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

EVENT DATE/TIME: MARCH 10, 2014 / 11:50AM GMT



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PRESENTATION

Brett Feldman - *Deutsche Bank - Analyst*

Well I want to welcome everybody to this year's media, Internet and telecom conference. It is our 22nd annual here for Deutsche Bank so we are excited to have everyone back down at the Breakers again.

Before we get started and this is a small public service announcement, the research teams involved in putting this conference together I think have done a great job this year putting together a lot of preparation materials. If you go back by the registration desk during one of your breaks you will see conference guides for both the telecom space and some pretty great projects put together by our cable and media teams as well. I think you will find these as terrific resources as you go through the presentations and meetings here this week.

We are going to go ahead and start off with our first keynote, Fran Shammo, the CFO of Verizon Communications, it has become a little bit of a tradition to have you do the opening keynote of the conference. And we're really glad to have you back.

Fran Shammo - *Verizon Communications - EVP and CFO*

Good morning, Brett, good morning, everyone.

Brett Feldman - *Deutsche Bank - Analyst*

So let's start off here with a small recap. You have done the deal; we don't have to ask you questions about when you are going to buy the rest of Verizon Wireless. You provided us with your financial objectives for the year about a week ago.

So my first question here is what are Verizon's key execution priorities for 2014, for example, you're looking to get to 4% revenue growth, what are going to be the things you do on a day-to-day basis that are going to get you there?

Fran Shammo - *Verizon Communications - EVP and CFO*

Well, thanks, Brett. Yes, so, let's break this down. I mean obviously we gave our guidance last week and we are looking at a 4% topline growth. So what contributes to that? Well first let's start with wireless. I mean obviously we pride ourselves on executing on our strategies within the Verizon Wireless platforms. And obviously we have really developed all of our strategies around the LTE platform.

And again this past week we just were given the honor again to be voted the best network in J.D. Power and also be provided with the metrics from RootMetrics that says we obviously have the best network across the nation on LTE. So I think that has now put aside others claim what they claim. But I think the bottom line is is that the network speaks for itself. So we pride ourselves on having the best network on a nationwide basis, the most reliable.

And if you think about what we've done, we launched our More Everything plan, so this gives our customers a little bit more data within their plans. It helps them to measure up and what we're seeing is customers are buying up in those things -- in their bundles. But if you look at just the innovation that we are creating around this platform, so you come out you look at the smartphones but the fourth quarter we had our best tablet quarter



ever. Tablets came to the marketplace and we expect that to continue through this year. As I said before, the smartphone category penetration is getting high, the growth is going to slow in that category but there is going to be other categories that come out now. And what we're seeing is people are going to start supplementing their PCs and their laptops with the tablet technology that is connected to a 4G LTE network.

So then you take that beyond that and you look at, we will start to launch our Voice over LTE this year. So that is the next generation of this technology change within LTE and that gives you different types of, if you will options that you can get on an LTE handset with an LTE call versus a 3G call.

And then you -- we demonstrated our multicast here at the Super Bowl. So when you think about that multicast technology, that will take about a year or two before the chipset is in the handsets and that gets proliferated throughout the marketplace. But you start to look at these technological things and we are executing on our strategy. And all of those things start to contribute to the revenue contribution of Verizon Wireless.

So we are feeling very, very good about the industry overall. The pie is getting bigger for everybody, there is more and more excitement around this industry. So I look at this as this as it's an exciting time for the wireless business.

And if you shift over to wireline, obviously our priorities are on the consumer side very, very confident as I said before, 4% plus topline growth in our consumer FiOS industry. We are doing a really good job on our quantum product with broadband so stepping people up to more speeds and making that easy with just a click on the computer or a click on the TV. So that is driving incremental revenue through the FiOS product.

It is also about continuing to migrate those copper customers over to the FiOS space and last year we completed 330,000. We will be on track to do that -- at least that this year. And that helps the cost structure of the wireline business and obviously in order to, as I said, I am very confident in contributing more profit margin to the business from the wireline unit. That all goes into the cost structure of wireline.

So it is continuing with our, if you will, our initiatives around Verizon Lean Six Sigma and taking cost out of the structure of wireline. Hopefully the enterprise piece will stabilize. I don't expect it to get better but I don't expect it to get worse. So if that stabilizes where it is today, then I think that we are on the right track to deliver on everything we said we were going to deliver on.

