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CORPORATE PARTICIPANTS

John Stratton *Verizon Enterprise Solutions - President*

CONFERENCE CALL PARTICIPANTS

Tom Seitz *Jefferies & Company - Analyst*

PRESENTATION

Tom Seitz - *Jefferies & Company - Analyst*

All right, we have a lot to get through, so we might as well get started. And if we get a few stragglers to church, then that will be great.

My name is Tom Seitz. I am the telecom services analyst for Jefferies. And we have a very unique opportunity this afternoon to have a discussion with John Stratton, the President of Verizon Enterprise Solutions. This means that he is in charge of the Enterprise side of the business, completely through all the verticals -- wireless, wireline, IT, consulting, the whole enchilada, for both enterprise and government customers. And this is sort of the testbed for Verizon in integrating what previously had been former platforms.

So John has got an incredibly unique perspective on things, has a ton of experience in the industry. Prior to this, he was the Verizon Wireless COO, the marquee wireless business in the US.

So with that, John, first off, I would like to welcome you.

John Stratton - *Verizon Enterprise Solutions - President*

Thank you, Tom.

Tom Seitz - *Jefferies & Company - Analyst*

And I guess we will just dive right into it. You took over in January, and when Verizon reported the first quarter, Fran was nice enough to mention that perhaps one of the reasons why the Verizon Enterprise business was a little sluggish relative to maybe some of the peers was that it was going through a transition, and that you were really changing the focus of the organization.

So I was wondering if you could start off by giving us a walk-through of what you're trying to do, what you're trying to accomplish, and how soon it is you think that we might see some of the benefits of that.

John Stratton - *Verizon Enterprise Solutions - President*

Yes, sure. Glad to do it. So good afternoon, everybody. Maybe, Tom, to start, it may make sense just to take a slight step back and talk a bit about why we did this. For a long time, we would hear some feedback from various quarters about, hey, what about this wireline and wireless stuff and when are you going to bring those businesses together in order to serve the enterprise market?

If you go back about six, seven years ago, is when Ivan Seidenberg, principally, as our former Chairman and the team looked out over landscape and saw what has been defined now as the third wave of computing, this next paradigm. Beginning back in the '70s -- obviously, you all know this -- but the mainframe computing paradigm was first off and it had a certain set of characteristics, a certain set of industry players and it provided a certain level of utility to business markets. Followed in the '80s, '90s, early part of this century with a PC Web client server-based paradigm.

And what we saw was the next substantial change, and defined now by most as the age of mobility and cloud computing. For us, this creates, we believe, a really significant opportunity as the industry is somewhat reordered by the disruption that is inevitably going to occur.

But if you go back to roughly 2006 and you think about the assets that we've accrued that essentially serve the enterprise markets, they are fairly significant. So we start with the MCI deal back in 2006. A year later, the acquisition of a company called Cybertrust, which was the world's largest managed security services firm.

Just in the last 12, 15 months, Terremark, a very significant cloud computing business; CloudSwitch, a smaller software firm. Not to mention the significant investment we've made in our wireless assets here in the United States, licenses, LTE deployment. When you roll all that up, $20 billion, $25 billion in investment, really designed to set us up for what we think is in front of us now, this notion of having the right assets at the right time.

Enterprise clients are really beginning now in a serious way to leverage mobility, leverage the cloud in ways that we think will have, again, a significant disruptive impact on the business. And so as a result, we expect to capitalize on that.

So we came to the conclusion during the course of last year that this was the time to pool these assets, to bring all of these capabilities together. And so we did just that. Our Verizon Enterprise Solutions business unit consists of our former Verizon Business, which was the MCI, Terremark cloud stuff, Cybertrust, our global wholesale business, our enterprise and government business from Verizon Wireless.

And I think anytime you bring those -- that level of businesses together, all of the people together, you will inevitably have some period of internal focus as you work out some of the specific framing as you go forward.

A lot of important work underway in terms of the systems architecture, the integrated service delivery model, the rationalization of the consolidated product portfolio. But perhaps most impactful here in the beginning of the year was the account engagement model. And so what we've done is a pretty aggressive move to stand up eight industry vertical practices.

