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

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Welcome, everyone. We have a great crowd here. I wanted to welcome Fran Shammo, the CFO of Verizon, as our keynote lunch speaker. Welcome, Fran, thank you for coming, really appreciate it.

Thanks, Jennifer. Good afternoon, everyone.

And we're just going to jump right into Q&A. Fran, I feel like you should be doing a little bit of bragging. But with the Vodafone deal now behind you, usually that is about 20 minutes of my questions. But it has gotten a lot less. But you did -- can you talk a little bit about the transaction close, we know it is first quarter. But can you give an update about specific timing, January, late in the quarter?

Yes. So good afternoon, everyone. We will be passing out winter coats very shortly. I feel like I am in the Arctic. But anyhow on the Vodafone front, obviously we don't have the transaction closed yet. We have filed all the necessary documents with the FCC and the DOJ and we are right on schedule with that. We have filed all the necessary documents with the Securities and Exchange Commission and we are in comment review with them as well.

So right now we are right on target with where we thought we would be. And the next step will be to coordinate our proxy filings with Vodafone so that we go at the same time. And time frame for shareholder vote will be sometime in January if everything goes according to plan. So we are still right on schedule to close sometime in the first quarter.

Can you talk a little bit about the flow back? We know there are some European funds that cannot own US domiciled companies. What is your estimate about the flow back you will see from the close of this deal?

Well, this one is really a difficult one to get your arms around because, as we have been out and about talking to our shareholders, Vodafone shareholders, there may be funds within the Vodafone shareholder base that their fund can't hold it but one of the other funds in the house can.

But as we got under this with a lot of detailed work the net flow back after you think about number of shares that have to be sold, number of index funds that have to buy, we believe it is around 300 million shares. So if you think about 300 million on a base of about 4.1 billion shares outstanding, if you look at our daily volume at
that point in time you can make an argument that it will clear itself within 27 days. We are telling everybody about 90 days even though they have to divest.

So we think it will be fairly quick. And the other thing is it is hard to determine because once we announced a lot of people went proactively to the market and either hedged their position or shorted their position. So some of that flow back has already happened within the stock price. So it is hard to determine exactly how much of that will impact but we think it is pretty minimal.

Jennifer Fritzsche - Wells Fargo - Analyst

Once complete, can you describe the opportunity you have with One Verizon now owning 100% of the asset? I know there's not real synergies, but can you talk about the opportunity for margin?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Sure, so from an opportunity perspective we have not included any hard synergy costs in the buyout of the Vodafone share. And part of that is because although there is a little bit there is really not that much; there is no integration here per se. But the one thing though -- and before I get into it, I don't want to make the sound like Vodafone stopped us from doing anything we needed to with Verizon Wireless. They never did, they were a great partner. We created a lot of value.

But within internally at Verizon, something we never really talked about externally was we always had this false wall up between the two entities. So you had Wireless who was owned 45% by Vodafone and then there was a wall and that wall was governance and affiliate transactions. And you had the rest of the company over here.

And the easiest way I can explain this is if you look at our product called Home Phone Connect, which was developed on the Wireless side of the house, this is the product that you plug into your wall at home, it converts the inside of your copper wire to an LTE network for voice. So in essence it is a copper voice replacement product.

Now you would think that we would be able to take that same product and market it on the wireline side of the house. But we were prohibited because of governance and affiliate transactions. So the wireline business went out and developed their own product called Voice Link, which now they sell into their copper and DSL customers.

So when you think about the inefficiency of creating two separate products to ultimately go to your end consumer, that is a pretty inefficient way to develop product development. So when this governance affiliate transaction wall takes away you then can become a much more efficient company to launch one product to your customer, whether it is a wireline product or a Wireless product.

You can do things more efficiently inside your company where if someone wants to buy backhaul from wireline it is not -- you go through an RFP process, it is the lowest price. If wireline doesn't match it you go to a third party. So there is a lot of things that were behind the scenes that really created a lot of inefficiency and mostly to the detriment of wireline. So when this goes away Lowell and I believe we call it the soft synergies of the new Verizon that we believe that we can create here.