Brett Feldman - *Deutsche Bank - Analyst*

It is interesting you said that this is an exciting time for wireless. I think some investors feel like it is an uncertain time for wireless. There seems to be a lot of belief that we are seeing an intensifying competitive environment. What is Verizon's view on the state of the competitive environment in the US wireless market?

Fran Shammo - *Verizon Communications - EVP and CFO*

Yes, well, we have lived this I mean way back when, we lived this through voice when people started giving more voice minutes and price compression came in and if you look at just historical trends, the revenue per minute declined over time, right. But service revenue continued to build on itself. And that is more or less what you are seeing with the LTE and that is what we expected is you will get more and bigger data bundles but people are going to use more. So the revenue drive is going to continue.

I mean, look, we exited last year with 8% topline service revenue growth. So that is not going to disappear immediately. Now that is going to slow over time obviously, I mean you are building 8% on a \$75 billion-based company. So I am excited about it. I think there is a lot of things in this industry that are going well. The networks are great. If you look at the spectrum holdings, there's going to be more spectrum coming to the market, which is exciting to be able to do more creative things.

But if you just look at what video means to this business and what that means from over the next two to three years from a revenue generation, there is still a lot of room to grow in this business. And that is why we felt extremely comfortable buying out the rest of Verizon Wireless. We run a very extremely efficient Company.

So I know I have been getting a lot of questions about, well, what is this going to do to your overall margins in wireless? I don't see it impacting the margins at all. I think we run an extremely efficient Company. It is not just about top line, it is about the cost controls and as you know, Brett, we have said very publicly we've taken \$5 billion worth out of our cost structure at Verizon wireless over the last three years and we will continue to do that. So I think we're in a very good position with Verizon Wireless.

Brett Feldman - *Deutsche Bank - Analyst*

We have seen a lot of pricing changes. Some of your competitors have been changing price at a pretty rapid tempo. You have been a lot more measured. But you have made a few adjustments, most notably you rolled out More Everything and you tweaked the way you position Edge with the customer. Can you start off by talking about what triggered that decision to go ahead and make that adjustment?

Fran Shammo - *Verizon Communications - EVP and CFO*

Well, you know it is interesting because if you look back in the fourth quarter of 2012, we were the first ones to launch an installment sale; it happened to be on tablets. So we were testing the market around installment sales and then of course in the first quarter of 2013, we entered into the what we call the installment sale world or Edge, if you will, which others have done.

And I think that if you look at this, it is another option for our customers. We are not going to force our customers into anything. It is really their decision. We believe that the subsidy model is an extremely good model. It has done wonders for us in this industry. So I think to abandon that I think is a mistake. But I do think that there are customers out there that want that installment sale. And obviously with our More Everything, what we did was when we really sat down and looked at it and studied it, we said, okay, we are going to have our subsidy model here we will overlay our Edge program here.

And with More Everything we gave more data with some of the bundles, we gave more storage, we gave 25 gigabits of storage with that, we gave International text messaging at that. So for us it is giving our customers more value for what they are paying for.

But when you get into the Edge side of the house, the one thing with Edge is this is a financing transaction from the carrier to the customer. And I think the caution at least I have as the CFO of Verizon, you have to make sure that the customers you are bringing on are very credit worthy because you are putting up some large receivables.

The other thing is that this model is based on what is the residual value of that phone at the end of the period. And we are taking an extremely conservative approach to that. And I think that we have to watch this over time because what is going to happen is you are going to build some very large receivables on your books and if you are not creditworthy customers or they abandon you because your network doesn't work, because technically quote, there is no contract, although there is an installment contract. First of all, the consumer is going to end up with a very large bill if they leave. But it is also going to be a very dissatisfying thing for the customer at the end of the day if they feel that they want to leave and they end up with a very large bill.

And then probably if you look at history between the early termination fee and installment sale, and we know when customers leave your network for dissatisfaction the likelihood of them paying you your early termination fee is probably next to nil. So when a customer leaves for dissatisfaction on the installment sale, they're not going to come back and give their phone back so they are probably not going to end up paying you.

So there is a lot of risk with the installment sale that has to be monitored. So I think as a carrier for us, we are approaching it, we're giving our customers all the options. But we do require very high creditworthy customers to go on to our Edge program.