Interestingly, while in Verizon Wireless and our Enterprise business for several years we've had an orientation to industry, this wasn't the case in VZB, Verizon Business, which had been run on a geo-based or a territory-based distribution model. So we made a move effective March 1, so sort of mid-quarter, to realign our large enterprise force to specialize, again, in these eight industries.

Additionally, we made one other significant move, which was to establish a significant bit of business presence in the midmarket. We really believe that there is great opportunity for our Company in driving deeper penetration of services into the midmarket. It's principally been served as a network-centric or network-only business for us. We see an opportunity to grow the business down there.

So to answer your question, we've said that we see Wireline margin expansion during 2012. I think that remains the case. You will see us make moves here in the next couple of quarters to rationalize our portfolio. We will make specific moves to eliminate products where they don't make sense, to decommission, to consolidate networks, to streamline services, to simplify the product portfolio.

And all of those may have near-term impacts. You could take a revenue hit here. But the ultimate goal is to expand margins. We do think this orientation with these assets allows us to do that very significantly.

Tom Seitz - *Jefferies & Company - Analyst*

Okay, that's great. Can you talk about a couple of verticals. You don't have to go through all eight, but maybe give us an example of how bringing these assets together is going to help.

John Stratton - *Verizon Enterprise Solutions - President*

Yes, yes. I think -- I'll spare you the whole eight list, one at a time. I (multiple speakers) might kill us here. But maybe just a couple of examples.

Tom Seitz - *Jefferies & Company - Analyst*

Sure, yes, yes.

John Stratton - *Verizon Enterprise Solutions - President*

We've described a very strong ambition to drive deep penetration in the healthcare vertical in particular. That is one of the eight, but I would say it's kind of number one of the eight. That today for us is, round numbers, about a $5 billion business, so it is already pretty significant. But most of it, the vast majority of that is in network services in one flavor or another, Wireline or Wireless.

But as we look down at the assets that we have, and see what possibilities there are -- I'm going to give you an example of an application that we've created that has to do with reducing fraud in the healthcare space. So reimbursement of healthcare providers is managed by -- whether it be government or by insurance companies, and fraud is a massive drain on those economies. Hundreds of billions of dollars of waste flows through in misappropriated payments and the like.

We've determined a method by leveraging our existing network assets to provide near real-time fraud detection for the healthcare industry. We've managed to sell this in now. We've begun to build a bit of a beachhead around that service. But it is significantly different than the solutions that have been brought to market by our competitors that would -- not network competitors, but guys in the integration space and the software space. Because of the fact that it is near real-time, it allows recovery before checks are cut. So you cut off payments, you see a significant improvement.

If you look at CMS, which is Medicare and Medicaid, and projections on their business over the course of the next five years, there was a significant improvement in the trajectory of their business that the Congressional Budgeting Office recently identified. And that actually ties back to a solution we sold into those guys just a few months ago.

If we look in other places, in the transportation space, as we looked at this when we were in Verizon Wireless, in my previous experience, machine-to-machine became a pretty important platform for us to really drive. And my whole orientation in driving my organization to pursue machine-to-machine solutions was really about the idea that we could change the dialogue with our clients.

So again, we were organized around industry. We had our transportation industry vertical, as an example. We had had a difficult time penetrating certain customer segments. As it happened, one was long-line rail companies. And there were 22 of these principal long-line operators in the United States who were suddenly faced with a significant regulatory requirement around what is called positive train control, the ability to stop, slow a train if its operator loses consciousness, whatever happens.

We were able to work together in consortium with a few other partners to deliver an ability for those operators to remotely manage those long-line railroads, wayside crossings and such. And by delivering this solution, it allowed us then to pull through significant horizontal business.

And for me, when I was in Wireless, this idea of being able to create that solution that would pull through significant horizontal sales, access, BlackBerrys, iPhones, et cetera, was not a bad outcome.