Jennifer Fritzsche - Wells Fargo - Analyst

Great. I want to shift to the Share Everything plans. You rolled them out the summer of 2012, I feel that these -- this is the runway. About 40% of your base, if I have that right, are on these plans as of the third quarter. What are the characteristics of these types of customers? Are you seeing them supersize? I think I've told you I have already supersized myself a few times. But what -- is this just a tremendous ARPU opportunity you have here?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, there's a couple phases to this. So when we launched 4G LTE the one thing we noticed right away, which is why we left unlimited extremely quickly, was because what we saw happen when you moved from a 3G network to a 4G network, the consumption of data increased tremendously. And we knew that if a small percent did that what happens when you get a large percent moving, you have to be able to monetize your capital investment somehow.
So we came out with the structure of shared plans. And a couple things have happened here. So the first is, when you look at just attaching devices we made it very easy, we took unlimited voice and data off the table -- or unlimited voice and text off the table. That had a side benefit of customer service which we can talk about. But then we just said you just pick your data plan. So it was very easy for the customer to.

It was very easy for them to attach tablets, to attach dongles; you'll see attachment of cameras that we started in 2012. And the theory behind this was as you move from 3G to 4G you really see that uptake in usage. So the revenue profile is you get growth from attachments, but you also get growth because of the consumption through the LTE network. And the basis of the LTE network is, it was originally designed for consumption of video.

And if you think about the generations to come, video is going to become much more efficient to put through that network. So the initial LTE network is extremely efficient compared to 3G, but then when you go to 4G advance and then 5G ultimately the compression technology, the speed technology, video is going to be more consumption into the future.

So we see that if you look at it we have about a third of our customers on shared, we have a third of our customers on LTE. And if you think about a third of that customer on LTE is consuming 64% of the data traffic in Verizon, you can imagine what that is in New York because that 64% is across the entire US. So you can see that when we start to move 3G smartphones to 4G the consumption and data really, really increases. So that is really what is driving that revenue and the uptake in the shared plan.

Jennifer Fritzsche - Wells Fargo - Analyst

Can you quantify is it like three times as much as the typical 3G customer?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, we have never really publicly stated what the uptick is, but it is more than two.

Jennifer Fritzsche - Wells Fargo - Analyst

Okay. ARPA, Verizon was one of the first -- well, the first to coin that acronym, average revenue per account. And this metric has continued to show nice growth in the high single-digits. Can you comment on your thoughts on this growth metric going forward? should we see an acceleration of growth next year?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, I think what you're seeing now, I mean we came out of the second quarter here -- or the third quarter at 8.3% revenue growth, 7% plus on ARPA growth. So it is doing exactly what we thought, which is you have to get away from looking at ARPU because when you start to connect a camera for $5 or a car for whatever it is going to be, that really is going to be irrelevant as to what the ARPU on that individual device is, which is why we went to ARPA.

And what matters to us is from an account perspective again I go back to what I said -- we believe that the increase in revenue will be driven by device attachment and consumption increase. And if you think about today it is smartphones, we are currently really positioning tablets now because what you have to remember is the initial generation of tablets that were sold were Wi-Fi enabled, they weren't embedded with a chip.

So when you look at all of the tablets we are selling now, 100% of these tablets are all on postpaid where as a year ago we were only selling about 40% to 50% of our tablets on postpaid. So with the tablet adoption replacing computer desktops, that is going to create more attachment, more devices.

So that ARPA will continue to increase and as we add -- we went through this period of the accounts decreased a little bit because small business was consolidating. We launched shared on small business. Now you start to see our accounts starting to increase. So you should continue to see the ARPA growth here based on machine to machine, number of attachments and of course the consumption.
Jennifer Fritzsche - Wells Fargo - Analyst

Fran, do you think we are -- I asked this of AT&T earlier, are we beyond like the traditional net add subscriber gain? And has the model shifted to these kind of nontraditional you mentioned M2M, things such as that?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, and I think you have already started to see that, right? So we all know that the smartphone net add is going to start to slow. It will still continue to grow I think at least for Verizon for the next two years or so, but that is going to continue to slow. And then you start to look at tablets. And then you go into the machine to machine.