Brett Feldman - *Deutsche Bank - Analyst*

When we look at the way the pricing is set up particularly with you, you are kind of swapping what would have been a recurring monthly service payment or recurring handset payment it seems kind of like a breakeven trade for the consumer. Was that the goal or do you actually see ways

that Verizon comes out ahead? Not necessarily at the expense of your customer but perhaps does Edge stimulate upgrades to LTE devices or maybe help you create a better churn profile?

Fran Shammo - Verizon Communications - EVP and CFO

Yes. And that is really for us, the reason we went to Edge was that it allowed our customer and we are giving our customers the ability to upgrade after 30 days if that is what they want to do. So it gives them the ability to change out their handset when they want without any penalties. So I think that is what our customers asked for and that is what we gave them.

We will have to see what that does. Obviously we are in early stages here and we don't have a lot of customers upgrading after 30, 60 days. But I think within six months, 12 months we will start to see what that cycle is. And from my perspective again, we are going to take a very conservative approach here because one of the things I worry about is if there is a lot of upgrade activity and the market gets flooded with these second handsets, that means the pressure on the residual value is going to come down.

So although financially I look at this as that you have to look at it economically and then from a GAAP perspective because what you see in GAAP isn't necessarily what you are going to see economically. So I think that is important for investors to split.

Brett Feldman - Deutsche Bank - Analyst

Yes, I am glad you brought that up. You gave your guidance a few weeks ago. You gave targets for margins, revenue, et cetera. To what extent did you assume a lot of success with Edge? Because if Edge is very successful it creates noncash revenues that flow all the way through the P&L.

Fran Shammo - Verizon Communications - EVP and CFO

Yes. So and this is why I always say there is two things to focus in on when you look at Verizon. Number one, when I speak about service revenue growth, obviously that does not include Edge because Edge's installment sale, that is going to go equipment, that will go to total revenue. I am focused in on service revenue growth because that is really the bread-and-butter of the industry. And that is the bread-and-butter of Verizon Wireless.

So that is why it is important for our video and consumption to continue because it is the service revenue growth that really drives the bottom line. And then as you know when I gave guidance, I said that we were going to improve the overall margin of Verizon Communications, and that meant that wireline and wireless would have to improve margin. And the wireless margin was improving without any input from Edge. Because that is going to falsely increase the margin but I'm looking at it from an economic standpoint on BAU that will increase the margin of wireless even without Edge.

Brett Feldman - Deutsche Bank - Analyst

So the take away is you do not rely on Edge to make any of those guidance numbers that you put out there?

Fran Shammo - Verizon Communications - EVP and CFO

Correct.

Brett Feldman - Deutsche Bank - Analyst

Great. The other element of this is that you are putting capital upfront to finance the phones. How do you feel about your ability to finance those transactions particularly the use of working capital it may require?

Fran Shammo - Verizon Communications - EVP and CFO

Yes, well, I mean with a Company that generates \$30 billion of cash flow from operations, it is pretty insignificant.

Brett Feldman - Deutsche Bank - Analyst

So you basically feel like you can finance that out of cash flow. You wouldn't necessarily have to go to the market for anything?

Fran Shammo - Verizon Communications - EVP and CFO

No, I have no intention of factoring or anything like that.

Brett Feldman - Deutsche Bank - Analyst

Okay. Let's talk about ARPU. I know you report ARPA similar metrics. I think the basis of the question here is that you have been driving growth through the postpaid revenues in many ways by driving a device transaction or transition in your base, getting people from feature phones to smartphones, from 3G devices to 4G devices. How much wind is left in those sails? How long can you continue growing your top line for that device migration?

Fran Shammo - Verizon Communications - EVP and CFO

Well, it is pretty much. Because when you think about it almost a little over 50% of our customers there is about 25 million of our customer base out of 100 that are still on basic phones. There is another 26 million customers who still have a 3G device and haven't converted to 4G. So you are talking about 50 million customers. So there is still a lot of base that we can convert to that 4G network that then they will experience the benefits of the 4G network. And we already see that.

We saw it at the tail end of last year coming into the first quarter of this year. So we are very pleased with the results that we are seeing from the base migration up. Our upgrades will probably go up this year. And I've gotten a lot of questions from investors as the upgrades came down over the last couple of years, what do you think is going to happen? I think upgrades will go up. Some because of Edge but also because people are going to want to upgrade more. And if you remember the last two years, the industry did a lot of policy change to lengthen out that upgrade cycle, which kind of ends this year.