As I look at our business today, in just a few short months, I have deals that we are working right now where the size of the total contract value is significantly expanded because in the machine-to-machine space, as opposed to living on the access revenue -- which is not a big deal; typically, these are maybe less than a dollar's worth of average revenue per month per user or per device -- we build now up the stack. So as we begin to build our capability set, I see front-end pro services design work, pro services for implementation of these solutions, integration work for modules, specialty device maker, access network and software, hosting these solutions in our cloud, securing the data as it traverses up and down these networks so it is a full end-to-end solution. As I look at the 5 or 6 deals that are live right now, that are being worked, where they have 2.5 to 3 times the total contract value than the pure transport revenues. So a long-winded answer but the notion here is that by taking these different assets and assembling them in such a way that we are able to solve problems for our business clients. Obviously, the value that it creates for us is very significant as well.

Tom Seitz - *Jefferies & Company - Analyst*

As you become more "Solutions" and less "Enterprise" does that change the competitive landscape that you're bumping up against and is that a challenge to the sales force, is it tough for the end-users to view Verizon as a solution here sometimes?

John Stratton - *Verizon Enterprise Solutions - President*

Yes, I think those are very good points. And I would suggest that this is work that we need to do. But we have an idea about what happens next here, and the first thing starts with do you have a viable strategy. And as we think about the sea change that we see ahead of us in terms of this change in the computing paradigm, as you move from PC-based business model to a mobile and cloud computing model, the traditional lines that we've seen oriented around on-premise hardware or software integration begin to blur. And we do believe that business opportunity arises there.

So, okay, what we know is that the market will be in motion, that there will be indeed disruption to the set that we've seen over the last 20 years or so. But the question is what do we do, who are we, and where do we have sort of the brand permission, if you will, to play.

Our belief is that the best application of these resources that I've mentioned -- you know, so you may know this, but we have the world's largest interconnected global IP backbone, the world's largest managed security service, among the most trusted cloud computing platforms, the most pervasive and expansive 4G/LTE deployment worldwide. So some incredible capabilities, but what you do with them?

Our belief here is that we will migrate to a platform-based approach to the markets. And so if you think about these core enabling platforms, cloud, mobility, security, coms, et cetera, the goal is to enable these platforms on which others can innovate. So we will create some of our own Verizon-originated applications; I mentioned this Verizon fraud management application, which we think is a big business. But we recognize that we will not cover the market in terms of our own initial Verizon-originated applications. We will not be a software provider in the traditional sense.

We will go where our assets make a difference, but the goal is to enable app creation to serve enterprise markets, essentially supporting these vertical industries on top of our horizontal platform. And that is work that is underway right now in terms of enabling all of those capabilities, building the API layer, building the SDKs to serve these markets, attracting development and delivering value to the marketplace. That's our stance.

So who do we compete with in that regard? I think it is going to be just about everybody, but also we will be partnering with just about everybody, as is kind of traditionally the case in this space.

Tom Seitz - *Jefferies & Company - Analyst*

As you have taken over the organization and you've looked at what you ultimately want to offer customers, are there holes in the portfolio that maybe you would like to fill? And I guess the question is you talked about Terremark. You talked about CloudSwitch. You talked about Cybertrust. Are there tuck-in acquisitions you think you may be looking at, or are these capabilities you think you can build internally?

John Stratton - *Verizon Enterprise Solutions - President*

I would suggest that from a hard assets perspective that we have good material, good stock, good stuff to work with here. I don't think that precludes us from doing any deals ever going forward.

I think the CloudSwitch deal, we just picked up the other half. We had a joint venture with Qualcomm and a company called nPhase, which is in the machine-to-machine space. And we acquired the second half of that business a few months ago. But I think deals like CloudSwitch probably look like what you will see us doing as we go forward, and this is just complementing our core assets.

And as we think about the beachhead, which is Terremark, the security capabilities, the global IP backbone, our job is to then create a set of complementary assets around it. Those are more fill-in, I think, than they are major movers. And then of course organic development as well. We are investing significant capital in ensuring that we can scale these platforms so we can grow and stitch together the assets that we have currently. And that is really where our focus is going to be.

Tom Seitz - *Jefferies & Company - Analyst*

Okay. I guess switching gears just a little bit, how is the competitive environment out there? And particularly when I'm talking about that, I'm interested in pricing. So the last time we had a slowdown, prices just went into free fall.

