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VZ - Verizon Communications Inc at Bank of America Merrill Lynch Media, Communications and Entertainment Conference

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CORPORATE PARTICIPANTS

Marni Walden *Verizon Communications Inc. - EVP & President, Product Innovation and New Businesses*

Tim Armstrong *Verizon Communications Inc. - CEO, AOL*

CONFERENCE CALL PARTICIPANTS

David Barden *BofA Merrill Lynch - Analyst*

Jessica Reif Cohen *BofA Merrill Lynch - Analyst*

PRESENTATION

David Barden ***- BofA Merrill Lynch - Analyst***

All right, everybody. Thanks for rejoining us after the break for our next session in the ballroom for the 2016 Bank of America Media, Communications and Entertainment Conference.

I'm David Barden, head of telco research for Bank of America. I'm joined by Jessica Reif Cohen, head of cable and media research at the bank.

And we are super pleased to have with us here today two of Verizon's top leadership to talk about some of the new strategic directions that Verizon is going in. Marni Walden who is EVP and President of Product Innovation and Tim Armstrong who is CEO of what I understand is to be the newly renamed AOL not so long from now.

Thank you guys for joining us. Really appreciate it.

Marni Walden ***- Verizon Communications Inc. - EVP & President, Product Innovation and New Businesses***

Thanks, Dave.

David Barden ***- BofA Merrill Lynch - Analyst***

I thought because we've got a combination of telco and media on the Verizon side we would tag team, Jessica and myself, from the telco media side on our side. And we really want to dig in there.

But the number one question I'm getting all day and all yesterday is iPhone. And so I just wanted to tee this up and get it out of the way before we get into the weeds a little bit is some of the competitors in the market have been talking about 4X increases in volumes for iPhone sales. The media has assumed that this is a function of zero dollar trade-ins and inferring maybe that there's big market share movements or big margin implications for the industry.

I was wondering if you could speak directly to what is Verizon's iPhone experience? Has this been a game changer or what's the story?

Marni Walden ***- Verizon Communications Inc. - EVP & President, Product Innovation and New Businesses***

Look, I think when people talk about percentages increase it's all about compared to what. I guess I would say if you looked at Verizon we had the iPhone second. So your upgrade cycles depend a lot on that, how big your base is.

So we're not going to comment on volumes. But I would say you've got to ask the question of what is it compared to and then what's the upgrade volumes is associated with it.

David Barden *- BofA Merrill Lynch - Analyst*

As a follow-up, would you say that this is kind of a churn and margin impact for Verizon? Or is it more of a business-as-usual upgrade cycle for the iPhone?

Marni Walden *- Verizon Communications Inc. - EVP & President, Product Innovation and New Businesses*

We think it's more of a business as usual for us.

David Barden *- BofA Merrill Lynch - Analyst*

Okay. I will let other people follow up with that if they need to.

But I guess just kind of at a higher level, Marni, I think most people may know that you've been tasked with building Verizon's next-generation growth businesses, multibillion-dollar ambitions. I was wondering if you could speak to the big two or three opportunities that you see out there to be those things and how we should as investors be gauging our timetable and expectations for success.

Marni Walden *- Verizon Communications Inc. - EVP & President, Product Innovation and New Businesses*

Yes, so as we've talked about before, Dave, and I won't go into these but we really have six key focus areas. But to really narrow in on a couple of them, the first of which is what we're calling our media Company soon to have a different name, and Tim will obviously talk about that. But we had, obviously, done the acquisition of AOL.

We contributed some other assets into that digital media services which is really a content delivery network and now doing ad insertion. So it made sense to assemble that and put that with Tim. He's obviously worked on a number of different brands that have great love from customers. So our media Company we believe is one of those that will be significant for us to talk about as time moves on.

In terms of time horizon, we think about the three- to five-year time horizon. For this year it's all about doing all of the planning around the integration of Yahoo. Flawless execution throughout 2017, so it's a very much heads down, so that would be the first one that we talk about as the big one.

The second one is the work that we're doing in IoT. And we talk about IoT as separate from our telematics business but when we talk about reporting we roll those numbers up together. And as you know, and others we reported in the second quarter we did right around $200 million of revenue, it was same first quarter growing at 20% and that's the entire IoT space.

So telematics, in particular, has been something that we've been at for a while. And, frankly, we had the OnStar relationship many years ago, so the connectivity part of our business was always something that we did. We've now moved up in doing platform work as well as services.

So inside telematics we own the Mercedes relationship where we do platforms services as well as the connectivity. And that's also a global business. We do that in China, in Europe and continuing to span not only domestically but globally.

Also in telematics we have our aftermarket business which was based on usage-based insurance. Started out with State Farm but now we've done a pivot to have that be a direct-to-consumer as well with our hum product getting really good traction. We are leveraging the muscle of Verizon, so not only the network which will always be a part of how we think about our strategy but we're leveraging distribution and customer relationships to drive volume.

Then the third part of our telematics business is the fleet management, which we've done a couple of acquisitions in -- one that has closed, one that hasn't closed yet that is scaling our fleet business not only domestically but internationally. And then in the IoT space we've got verticals that we're focused on. Connectivity and network leadership is always a part of that, but then we built a platform called ThingSpace which we have application developers writing on top of which gets us into the service stack which is where the money comes from as you move into the outer years. Again, you heard the numbers but growing at double digits quarter over quarter.