So I do think we will see more upgrading but I think that's good for the customer base.

Brett Feldman - Deutsche Bank - Analyst

And is that what is been factored into your guidance for this year, a higher upgrade rate?

Fran Shammo - Verizon Communications - EVP and CFO

Yes.



Brett Feldman - *Deutsche Bank - Analyst*

Okay, great. If we sort of run the map around this 50 million customers still have an opportunity to move to a more interesting device, it seems like it creates maybe another 2+ years of revenue tailwind. And after that point in time I guess you kind of completed that they've captured that benefit. How is the Company positioning itself to continue to drive healthy service revenue growth after that point in time?

Fran Shammo - *Verizon Communications - EVP and CFO*

Well, it is what I said in the beginning. I mean you have this whole segment of tablets coming. And if you look at just the Verizon Wireless space, I mean only about 8% to 9% of our customer accounts has a tablet attached to their shared plan. So there is still a huge growth mechanism in there. And then if you go over to the enterprise business, I mean a lot of enterprises are looking at doing away with desktops and laptops and just having their employees carry the tablet. So there is still -- we are at the very beginning stages of that growth pattern.

And then as I said, we will be launching our Voice over LTE, which gives a lot of additional features in that a handset. Now whether we will charge for that or not is a whole different story. But again, the voice call becomes a data call. So that goes into the whole data mechanism. And if you think about video chat, where it doesn't matter if you have the same phone, the video chat is within the network, so you can call anybody on any handset and have a video chat with them on the LTE network.

And then you have video voicemail and video address books and so there is a lot more video that comes with the LTE feature of voice. That is going to come this year.

Then you take it a step further as I said with multicast. So we start to embed these chips in multi-cast, and the way you should think about multi-cast is today if everybody in this room was too watch the same video today, we probably would bring down the cell site because there wouldn't be a enough channels in that cell site to deliver that same video to everybody. With multicast, it is one channel and one cell site and you can all watch the same video on that one channel. And that is the ability of what multicast can bring.

So if you start to think about this, you dedicate one channel and every cell site to a multicast, you can almost have 24 hour linear programming. Now the ecosystem will have to develop here but if you take this beyond and you start to think about, you could sell hour timeslots, you could have pay-per-view events, you could have World Cup series for people to buy into that series. So there is a lot of ability with multicast to really generate additional revenue for the industry.

So I think if you take this out the next two to three years I agree with you, the smartphone category and that will start to slow but then some of these other categories will take over.

Brett Feldman - *Deutsche Bank - Analyst*

So in your residential business, you have created a very successful content business in FiOS. As you look at having a nationwide broadband wireless network in place, you have made pretty significant investments in Verizon Digital Media Services, which is essentially your content distribution network, do you feel you are getting closer to a point where you can start creating new types of revenue streams maybe content or otherwise on the wireless business?

Fran Shammo - *Verizon Communications - EVP and CFO*

Yes, so, if we go back we -- four years ago, we started to develop this thing called Verizon Digital Media Services. And the whole purpose of that was to digest content and if you know anything about content providers today, how they get their content to the ultimate end is they have to touch three or four outside parties in order to digitalize that content and bring it in.

What we have developed was we developed the software that would digest that content and do it in a fully automated fashion and then deliver it to their end customer, whoever that end customer was. And then what we did was since we built this platform we then bought upLynk and EdgeCast and EdgeCast being really the CDN at the Edge to get the efficiency through that. And then Uplink is really the software developers who are extremely intelligent on how video works through the system.

So if you look at that group of assets, there's really two things those assets can do. One is to be a friend to the content providers to make them more efficient in getting their content digitalized into any format on any devices that they want. But the other thing is it sets the foundation of a portfolio of assets that ultimately can deliver video anywhere.

And then if you think about what we did with OnCue, we bought OnCue for IPTV to accelerate that within our FiOS home. So you have a group of assets here that if you look at the ecosystem of "over the top", whatever happens in that ecosystem I think we are in a very good position to really take advantage of whatever happens in that ecosystem whether it be delivering content to our wireless handsets, whether it be delivering content somewhere else, I think we are in a very good position to do that.

Brett Feldman - *Deutsche Bank - Analyst*

I guess the question would be, are you pro over the top then? Because some video providers seem to be a little more apprehensive about what that is going to mean for their business?