And I know it's hard to understand machine to machine, but if you were to -- and I think you did walk through our Waltham, Massachusetts technology lab, we just built another one in San Francisco. We have hundreds of developers working with us to develop technologies that are going to run over LTE. And it is just amazing the number of devices that are going to come to market.

And it is hard to get your hands around now because we really don't talk about it or disclose it as much, but I think what you're going to see is our ecosystem of disclosure will probably improve with this because that is going to be a tremendous growth for the entire industry.

I mean this is not just a Verizon phenomenon, this is a Wireless industry thing, which is why we are so bullish in doubling down in the US because of just the industry marketplace and the amount of technology that is coming to the market.

So we do believe that the net add gain won't be as important and that is why I keep talking about what is important is service revenue growth and ARPA growth, and that is really what is going to generate the cash flow for the future.

Jennifer Fritzsche - Wells Fargo - Analyst

I want to talk a little bit about spectrum and network. You have been proactive in acquiring some spectrum. There was some recent news that you just purchased some AWS spectrum from US Cellular. What are your thoughts on your near-term spectrum needs? With SpectrumCo you got a nice slug of AWS now in the fold, but how long is your spectrum runway?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, I mean we are at three to four years now, our spectrum position is good. But, look, we need additional spectrum. So we are looking at the secondary market as other are. There is good spectrum in the secondary markets. The auctions are coming up so we are looking at every opportunity we can. And you are going to see us play like a US Cellular buy.

There are some other markets that -- I mean each month we buy spectrum and some of it nobody sees because they are small markets. But we are going after pockets of that spectrum. And like I said, I mean the secondary market has good spectrum, the auction is going to bring good spectrum. We will need more spectrum for the future.

So we are confident that with the SEC we are absolutely behind them in auctioning off this spectrum. We don't believe there's going to be any restrictions. We continue to work with them. So I think that there's going to be a lot of activity over the next year to two years in the spectrum hold.

Jennifer Fritzsche - Wells Fargo - Analyst

Would you be interested in acquiring spectrum outside of your current portfolio in different bands?
Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, of course. I mean look at we have the A band in our pocket today that I mean obviously about a year and half ago we put that up for auction, we did not get what we thought it was worth. We brought it back into the portfolio, we will deploy that. But we can use that as a trade for some different spectrum. But, yes, absolutely. I mean there is no -- we obviously like AWS, we like PCS, but with the technologies that are changing different frequencies don't bother us.

Jennifer Fritzsche - Wells Fargo - Analyst

You brought up the A block, that was one of my questions. It seems like weighting the cell with actually probably a good move because with interoperability and things like that in my view the value of that is only enhanced. Would you agree with that? You mentioned a trade, is that something that is still on the block?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, I mean look, we put it up for auction so obviously it was on the block. I would say that at this point it is never taken off the block. But obviously it is not for fire sale, which I said two years ago. And if a transaction makes sense then we will execute the transaction. If it doesn't, then we will deploy it.

Jennifer Fritzsche - Wells Fargo - Analyst

You mentioned this earlier on, your third-quarter call you talked about how 38% of your postpaid base was on LTE plans but those were accounting for over 60% of your data traffic. Some of us could view this as somewhat alarming because it can put a lot more pressure on your network. What are your thoughts there?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Obviously in some of our major cities, like I said, it is not 64%, it is well north of that. And, yes, that obviously has put a pressure on our network. I mean we did not anticipate that amount of growth in the network.

Now we have been working very diligently, as I said, that coming out of the second quarter we were going to increase our CapEx by $500 million this year and I think we're going to be in an excellent position by the end of this year with everything that we are doing in really the three major cities that are where we are seeing some of these pressures which is New York, San Francisco, Chicago. But each week it gets better and better as we deploy more data systems and small cells and we lit up AWS spectrum here in the city.