The industry has consolidated a bit and that has allowed pricing to remain relatively firm. But I think everybody is frustrated with the top-line growth, and I'm wondering if you are seeing any irrational pricing out there right now. I would imagine moving to more of a solutions-based business insulates you a bit from just selling bandwidth. But can you talk generally about the competitive environment in pricing?

John Stratton - *Verizon Enterprise Solutions - President*

I think it has been pretty rational. We haven't seen any significant changes in the environment, even through what has been a pretty tough economic climate. So as we look at that, there is nothing extraordinary that is out there. As you see firms maybe under some pressure, you might think, okay, here is when it really gets a bit aggressive. Look, it is not to say everyone doesn't fight and compete vigorously every day.

I will say that just maybe an off-the-cuff observation from one man, and that is as I came into this role and I looked across -- and I've now spent obviously a good amount of time really understanding our business, what it is that we do. You live inside of a large corporation like Verizon, and I always try to have sort of a hallway acquaintance with some of my colleagues in VZB, Verizon Business.

But as I go down into this and you look and consider the high capital intensity of the business, the substantial barriers to entry, the large investments required to be in this space, and then I look over and I take a look at the complexity, the technical complexity of what it is that our teams do every day in terms of designing and implementing these integrated solutions worldwide and to support customers' seamless connectivity et cetera, it is unbelievable.

And I look at that and I think about it just sort of from a classic marketing perspective, this would suggest that firms -- how many companies in the world can do what it is that we do? We're not the only ones, but it's not thousands, it's not hundreds. It is a handful. It is surprising to me that the margins are what they are, to be very honest.

And so we will look -- as we consider all of the things that we are doing growing the business in the new spaces, meaning cloud and security and mobility and all of that sort of exciting new age stuff, my belief is there is opportunity for us to grab margin improvement on the other side of the business as well.

Some of that is around things like streamlining the portfolio. Is it too efficient, is it too expansive? Yes, I think it is. When do you put a bullet in legacy products? How long do you drag these carcasses around that you kind of think in a harvest mode it might make sense, but reality is you are carrying cost. You've got expense associated with managing some of these aging networks that may not make sense anymore.

So this notion of creative destruction for me is an interesting one. It is something that we've got to manage. You've got to deal with the Street's expectation for revenue growth and margin expansion. But we want to build a strong foundation that allows for, again, good, profitable growth as we go out over the years here. So we are going to pay really close attention.

The only other thing I would say about pricing and the like is I think it is -- you mentioned insulation. When you move to a solutions orientation, you have an ability to create things that are specific to that user's needs. I think some of those business models are in early stages. These are nascent businesses still. So as we watch and see the evolution of cloud and the security layers that surround it, how mobile is integrated, it's still early stages. But we are pretty optimistic that those will be, again, also rational markets.

Tom Seitz - *Jefferies & Company - Analyst*

So it sounds like to me that you are -- Fran and you are singing from the same song sheet, that there is a lot of operational leverage -- maybe even more operational leverage in this business as it moves to solutions. And if we get any sort of economic tailwind, the margin improvement from the business side could be pretty significant.

John Stratton - *Verizon Enterprise Solutions - President*

Well, look, we don't like to go and create projections and forecasts. We try to deliver results every quarter, right? So we want to be careful that in three years time it might be great, we've got to get through the next quarter.

But, yes, I would say if Fran and I are -- he is literally four feet away from my office, so he's keeping a close eye on all this stuff. But we have a notion here which is we can streamline, we can simplify, we can take cost out. You have to invest to do it.

You look at what has been done previous to my coming over, with Mike Millegan in our global wholesale business, as an example. We had several international routes that were just not profitable -- we just didn't make any money on them -- in the wholesale side. I mean, we're talking about about $1 billion worth of revenue that we said we are going to walk away from.

Now you have to explain that. You can't surprise people with this stuff, and I think John Doherty and his team do a good job of trying to keep everybody informed. We talked a little bit about CPE. I look at the business, it's billions of dollars of business in CPE, and some of it is strategic, where it is integrated into the whole solution we are providing. But a bunch of it is drop-ship, no value-add; all I'm doing is facilitating somebody else's value creation. And I don't want to be in that business.