Fran Shammo - *Verizon Communications - EVP and CFO*

Well, look, I mean we entered the Redbox joint venture to really start to look at what does over-the-top mean. And I think with that venture has told us is there is a lot of -- we learned a lot from that venture and we continue with that venture. But I think it has taught us a lot about what it's going to take to become over the top. I think there is a lot of barriers still out there that have to be broken down and obviously the one is the content rights.

So today content rights is the biggest barrier for anybody going over the top. But I think whether it is six months, a year or two years from now, the ecosystem is going to change. So I think what we're doing is we are preparing ourselves for whatever happens in that ecosystem, we will be able to take advantage of it.

Brett Feldman - *Deutsche Bank - Analyst*

It sounds like you have the assets you need to do over the top. You talked about a lot of deals that you have done. When it comes to the content guys, we have heard you guys in the past talk about how you have a couple million subs in the residential markets and 100 million subs in the wireless market. Do you feel like the Tier 1 content providers are starting to see it the same way? Because it seems like that perspective would be instrumental to gaining the kind of content rights and prices you would want to drive more revenues over your mobile network.

Fran Shammo - *Verizon Communications - EVP and CFO*

Yes, I mean, look, I think the biggest problem we have today in the ecosystem is there is no one that can tell you other than the carrier themselves, which is not trusted by any content provider or an advertiser, is who watches what program on a mobile handset? And you have this the third party today which is Nielsen which is very popular in the linear TV programming side. But in the mobile world today, no one of a third party can tell the content providers or the advertisers who watches what program.

So that is supposed to come at the end of this year. We will see when that happens. But I think that is the first barrier that has to be broken down. So once the content people can go to their advertisers and say, look, I had 10 million Verizon Wireless customers watch my program on their wireless

tablet or wireless handset, that is value to them that they can sell to the advertiser, which means they get value back. Until that happens in that ecosystem, there is no way to figure out how to do that.

I mean the linear TV model will not work in the wireless world. There is no way a Verizon Wireless could pay an ESPN \$6 a sub. That model just doesn't work. So I think everybody understands that model is not going to work. How that works out over time I think is yet to be determined. But I think the key rate now is to get a third-party independent viewer saying who watches what to be able to monetize that.

Brett Feldman - *Deutsche Bank - Analyst*

How close do you think we are to that?

Fran Shammo - *Verizon Communications - EVP and CFO*

Well, I think Nielsen came out at the beginning of I think at the end of last year saying that they would be in a position by the end of this year to be able to start to do that. But I think it is going to take a little bit of time.

Brett Feldman - *Deutsche Bank - Analyst*

So let's go back a little bit and talk about the more immediate future here. We started off earlier talking about the competitive environment. One of the data points you guys have made is that your churn rates continue to be very low. So if you think about churn as being the best indicator of whether you are being impacted by competition, it seems so far you are standing up very well.

The first quarter is interesting in that one of your competitors is now offering customers payments effectively to switch. How do we think about the way that may be affecting your base? Have you found that it is more susceptible and is there anything that we need to be factoring in at least early in the year to account for that?

Fran Shammo - *Verizon Communications - EVP and CFO*

No, I don't think so. I mean, look, I probably show my age here, I go back to the long distance business when everybody was signing each other's customers and what everybody figured out was that model wasn't a good model. There was no customer loyalty built into that model.

So I think that where we stand is we are not going to buy customers. I think that you have to earn loyalty and loyalty is earned through providing a value package to your customers, making sure they get what they pay for. The network still is the number one reason why people leave you. It is not because of price. I mean there is price sensitivity in the marketplace that you have to respond to.

But the number one reason a customer leaves you is because of network quality. And I think that we just showed through Root and J.D. Powers again that we obviously have the best network. And that is what we built our brand on and we will continue to respond to our customers' needs.

But look, I think that you are going to have some -- if you look at the last two years, the first quarter is always what I guess I would call maybe a slightly higher churn quarter with a lot of resets in the quarter. And I think that is what you are going to see again this year. And then obviously as we go through the year, you will start to see the growth start to accelerate through the fourth quarter. I don't think there is any change in trends here.

Brett Feldman - *Deutsche Bank - Analyst*

So basically early in the year first quarter within the traditional range of seasonal patterns, not anything new (multiple speakers)?



Fran Shammo - Verizon Communications - EVP and CFO

Correct.