So, I would say that the amount of consumption of video took us a little bit by surprise. But if you look at our growth pattern from the industry we are still doubling, tripling some of our competitors in net adds from and LTE perspective. So we are growing faster, consumption is faster, but I think the thing that you have to step back and look at is I am done my coverage build. So now all my effort is around capacity.

So once we get over this little bump here I think by year end you're going to see us separate ourselves because all of our CapEx will be concentrated around densification and then you will start to see us talk about things like VoLTE and multicast and some of these LTE advanced technologies that will come in the next year.

And we will be in a great position to dedicate resources to that because we are done coverage, we will be in the capacity game, we will be ahead of capacity and that puts us in a very competitive advantage position.

Jennifer Fritzsche - Wells Fargo - Analyst

You haven't given CapEx guidance for next year. But with what you've just said is it fair to say that Wireless CapEx dollars could at least be flat in absolute dollars?
Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, so the good news here is every dollar is a dollar now, right. So it doesn't really matter whether it is Wireless or wireline, it is $1 of cash. And look, I mean the way we will balance this out is I would say look at the total Corporation now and again we will give guidance in January but don't see a significant change in CapEx spending overall. Wireless will probably go up, wireline will go down. So we will efficiently manage our CapEx dollars but you shouldn't see a significant change.

Jennifer Fritzsche - Wells Fargo - Analyst

I know you are sick of this question, but I have to ask about competition. A lot is changing in the Wireless competitive landscape, two carriers namely Sprint and T-Mo who were dead for a long time are having a resurgence, one would argue someone -- T-Mo has already seen it. Others would say Sprint with Japan behind it is going to see it. What are your thoughts here as you look at the competitive landscape, you've obviously had a huge head start, is it just keep doing what we have been doing because it clearly works.

Fran Shammo - Verizon Communications Inc. - EVP & CFO

You know, it's interesting. We have a thing called the Verizon credo. And in our credo we say, competitors are not our enemies, they just make us be better every day. So competition is good. And as I said before, we needed some of our competitors to get stronger in this industry because the worst thing that could happen was we were viewed as a duopoly.

So I don't necessarily look at this as a bad thing, it makes us better. And look this has been an extremely competitive business from the day it was born. And I think that we have proven ourselves pretty well that we can compete in a very competitive business whether it is in the cable business or the Wireless business or any business we compete in.

So I don't view it as a bad thing, I view it as a good thing. And, look, if they -- they are going to do things that they are going to find niches in but I think we have proven here quarter after quarter we are still adding more customers, we are growing our revenue lines, we are improving our profitability so we do all three.

Jennifer Fritzsche - Wells Fargo - Analyst

Sprint specifically has made some pretty big network promises, talking about network equality next year and then network leadership in 2015. It is a big statement. And when we talk about to the infrastructure companies, the tower companies, if all four phones are ringing is Sprint or Verizon -- excuse me, AT&T or Verizon are the one they are answering. Do you think it is difficult to replicate the network depth you have spent billions of dollars building?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, I think it is a matter of time. Look, they are going to build out their network the way they're going to build out their network. But I think the common denominator is, LTE is LTE. And it was manufactured under certain specifications. And that is all the same among all carriers.

So this issue of speed versus whatever, you get more speed when your network is not loaded. But LTE specs are manufactured for delivery consistently of 8 to 12 megabits a second. Somebody walked around here when we lit up AWS and said, oh they are getting 80 megabits per second. And I was quick to say, yes, because no one else is on the network. When you fully load LTE it is rated for 8 to 12 megabits. So at the end of the day that is the common denominator. So, LTE is LTE, they are going to build theirs, we are going to build ours.

Jennifer Fritzsche - Wells Fargo - Analyst

I wanted to get a little into cash flow. Obviously pretty soon you are going to be owning 100% of a cash flow machine. I know delevering is the near-term focus, but can you talk about uses of cash longer-term?
Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, so I think there is really four main focuses that we have for cash. The first is we will continue to invest in our platforms and our network, we will then buy spectrum where we need to. We are not going to sit on the sidelines; you will see us do some fill-in acquisitions here and there but nothing major. These are very small acquisition type things.