We talk about some of the decommissioning required for some of our legacy services. And I am convinced if I look hard enough, I'm going to find somebody still buying telegraph services from Verizon. So eventually, you got to start putting some of this stuff down and moving off and driving forward. So we are going to be pretty aggressive in that regard. Again. we've got to be balanced. We don't want to just see this stuff drop off a cliff, and then you pull it back out. But my view is build it for the long haul, build something that creates sustainable, profitable growth on a solid core, and that is really the goal here.

Tom Seitz - *Jefferies & Company - Analyst*

Okay. How about -- can you talk to us about how important wireless is to the enterprise sale? I think we hear a lot of anecdotes that -- and it's happened actually a bunch on Wall Street, where folks are now asked to use their own personal mobile device for wireless communications even with the office. And we hear that corporate liable accounts are going down.

Is that the case at Verizon? Are they up, are they down, and how do you see that trend progressing? Is this kind of a phase we are going through, and then with the first security breach, we are all going to be running back --?

John Stratton - *Verizon Enterprise Solutions - President*

Grabbing your BlackBerry.

Tom Seitz - *Jefferies & Company - Analyst*

Right. So can you give us your thoughts there?

John Stratton - *Verizon Enterprise Solutions - President*

Asterisk -- I love the guys from BlackBerry.

So yes, this whole idea of consumerization of IT and the bring-your-own-device phenomenon is definitely out there and it is very real. And I think companies that serve companies need to be careful not to try to burden the client with your rules or your goals. You want to manage in a way that allows you to get to a mutually satisfying outcome.

And from our perspective, this phenomenon is going to continue. We see it as a business opportunity, but we got to make sure we are flexible enough to understand how it changes our rules and how we look at the business. So we don't talk about corporate liable versus consumer. We don't -- or employee liable. It is not something we report.

But I would tell you that that phenomenon that you described is very real. And so what can we do to help serve the market? As an example, our Enterprise app store that we are launching now allows a CIO to control, even in a consumerized environment, what apps are delivered to that device and how those are delivered, and what is permissible, what's not. Things like dual persona, where you can have multiple identities on the same device. And it really depends on the CIO how far they want to go with that. Some are very, very interested in this; others, less so.

How do you secure the data? So as they move -- the key here is where does the application reside. And as you move that application into the cloud, how do you create sort of that end-to-end layer of security around it, so that you're not now opening up a major gap in terms of protecting either your mission-critical application or your sensitive, vital customer data, business data. These are business opportunities. Security for us is a good line of business.

So I think the key for us is to anticipate which direction the industry is going to move and to make sure we are in a position to serve that industry well and obviously create value for our shareholders in the process.

Tom Seitz - *Jefferies & Company - Analyst*

Sort of following up along the wireless side of the business, we used to hear, I think 18 months ago, maybe 24 months ago, that there was this whole move to bring LTE indoors. It was such a robust network, the 700 megahertz spectrum allowed you to have really good in-building penetration.

And then I think we are hearing that those discussions are stopping a little bit. I mean, enterprises are stepping back and saying, we've got this big, wired broadband pipe. Why are we -- now that all the devices are enabled, why aren't we just doing WiFi and saving ourselves on the wireless bill?

So can you talk about that as, A, are you seeing that? And B, how is that an opportunity to Verizon as opposed to just a threat?

John Stratton - *Verizon Enterprise Solutions - President*

I don't know that we were ever super-confused about this point. Maybe I have convenient amnesia here, but I don't think in this case that is the case.

LTE, when you look at it as a technologist, is a -- it's a great standard. And if you think about us deploying in 700 megahertz, propagation is great, so you can gain in-building penetration. But just because something can do something doesn't mean you should do that, that it makes commercial sense to ride an LTE network, which is -- by definition has a different economic model than riding something that is attached to a wireline network. It's just different.

And as I look at what happens here, certainly the characteristics, the propagation characteristics for us support an end user in terms of when they are in a condition where they are indoors and they still want access to wireless wide-area network, it will be generally a better experience, there will be better connection rates, better experiences in terms of holding that session and the like.

But when you think about it from an enterprise perspective, I don't look at this as lost revenue or somehow eroding the base of our business model, our business case on LTE investment. Because it is really displacement of use, if you think about it. And when you think about who is using computing products indoors, let's say in an office environment, it is essentially just a wireless instance of their wireline network. So it is not really different than where it was before.