Brett Feldman - Deutsche Bank - Analyst

Okay. We keep asking the questions about competition, you guys keep sounding very calm. This will be my last one here. When you think about the guidance that you gave for the full year, did you contemplate accelerated marketing dollars, anything else that might factor in a meaningful change or is it continued execution?

Fran Shammo - Verizon Communications - EVP and CFO

Well, yes, I mean, without giving all my cards on the table here to help you guys do your models. But, look, when I think the last three years as CFO of Verizon, I think I have a pretty good track record of what I tell you we're going to do, we're going to do. And Lowell and I pride ourselves on what we tell the street we are going to deliver we are going to deliver. So you should feel confident that we have built in enough that we feel comfortable that what we said on the call we will deliver.

Brett Feldman - Deutsche Bank - Analyst

Margins are pretty rich in wireless, it is obviously a testament to what the Company has been able to build. So you're talking about something in that zipcode of 50% based on the guidance that you gave. As we think longer-term, how do you think about the margin profile of the wireless business? Is it an objective of continuing to grow them or do you feel like protecting margins is the right strategy to balance profitability and growth?

Fran Shammo - Verizon Communications - EVP and CFO

Well, here is where I would say -- I try to get everybody to focus back on the consolidated Verizon margin because that is really what matters at the end of the day. And what you saw us do if you watched the papers this past weekend, we launched a whole promotional campaign that we have never done before because we weren't able to with the joint venture. But we now are offering customers that if you take our FiOS product and you are a Verizon Wireless customer, you get an additional discount.

So you are going to see us do things that bring our assets together that may help or detriment one margin or the other. But at the end of the day, it is the best for our customers and it drives the most value to Verizon Communications.

So I think we have proven ourselves as a Company who concentrates on growing and improving margins. So I'm not going to sit here and talk specifically about wireless margin or wireline. I think for 2014 I gave you that guidance. And beyond that I am not going to say too much other than the fact that Lowell and I are concentrated on the Verizon Communications margin.

Brett Feldman - Deutsche Bank - Analyst

Now that you have full control over the asset, does that give you more discretion with regards to where you house the operating expenses? Or does it just not even discretion you are running a business perhaps a little differently with joint product teams. I guess I'm trying to think about whether segment level margins really are as meaningful as they were when you had arm's length agreements with Verizon Wireless?

Fran Shammo - Verizon Communications - EVP and CFO

Well, under GAAP, I mean you still have to report segment level margins and you still have to make sure that your allocations are within the guidelines. But I think to answer your question, Brett, the way I look at this and when we did the deal with Vodafone, what Lowell and I said is, look, there is really no hard synergy savings here. But there is a lot of efficiency that we get as a Company. And the best example I love to use is a year or so ago, Verizon Wireless created this product called Home Phone Connect, which was nothing more than a product you could plug into your copper line at home and convert your home into an LTE voice network. Now wouldn't that have been a perfect product for the wireline company to take but yet under the affiliate agreement I was not allowed to use that product because Vodafone paid 45% of it. So my wireline company went out and developed a whole separate product that did exactly the same thing.

So we as a corporation spent development dollars on two separate products that at the end of the day are the same product. So it would make sense to just deliver one product to our customer base that is the best product for our customers. That is the efficiency we get here.

So it is not detriment or an increment to anybody's margin, it just makes us more efficient company. And it allows us to do things like give our customers the ability if you take the wireless product along with a triple play at FiOS, you should get a bigger discount because you are a bigger customer of ours. And that is something that you are going to see more of us do is put our assets together and come to market in a more unified manner.

Brett Feldman - Deutsche Bank - Analyst

A lot of speculation that some of your competitors might try to pursue a merger. Does Verizon have a view on appropriate industry structure?

Fran Shammo - Verizon Communications - EVP and CFO

Yes. I think Lowell put it best, we are really happy with four competitors. Look, I mean, people will do what they do. I think the one thing I would say is that obviously spectrum would become a big play if there was a consolidation in the industry.

Brett Feldman - Deutsche Bank - Analyst

Meaning you would be looking for divestitures?

Fran Shammo - Verizon Communications - EVP and CFO

Absolutely.

Brett Feldman - Deutsche Bank - Analyst

Okay. We have about 10 minutes left. I'm going to pause and see if we have any questions from the audience. If not, I've got a whole bunch of my own. All right, I will let you think about it a little bit more.