And then of course the top priorities will be to continue our dividend policy and to delever the balance sheet. And what we said is once we acquire Vodafone Lowell and I committed that within four to five years we would be back to an A minus company from a rating perspective.

So that should give you confidence of the fact that we are going to delever, that is a major priority of ours, the dividend policy is important to our equity holders and of course we need to invest in the future. So they are really the three major priorities for cash right now.

Jennifer Fritzsche - Wells Fargo - Analyst

Got it. Is there any chance you could achieve that A credit rating ahead of schedule?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, there is always a chance of that. But now we will stick to the four to five years.

Jennifer Fritzsche - Wells Fargo - Analyst

Got it, okay. Fair point. I'm going to shift to wireline and then open it up to questions. FiOS, in a quarter that typically has FiOS net adds in the fourth quarter how comfortable you do you remain in that 150,000 to 175,000 -- 170,000 net add range?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, look, I think that if you look at the net adds here for the year we have said that our target was 600,000. I think we will exceed the target for broadband. We will be close to the target for TV. And what you are seeing here is again, as I talked on the call for third quarter, as we do these migrations of DSL and voice customers we're migrating them from the broadband product and TV is lagging about six to nine months behind that.

But we are also seeing that less people are taking the linear products. They really want the broadband speed. And if you look at the demographics, I mean 30 and below don't care if they have linear TV. They're looking at getting their content through other means. So broadband is absolutely key and when you look at what has happened to us in the third quarter, most of our customers are taking the 50 megabits or higher in speed.

And part of that is because within the home you need that speed into the home because you need your Wireless devices to run off of Wi-Fi. And if you -- the best example I can give is if you are running hot water with five people you're eventually going to slow down the hot water and it is going to run cold. The same thing happens when you are running five Wireless devices over your Wi-Fi network.

And therefore customers are buying up in speed to bring in more speed to their home so their Wi-Fi usage gets more speed. So that is what we are seeing with the broadband connection. And I think you're going to see more of that as more over the top content comes in and people find alternate ways to get what they want to view.

Jennifer Fritzsche - Wells Fargo - Analyst

And for over the top is it -- is Verizon's opinion you don't really care if -- when or -- that happens or not but you will enable it if it does eventually take shape?
Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, look, I think we invested in FiOS for broadband and for TV. And we think we have a superior product. But we are smart enough to realize that the ecosystem will eventually change and people are bringing content in over the top.

So we want to make sure we have the fastest, best broadband connection, which we believe we do since we are the only ones that have fiber to the home other than Google in certain areas. We believe we have the best linear TV product. But we know that over the top is going to become more popular.

So if you look at what we have done we have created Verizon digital media services so that is our way to provide digital content through a platform and reformat it to any device anywhere in the world. So we have built that software over the last two years that was just commercially launched to the content providers. If you look at our Red Box and what we are doing there. So we are playing in the over-the-top arena, we are prepared for it and we will react the way we need to.

Jennifer Fritzsche - Wells Fargo - Analyst

On the wireline side there is a lot -- you mentioned Red Box, Hughes I would throw in in the integration, strategic services -- I mean it seems like you are kind of shedding the skin of a traditional wireline company. Is that the right way to think of your wireline side?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, I think if look at what we have done we are making some strategic differences in where we are betting our future. Obviously cloud is one of them which we just launched our Verizon cloud and Verizon storage with the acquisition of between Terremark and CloudSwitch that we did. So we believe that strategically both in small, medium and large business there is a footprint that we can claim there because of our security background and our infrastructure background.

We have made a claim in Hughes with machine to machine, so we needed that platform to really take -- because when you think about machine to machine, it is not just the transport that matters that matters for Wireless. But really what creates the value, and if you look at Hughes, it is like the Mercedes-Benz deal where Hughes is the one that provides all of that back room and the ARPU's on that are between $25 and $30 per sub.