But when you leave that environment and now you're in the wild, so to speak, you're using it from a standpoint of mobility, mobility and portability become important dimensions of the value proposition, there, of course, your reliance on wireless wide-area matters.

And so as I think about it, I think it stimulates this notion of anytime, anywhere access to the application, and I believe that the overall level of consumption of wireless data in its many forms simply expands, and as a result of that, we get our fair share of that as it traverses these different networks.

Tom Seitz - *Jefferies & Company - Analyst*

Okay, great. All right. Maybe switching gears here to coordination globally. I think you guys have a unique relationship with Vodafone. You've talked about how you are coordinating globally to open more doors to learn from each other. Can you talk about some of the ways in that -- how that has helped the business and some successes that you've had?

And then I guess to follow on to that question, how do you think the relationship changes now that you've got -- or now that Vodafone has a wireline partner in cable and wireless?

John Stratton - *Verizon Enterprise Solutions - President*

Sure, sure. Well, I will, just to be to -- to manage that second part of the question appropriately, I have got to be a bit cautious about that. I have not yet gotten our legal team's brief back regarding rules of engagement. They are very early stages. Vodafone, as you've referenced here, has announced its intentions to acquire cable and wireless. So we just need to make sure that whatever we do there is appropriate and meets our requirements in terms of proper business dealings in the various jurisdictions where we do business. So if you don't mind, I'm going to hold the C&W piece of that out.

But I would tell you I've had now the good fortune of being in the wireless business principally for most of the last 12 years in Verizon Wireless. Vodafone has been a very good partner. And for most of that 12 years for me, my relationship with them was based on best practice sharing, developing strategy. Because of the fact that we had incompatible wireless technologies, there wasn't there a lot of what you'd see sort of tactical manifestation of those strategies.

And we didn't always make the same decisions, but we shared a lot of good information. And for me, it was useful to have a large wireless carrier to be able to speak with openly. You would be surprised how important of an asset and value that could be as a resource.

Recently, in the last two years or so, we've begun to leverage more tactical benefit from the partnership. You saw it first with our technology evolution of LTE. So a really strong collaboration between our CTO, Tony Melone and Steve Pusey at Vodafone, to drive standards, to accelerate the formation of the ecosystem. And that work is better done together than apart.

And we do believe that it leads to an ability for us to do even more together. As they begin to turn up markets on the LTE technology, we'll see more and more of that happen. And eventually, it can lead to things like handset collaboration and the like because you'll have a common radio stack and the ability to serve sort of our global clientele.

Also, in the procurement side, we've done a lot of work together there, basic supply chain stuff. We buy a lot of hardware. We buy network stuff. We also buy a lot of IT stuff. So how do you leverage those relationships, leverage that significant spend to the benefit of both parties? So good work there.

And then the last piece was on what we called -- we artfully named Verizon Vodafone Enterprise Solutions. So we created a special project about a year ago where we picked 50 accounts globally in two industry verticals to try to understand where is the leverage, where can you gain value by collaborating globally. And we've learned a lot from that. Now as we move forward, we'll look to see where are there opportunities to take that out more broadly.

Again, the C&W thing, we've got to manage our way through that. But that has also been a good experience for us and we did find some good receptivity amongst customers. A lot of work to do, to make it work operationally, to create sort of a logical value prop to the marketplace, but we are pretty encouraged by what we see there.

Tom Seitz - *Jefferies & Company - Analyst*

I guess I will take this one step further. An ironic thing about the globalization of business, really, and communication is that because of -- more and more because of national security reasons, the networks are domestically owned. So what sort of challenges does that present to somebody trying to give a global solution to a multinational corporation?

And how do you think this is going to evolve over time if you are not able to buy assets in China or the like? Do you think there will be -- do you think the Vodafone relationship is sort of a test case for what you think the world will look like in 5, 10 years?

John Stratton - *Verizon Enterprise Solutions - President*

Maybe. I think this is an important question. The national security consideration, some of these local issues, local on sort of a large scale at the national level, are clearly a part of the mix, and so need to be addressed and dealt with.