Let me ask you about FiOS. You are very deep into the completion of building out the FiOS business from an infrastructure standpoint. Based on where you are with penetration, with the network, how do we think about the drivers of FiOS revenue growth going forward? I am particularly interested in how much weight you put on things like net adds and how much weight you put on things like ARPU?

Fran Shammo - Verizon Communications - EVP and CFO

Yes. Well, look, I think as we continue to penetrate markets here and I think we have about four markets that -- over 40% penetration in broadband today. If you look at those numbers as we go out over the next two to three years, that penetration is going to still grow. But as that penetration grows, obviously growth is going to slow.

So I think you should anticipate us slowing in net adds. The divergence between TV and broadband I think will still continue as you have what we call the never cords, who are people who never take linear TV, 30 and belows. Then you have the cord cutters who have a linear TV product but feel that if they get the speed of broadband they can get their content in other ways.

So I think you are going to continue to see broadband grow faster than TV. But we will still take market share in the industry. But growth will slow and the key for us is I'm not going to build beyond the LFAs that we have today. We have to generate more cash within the wireline business. And then once we do that when I feel that FiOS has finally returned its cost of capital, then we can look at expansion. But at this point I think we are happy with what we have.

Brett Feldman - Deutsche Bank - Analyst

And you talked about the fact how it is -- how a whole generation is not buying linear TV but they are buying broadband. So these are the early adopters on OTT. There has been a lot of media attention recently on deals that Netflix has been doing. Can you comment on where you are or if you intend to maybe change the nature of your relationship with Netflix?

Fran Shammo - Verizon Communications - EVP and CFO

Well, look, I mean, as Lowell has said, we are in talks with Netflix and we feel confident that we will come to an agreement with them. And it is beneficial for them and beneficial for us because we get outside of the old peering arrangements with other carriers and we can have any quality type connection point. And we have done that with others in the industry. So this is not new to us. But we are very comfortable with where we are with Netflix.

Brett Feldman - Deutsche Bank - Analyst

And what is that nature of the relationship you want to have with those types of content providers? I mean what has been the friction that you have had with Netflix or anyone else who is trying to do the same thing?

Fran Shammo - Verizon Communications - EVP and CFO

Well, the problem is you have had a structure of -- back at divestiture days when peering points were set up, and peering points were set up from a perspective of if you deliver me traffic and I deliver you traffic and we are in balance, then we are good, we are not going to exchange dollars. It's just that is the way the nature of the business went. They never contemplated someone dumping as much volume into the peering point as say a Netflix. So what happens is you become out of balance.

That means that then the contracts are no longer valid because there is an imbalance in traffic and it causes all kinds of issues between my peering point and a third party, which could be Netflix or Google or someone else.

So really what the industry is trying to do is just say, look, why don't you just connect at our peering point and not go through these other types of peering points because it is just more beneficial for you as you deliver your content to the end customer and more beneficial for our customer. So I think that is where the industry will end up.

Brett Feldman - *Deutsche Bank - Analyst*

Another big development in the media and cable world is the proposed merger of Comcast and Time Warner Cable. Do you view that as having implications for your FiOS business?

Fran Shammo - *Verizon Communications - EVP and CFO*

Not really. I mean I compete against Time Warner Cable today, I compete against Comcast today. I will just compete against Comcast tomorrow and the way I view it is FiOS is a superior product to any of them because it is the only one that is fiber to the prem. So we will compete to anybody we want to compete.

Brett Feldman - *Deutsche Bank - Analyst*

I live in New York City, I don't think you compete with Time Warner Cable. I feel like I have got one choice here which is FiOS, which I am fine with. But I do wonder whether the potential to see an XFINITY product coming through such an important mark like that, changes the way you think about what you want to do with FiOS in those markets?

Fran Shammo - *Verizon Communications - EVP and CFO*

Yes. Well, look, I mean, I think again I will go back to the newspaper this weekend. I don't think any cable product provider can bundle wireless with it. So we have done that in our FiOS footprint and we think that is a very unique offer for our customers. So look, we are ready to compete with whoever.

Brett Feldman - *Deutsche Bank - Analyst*

Let's talk a little bit about cash. You obviously took on a lot of leverage, in order words, you closed the Verizon Wireless deal. Can you just walk us through what your priorities are going to be with your cash flow and your balance sheet over the next few years?