So machine to machine is more around not just transport but it is around the cloud, it is around data analytics. And that is the value of machine to machine. The transport is important, but it's what happens with all of that data providing that back to the end-user which is really important. So that is where we have made another bed in the platform. And then of course FiOS. So if you think about the old Telephone Company, yes, copper access, copper DSL, that is being shedded away and we are really looking at those three pillars.

Jennifer Fritzsche - Wells Fargo - Analyst

Got it. That's great. Before I open it up to Q&A I have to ask about taxes. There has been a lot of question about the cash tax outlook for both you and AT&T. I am not asking you to predict tax reform. But you think DC is at least listening to companies like you and AT&T as they consider taxes? Between the two you you're investing a lot of dollars in the US.

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, I can't speak for Washington. What I will say is I think that there is a lot of good effort being put forth on tax reform. And I think that is where we need to go as a country, be more competitive in the world. You can't be the highest taxable rate in the world and compete because people are just going to continue to take jobs offshore and do other things. So I think we need to become more competitive from a world economy and I think Washington is focused on that.

The issue though is timing. I don't think we will get tax reform this year I would hope that we would but I don't think that will happen. So then we come into the next question which is we have another cliff approaching on December 31. The issue will be is to we get an extension of that. And at this point I just don't know the answer to that one. So we are watching it closely. But I am hopeful for tax reform here in 2014 if we can get there.
Jennifer Fritzsche - Wells Fargo - Analyst

Okay, great. Thanks, Fran. I'm sure there is a lot of Q&A. So I'm going to open it up to Q&A. We have about 10 minutes left. And if you wouldn't mind waiting for the mic. Anyone have questions here?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

They are all frozen in their seats.

Jennifer Fritzsche - Wells Fargo - Analyst

I will -- you mentioned some fill-in acquisitions. I mean can I just ask, it sounds like Canada, the mention of Canada maybe was made more by the press and analysts than it ever really should have been. Would you look -- you mentioned doubling down on the US with Vodafone. I mean can we look elsewhere outside the US or is that off the table at this point?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, I mean, look. We look at, just like we looked at Canada, we look at every opportunity we believe could increase the value for our shareholders. And the issue with Canada was I think the government up there is doing absolutely the right thing. But it just -- it was a hard hurdle for us to get over with the amount of capital we would have had to invest and the actual number of years we would've gotten a return on that. So it just didn't make sense at that point in time.

What I'm talking about fill ins I am talking about like a CloudSwitch where there is a niche that we can provide in our cloud or there is a certain niche somewhere else whether it is Verizon digital media services. But these are very small type transactions. These are not large transactions. Given the Vodafone transaction, look, the hurdle rate of anything we do has just gone up exponentially. So these are going to be very small, very strategic so it is nothing -- there is nothing big on our plate at this point.

Jennifer Fritzsche - Wells Fargo - Analyst

We have a question here.

Unidentified Audience Participant

Just one point of clarification. You said that most of your customers were taking 50 meg or better, is that most new customers? And can you talk about how much of your subscriber base has been upgraded and how difficult of a sale that is?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, if you look at our FiOS products, for anybody that has it, usually if you turn on your TV now you are getting an advertisement to upgrade to speed on the front page. So we have a lot of current customers clicking through and taking that upgraded speed. Obviously the new customers are coming on we try to upsell them immediately.

But our base, if you look at it then because of the -- if you look at our 4% plus growth now in consumer, which I'm pretty confident we will be able to continue and maintain, a big piece of that is our current base upgrading to quantum. So I don't have exact numbers for you and we don't really disclose it but each quarter we have a number of the base increasing their megabits.
Jennifer Fritzsche - Wells Fargo - Analyst

I didn't really beat you up on margins too much, both sides of the business. The Verizon Wireless margins are really good, obviously, north of 50%. I have heard you say on more than one opportunity there are still drivers of growth here. Can you talk about specific drivers and does One Verizon help with this effort?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, look, I think One Verizon, or as we say the new Verizon, there is plenty of, as I said before, soft synergies. But I also said that I believe there is more wireline value here that can be created through this acquisition as well as Wireless. Look, I have always said that Wireless is still an inefficient company and I know people laugh every time I say that. But there's still a lot of improvement that we can make in our ecosystem.