It is important to note, though, that with our acquisition of MCI back in 2006, we operate now in 2700 cities around the world. That global IP interconnected backbone network is in 150 different countries. And so for us, that is -- in the enterprise space, that is the primary network backbone. And our goal now in terms of expanding the value that that returns to our investors is to monetize that aggressively, to gain more and more traffic, to have more and more routes to that network, if you will.

And this is where that idea of other partners, Vodafone certainly, but other partners around the world, other carriers, who might provide last-mile access, where there is not just a financial investment but there is operational value that is created by extending distribution into markets I might not reach with my own direct force.

Enabling broader partnerships allows us then to not only bring traffic to the global IP network, but as we think about our data centers -- we have 50 enterprise-grade data centers around the world -- that begins to constitute our physical presence in many markets, even in places where we may not have a terrestrial network on the ground.

So how we gain multiple routes to enable the monetization of those assets will be an important part of our evolution. And I do think additional carrier collaboration is a big part of that. We actually managed carriers in multiple places in our business up until we formed Verizon Enterprise Solutions. So we had -- on the procurement side, one set of people would negotiate rates that we would buy network resources, and a different group of people would negotiate what we would sell for. Okay? So there is a clear and obvious opportunity there.

We've actually brought that together, but the broader opportunity is to not only just leverage the buy and sell relationship and to kind of form that up, but also to ensure that we've got a really compelling access strategy as we go forward. So yes, I think you will see more and more of those partnerships as we go.

Tom Seitz - *Jefferies & Company - Analyst*

You mentioned data centers. Obviously, you bought maybe 18 months ago Terremark. It was a carrier-neutral facility for the most part. You're obviously a network player. Can you talk about how that business is doing relative to expectations given? And has it changed the sale that -- the Terremark folks, they are still siloed. Has it made their life more difficult with the Verizon logo behind them?

John Stratton - *Verizon Enterprise Solutions - President*

Yes, I would hope not. I think in any integration effort like this, you go out and you acquire a firm and particularly, relatively speaking, coming into Verizon, Verizon is a pretty big company. And so you need to be very, very thoughtful about the nature of that integration.

We saw Terremark and continue to see Terremark as a cornerstone foundational asset around which we'll build our services business. And this is an important point. You had mentioned that it was a carrier-neutral operation until we bought them. In fact, Terremark remains -- every one of the Terremark facilities remain carrier-neutral.

Also important to note -- everything we are building with Terremark, all of the new data centers, are carrier-neutral. All of the data centers that were historically Verizon data centers, we are moving to a carrier-diverse orientation on the way to full neutrality there as well.

We know that customers don't want to be locked into one particular network provider. Obviously, our story has been and continues to be the value of leveraging the end-to-end capabilities of Verizon. And that is an important value proposition, an important story, but it's not the only story.

Our expectation as we build our services business is that they should be able to traverse any IP network anywhere in the world, wired to wireless. It starts with the data center strategy, and it moves up the stack, as you think about creating applications that can traverse networks one by each.

This was one of the reasons we bought CloudSwitch shortly after we did the Terremark acquisition. You know, the principal proposition with those guys was to enable an agile move in and out of our cloud and the ability for customers to port applications across not only our network, but others. And that remains a foundational premise.

Where we see value accretion here in the business is these businesses in the services end should operate at a higher EBITDA margin than our core legacy network businesses. They also should feature lower capital intensity than our core business and potentially higher returns on invested capital.

So as we begin to move and aggressively shift the mix --it goes back to your point about unlocking some value -- we do believe that is a real opportunity. And we need to make sure that we do it in a way that isn't sort of handcuffing the guys that we've brought on to create that business for us.

Tom Seitz - *Jefferies & Company - Analyst*

Okay. Well, with that, I think this was a really terrific discussion. Thanks so much for taking the time. I hope we get to see you out a bit more often.

John Stratton - *Verizon Enterprise Solutions - President*

You got it, you got it.

Tom Seitz - *Jefferies & Company - Analyst*

Again, thanks for your time.

John Stratton - *Verizon Enterprise Solutions - President*

My pleasure, Tom. Thanks, guys.

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