Fran Shammo - *Verizon Communications - EVP and CFO*

Yes, well I think from a cash flow perspective I have been pretty open with this. I mean we have really four priorities in front of us. One is to continue to invest in our networks and platforms because that is important. So I think the CapEx budget I gave this year at \$16.5 billion to \$17 billion is probably what you are going to see. So I am not going to reduce that, that is important to our customers and again my brand is built on the best network.

Second, spectrum is important. We have auctions coming. You have seen us play in the secondary market. We need more spectrum. Not immediately, I am good for the next three to four years but five to 10 out, I am going to need of more spectrum and since spectrum only comes to the market once in a while, you've got to be in a position to execute on that. So we will participate in the auctions and acquire more spectrum.

Third, obviously for my debtholders, debt repayment is a key priority to get my leverage back down. I said that our goal is to be four to five years, I want to be back as an A rated Company. And we are right on track to deliver that. And then --.

Brett Feldman - *Deutsche Bank - Analyst*

And that contemplates spectrum purchases in that time period?

Fran Shammo - Verizon Communications - EVP and CFO

Yes, yes. So that four to five years contemplates the spectrum auctions. And then the last is our dividend policy is extremely important to our shareholders. And I think we've demonstrated and our Board has demonstrated the confidence in our cash flows. And I think that will be very important for our shareholders going forward.

Brett Feldman - Deutsche Bank - Analyst

And you have talked about supporting the dividend policy. Does that mean continuing to grow? That has been the policy for the last several years.

Fran Shammo - Verizon Communications - EVP and CFO

Well, ultimately, it is a Board decision. But our Board I think has reflected the last seven years of a dividend increase, which is a very methodical type increase for a dividend. So look, I think it is important to us, it is important to our Board, it is important to our shareholders.

Brett Feldman - Deutsche Bank - Analyst

I have heard you say in the past it is probably a few years before you get to share repurchases particularly in light of the priorities that you outlined. But you did announce a buyback authorization on Friday. Could you explain that.

Brett Feldman - Deutsche Bank - Analyst

Yes, that was -- first it was misreported by Bloomberg and then they clarified it. But no, what it was is we always have -- a company always has to in order to be in a position to do what they need to do to have an authorization to buy shares. Ours is always a three-year share authorization. It expired on February 28 of this year. So it was just a renewal of the 100 million share authorization.

I think over the last three years, I only bought 3.5 million shares back. So just because I am authorized to buy shares doesn't mean we are buying shares.

Brett Feldman - Deutsche Bank - Analyst

So it is housekeeping from a treasury (inaudible)

Fran Shammo - Verizon Communications - EVP and CFO

It is housekeeping.

Brett Feldman - Deutsche Bank - Analyst

All right. We have time for one question here and we do have one right over here.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Just a quick follow-up on the Comcast Time Warner Cable merger. Do you have any concerns about how it might affect your ability to acquire video content? Just going back to your points on video.

And second, the Fire Island experience, is that affecting your IP transition plans, changing or making them more costly and so on?

Fran Shammo - Verizon Communications - EVP and CFO

Yes, so, on the first one on video content. No, I mean, look, I am the fifth largest Cable Company now. I also have something that cable doesn't have which is 100 million eyeballs on wireless devices. So no, I don't think that really impacts us at all.

On Fire Island, that was a unique situation. We tried to solve that through some LTE technology. But at the end of the day it just made sense for us to just lay fiber back into Fire Island for our customers. So the cost differential really wasn't that much and no, that did not derail our copper migration plans.

Brett Feldman - Deutsche Bank - Analyst

There are other areas that you have talked about layering in wireless. Did that experience change how you think about where you want or could do wireless versus where you really should put fiber in?

Fran Shammo - Verizon Communications - EVP and CFO

No. Because I mean Fire Island was a unique situation because what happened with Fire Island is it is a very heavy data usage territory during those three months. And look, the LTE network is great but it can't replace hard wire into the home. It can't replace the broadband connection to the home and it can't take the volume that that broadband connection can take.

But we deployed LTE as a replacement out in Pennsylvania, which the regulators agreed to. So it is really more around voice and some data, but not the heavy data of a FiOS connection.

Brett Feldman - Deutsche Bank - Analyst

Will, it looks like we have just about run out of our time, Fran. Thanks a lot for coming back.

Fran Shammo - Verizon Communications - EVP and CFO

Brett, thank you very much. Thank you, everyone.

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