And if you just look at last year where we added over 5 million devices to our network, we built out LTE, and yet we did actually close three call centers because what we learned is more and more people are going to self serve. So there is more efficiency that we can get for self-service, taking complexity of the price plan out. I mentioned share pricing where we took voice and text out of the equation.

That was a lot of call driver. Well, I went seven minutes over my time, can I get a credit. I sent two more text messages than I thought. So we took that out of the equation and now it is just data. And what we do with data is we constantly send text messages to the customer so there's no surprises. They know exactly how much they have left and they are immediately punching the button to upgrade or they manage to it.

So there is more efficiency that we can get around the business, but there is also I think things that we can do differently especially on the wireline side. And I can't lose sight of our initiative around Verizon Lean Six Sigma and now we are in the second year into this. And there's a lot of projects that are being created and you see a little bit of this starting to come through on the wireline margin.

So we are kind of steady where we are and I've said before that I'm confident that we can grow the wireline margin in 2014. And it is because of all these other things that are happening behind the scenes that I'm confident on that. So if you're going to ask me what I think about margins, I think if you look at our history we can increase our margins.

Jennifer Fritzsche - Wells Fargo - Analyst

Is it fair to say wireline margins then have bottomed? I know you said go up from here but can we use the word bottom?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, I would think that like two years ago when we hit 18% I think that was the bottom.

Jennifer Fritzsche - Wells Fargo - Analyst

Okay. Great.

Unidentified Audience Participant

With the daily swelling in New York I find that perhaps I have a lemon of a phone, but I often end up switching from LTE to the 3G in the middle of the day time. And then finding off-time peak the speeds increase back. Is there a timeframe at which that capacity or constraint issue disappears?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, as I said, there are certain pockets where we're absolutely going to experience that down tick from the LTE network down to 3G because of capacity constraints. But as I said before, we are investing very heavily in small tech -- small cell technology, we are deploying data systems, we lit AWS.
So I guess what I'm saying is by the end of this year each week that goes you are going to see improvement. By the end of this year you are going to see all those issues dissipate. And then going into next year we will be ahead of the curve again. So that is the timeframe.

Jennifer Fritzsche  -  Wells Fargo - Analyst

Any other questions?

Unidentified Audience Participant

You talked about how LTE enables video. So when you look ahead what other capabilities do you expect of your hardware or your investment, what new services do you see you will be able to provide in the next five years, 10 years?

Fran Shammo  -  Verizon Communications Inc. - EVP & CFO

Well, as far as video, the next thing that we are going to demonstrate here at the Super Bowl is what we call multicast which is today -- just so you understand, today when -- if I and Jennifer were watching the same video we would actually take up two channels on the cell site, one channel for me and one channel for Jennifer to watch that same video. Under multi-cast this entire room could actually watch the same video and use one channel.

So in essence what it does in the LTE network it dedicates one channel to a specific program at that time that millions of people can watch and it is extremely efficient from a spectrum perspective and a channel perspective. We are going to demonstrate that here in January right here at the -- right here in the city on a multi-cast of the Super Bowl using that technology.

Now, there's going to be a certain chip that needs to be inserted into the handset, that chip will start to be inserted in the fourth quarter of this year. So you think about it will take about a year or so to get the population out there. But when you think about that technology think about 24 hours a day you could actually have a programming cycle on your Wireless handset for sports, news and whatever else you want to watch. So that is where the ecosystem is going from an LTE video perspective.

Jennifer Fritzsche  -  Wells Fargo - Analyst

Great, I think we will close it there. Fran, thank you very much.

Fran Shammo  -  Verizon Communications Inc. - EVP & CFO

Thank you, Jennifer; thanks, everybody.

Jennifer Fritzsche  -  Wells Fargo - Analyst

Appreciate it.

