecture, they are speculative, and there's no foundation behind these comments.

So the question I kind of wonder about is are our competitors trying to get the enterprise customer a little antsy about Verizon and their continued support? I think we've shown it. This is part of our portfolio and we will continue to support our enterprise customers. These rumors and speculative information is just ridiculous, so there's really no comment to make beyond that.

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**Jennifer Fritzsche** - Wells Fargo Securities - Analyst

Okay, that's clear. Thank you.

On FiOS, we've seen the FiOS video net-add growth slow the past few quarters. Is this mostly due to the competitive environment? I mean linear TV clearly has been under pressure, but can you talk about the competitive environment from cable?

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

The cable industry has been as competitive, if not more competitive, than the wireless industry so this is nothing new. I think what you are seeing though is you're starting to see people move to different areas of how to get their content. And if we go back to the Millennial again, they are



getting their content off the internet and via wireless. They do not have linear TV in their home and people are moving into that environment where they are going to get content over the top, they're going to get it through broadband, and now they're starting to get it from wireless.

If you just look at Facebook and YouTube and Twitter and all these internet-type products, they are driving a lot of usage on the wireless handset so that's all good. But the environment is changing and as time goes on it's just going to continue to change. You saw last quarter 625,000 down in linear TV. I just don't see that changing as the economy matures.

If you think about Millennials, by the year 2020 they will be 60% of the purchasing power of the US. They do not watch linear TV, so I do think that trend will continue. It's going to be competitive, although where we sit in FiOS we still believe we have a great footprint on the East Coast. It's a highly-populated footprint. It's underindexed for us compared to like a Dallas which was in excess of 50%.

So we believe we still have a lot of growth in taking from our competitors, because although it has been a decline, it's not going to be a steep decline. But it's not going to be we're going to add new customers every year from growth in linear TV. It's going to be a stable decline; it's going to be a slow decline, but I think all the projections are linear TV will decline over time.

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**Jennifer Fritzsche** - Wells Fargo Securities - Analyst

Can you talk a little bit about Wireline margins? There's clearly many moving parts with the Frontier divestiture, content costs continuing to rise, custom TV, etc. How should we think about this as we look forward to 2016?

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

Lowell and I have totally committed that we will continue to improve the Wireline margin. We talked about linear TV, but the piece we didn't talk about was broadband. Broadband continues to grow in this metric and obviously I've said it's around broadband and it's around wireless. Broadband in itself, because it doesn't have content, has a higher margin on it.

So we are very -- we are net positive on our broadband growth and so is the industry, so that's where the growth is going to come from. It's a very good piece of the business for us. Of course, as we lay fiber to your home we can deliver speed at really no incremental cost other than the electronics on both ends, but that's pretty insignificant when you think about the capital labor that goes into laying that fiber.

So we believe that we have really good future growth in the broadband arena, which is really where we are targeting for the growth perspective. And that's going to contribute to the overall Wireline market.

In addition, within Verizon enterprise as we've continued to right-size the organization, take costs out, consolidate billing systems we're becoming more efficient there and you are starting to see maybe a little sign of monthly sequential stabilization here from a revenue perspective. Now, my hope is that lasts longer than just a blip on the radar, but we are starting to see where the IP and everything is really starting to stabilize a little bit so maybe there's some upside there into 2017. But we will have to watch that carefully.

But as we start to cross the road on strategic products and the voice decline, it's similar to the access business with FiOS. In the beginning, access was more than offsetting FiOS. Now FiOS growth is offsetting access. That is very similar to the enterprise space, where voice decline is starting to be smaller and smaller and the strategic services are starting to grow more heavily. And of course, IoT is in there for enterprise and so forth.

There's still growth to be had in this Wireline business. Obviously, the union contract is part of that to right-size that organization and modernize these contracts to compete in the environment we're in. So we're really attacking the cost basis here to become more profitable.



**Jennifer Fritzsche** - Wells Fargo Securities - Analyst

You've done a little work on the cloud; maybe the last question. It seems like there are some, to your point, price spots on the enterprise side in the strategic services bucket. If you look at M&A going forward, is that something you could see more tuck-in acquisitions around?

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

No, I think our tuck-in acquisitions will be around the go90, the AOL, EdgeCast, upLynk, those types of things.

On cloud what we've done here is we've continued to invest several hundred million dollars a year in our data centers, build new data centers. We're just completing another pod down in Culpepper and that pretty much fills as soon as we complete the build. There's still demand for cloud services and data center space and so we will methodically go after that, but it will be an organic growth, not inorganic.

**Jennifer Fritzsche** - Wells Fargo Securities - Analyst

Great. Fran, thank you. Thank you, everyone, for joining us.

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

Appreciate it. Thanks, Jennifer.

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