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FORWARD-LOOKING STATEMENTS

In this communication we have made forward-looking statements. These statements are based on our estimates and assumptions and are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed future results of operations. Forward-looking statements also include those preceded or followed by the words "anticipates," "believes," "estimates," "hopes" or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. The following important factors, along with those
discussed in our filings with the Securities and Exchange Commission (the "SEC"), could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements - the ability to realize the expected benefits of our proposed transaction with Vodafone in the timeframe expected or at all; the ability to complete the Vodafone transaction in the timeframe expected or at all and the costs that could be required to do so; failure to obtain applicable regulatory or shareholder approvals in connection with the Vodafone transaction in a timely manner or at all; failure to satisfy other closing conditions to the Vodafone transaction or events giving rise to termination of the transaction agreement; an adverse change in the ratings afforded our debt securities by nationally accredited ratings organizations or adverse conditions in the credit markets affecting the cost, including interest rates, and/or availability of further financing; significantly increased levels of indebtedness as a result of the Vodafone transaction; changes in tax laws or treaties, or in their interpretation; adverse conditions in the U.S. and international economies; material adverse changes in labor matters, including labor negotiations, and any resulting financial and/or operational impact; material changes in technology or technology substitution; disruption of our key suppliers' provisioning of products or services; changes in the regulatory environment in which we operate, including any increase in restrictions on our ability to operate our networks; breaches of network or information technology security, natural disasters, terrorist attacks or acts of war or significant litigation and any resulting financial impact not covered by insurance; the effects of competition in the markets in which we operate; changes in accounting assumptions that regulatory agencies, including the SEC, may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings; significant increases in benefit plan costs or lower investment returns on plan assets; and the inability to implement our business strategies.

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IMPORTANT ADDITIONAL INFORMATION WILL BE FILED WITH THE SEC
Verizon Communications Inc. has filed with the SEC a registration statement on Form S-4 containing a preliminary prospectus with respect to the Verizon securities to be offered in the proposed transaction with Vodafone (the "preliminary prospectus"). Verizon has also filed with the SEC a preliminary proxy statement with respect to the special meeting of the Verizon shareholders to be held in connection with the proposed transaction (the "preliminary proxy statement"). The registration statement on Form S-4 has not yet been declared effective and the preliminary prospectus and the preliminary proxy statement are not yet final and will be further amended. VODAFONE SHAREHOLDERS ARE URGED TO READ CAREFULLY THE PRELIMINARY PROSPECTUS AND VERIZON SHAREHOLDERS ARE URGED TO READ CAREFULLY THE PRELIMINARY PROXY STATEMENT, EACH TOGETHER WITH OTHER RELEVANT DOCUMENTS FILED OR TO BE FILED WITH THE SEC, IN THEIR ENTIRETY WHEN THEY BECOME AVAILABLE BECAUSE THEY CONTAIN OR WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION AND RELATED MATTERS. Investors and shareholders can obtain free copies of the preliminary prospectus, the preliminary proxy statement and other documents filed with the SEC by the parties through the website maintained by the SEC at www.sec.gov. In addition, investors and shareholders will be able to obtain free copies of the prospectus, the proxy statement and other documents filed with the SEC by Verizon by contacting Verizon's Assistant Corporate Secretary, Verizon Communications Inc., 140 West Street, 29th Floor, New York, New York 10007. These materials are also available on Verizon's website at www.verizon.com/investor.

PARTICIPANTS IN THE SOLICITATION
Verizon, Vodafone and their respective directors and executive officers may be deemed to be participants in the solicitation of proxies from the shareholders of Verizon in respect of the proposed transaction contemplated by the proxy statement. Information regarding the persons who are, under the rules of the SEC, participants in the solicitation of the shareholders of Verizon in connection with the proposed transaction, including a description of their direct or indirect interests, by security holdings or otherwise, is set forth in the preliminary proxy statement filed by Verizon with the SEC. Information regarding Verizon's directors and executive officers is contained in Verizon's Annual Report on Form 10-K for the year ended December 31, 2012 and its Proxy Statement on Schedule 14A, dated March 18, 2013, which are filed with the SEC. Information regarding Vodafone's directors and executive officers is contained in Vodafone's Annual Report on Form 20-F for the year ended March 31, 2013, which is filed with the SEC.