David Barden ***- BofA Merrill Lynch - Analyst***

Just before I hand it over to Jessica to start exploring the media strategy a bit, I think that people not in the telecoms space, people in the media space would see putting AOL and Yahoo together and understand it to be something. But I think there may not be as much understanding of what plugging that into the Verizon infrastructure planted in that pot, so to speak, might mean incrementally to the business opportunity, to the business strength.

I think some people maybe see it as a negative, that you're tying what is a dynamic and creative business into something that has more a stodgy legacy to it. Could you talk about the pros and cons of plugging these two things together and what synergy do you pop out of that?

Marni Walden ***- Verizon Communications Inc. - EVP & President, Product Innovation and New Businesses***

Yes, so I mean this started over a year ago when Tim and Lowell and I started having discussions about the need for ad tech capabilities at Verizon. We had a number of assets at Verizon that were not being monetized, and so we talked about that as being the oil in the ground. But we didn't have a way to monetize above the network.

So the network leadership, I want to make sure everyone is very clear, that will always be a foundation of who we are and what we believe is our lead. But also just mobile in general you see other players monetizing above the network and we think we have the right to do that.

So that's what led us to the discussion with Tim. Tim saw a need to have more of a mobile lead, as well. So putting those together made sense.

It doesn't mean that we abandon or we do anything different with our core Wireless business still will be the most important thing we do in the coming years. But being able to take our mobile lead and monetize above the network is really how we think about that. And we think we have a right to do that because of the mobile lead that we have.

I think the things that we're working through, and we've talked about this, is making sure that we're being very transparent in the way that we utilize data because that is one of the pieces of currency, if you will, that goes into making this thing work. So today the Wireless business is regulated by the FCC. The Internet is FTC.

So we follow all of the rules. We want to make sure that we are judged the same way in the spaces that we are playing in.

Jessica Reif Cohen ***- BofA Merrill Lynch - Analyst***

So let's start by exploring the online video strategy. It began with Go90, but there's clearly a much broader plan in place. You spent in the last year alone just over $9 billion on AOL and Yahoo, not to mention partnerships with companies like Hearst as well as AwesomenessTV.

So can you walk us through how these pieces fit together within your video strategy? And what do you guys see as your competitive advantage today? What do you think the drivers are for value creation?

Marni Walden *- Verizon Communications Inc. - EVP & President, Product Innovation and New Businesses*

So let me take just a few of those pieces and then let me hand it to Tim. So as you think about go90, or what we're doing with Complex media, all of those are ways to build audience. And in particular the ones you mentioned are building younger audiences, so those are all a piece of the strategy.

But as you put all of this together it's how do we bring audience and scale to a really amazing ad tech platform so that we've got the ability, the supply to fill the demand? Do you want to talk about the bigger strategy for media co?

Tim Armstrong *- Verizon Communications Inc. - CEO, AOL*

At a super high level there's kind of a couple of core principles around the media co strategy and video. One is the audiences that we're dealing with are global and they are a really big scale.

When you put the Yahoo asset together with AOL we'll essentially have over 1 billion consumers that we touch. And if you go through the landscape right now of where economics are and you look at the valuations of the Internet companies versus non-Internet companies, Verizon has gotten into this space with a top-five sized asset for $9 billion. The next closest asset at that scale is about $270 billion, $290 billion overall.

So from a standpoint of Verizon over the last year having spent 1 times revenue for all these deals that we've done to get into a position to have an opportunity to scale what is probably the most valuable segment, five or six of the most valuable companies in the world are in this segment now that are publicly traded, and we're going to have a Company that is essentially in that scale range now at a fraction, very small fraction of the cost of what those valuations are. So from a macro standpoint I think we're in the right industry. Verizon has got a serious set of assets and a serious set of data to bring to the table overall.

So I think the media strategy, if you believe consumers are going to go from analog to digital and you assume that video consumption is going to override text consumption and those things, which we believe and the statistics bear that out, you have a near-term opportunity over the next four to five years of about $90 billion of new market opportunity just in mobile and mobile video alone. So if you woke up today and said, hey, the size of this total pie there is going to be 3.5 billion more consumers that could connect into this network, so there will be 7 billion people connected by the early 2020s, there is a $90 billion near-term opportunity, we have a right to win with our brands with Verizon and the Verizon network and data. And we already have progress in those areas.

You would I think make a strategic bet if you are a Verizon-size company that this could be a future growth opportunity. And I would say you get the team of people, we basically have kept all of the talent since the Verizon acquisition at AOL. And I think we will do a good job with the Yahoo talent overall.

We're in a very good position to have an opportunity to grow a sizable business. And I would just say in the landscape right now for how big the industry is going to be and how big the consumer base is going to be, there's a very small handful of companies that actually have the tech and the scale to compete. And we are one of them.

So when you talk about our video strategy at a global basis in the next couple of years we should have one of the top five global video properties that has the opportunity to reach billions of consumers and you have a fertile analog to digital marketplace behind it where there's $600 billion of yearly spending that has to go from analog to digital. We have the resources, tools and talent to do it.

So I think our media and video strategy is exactly where the world is going right now. And I think we'd be really disappointed if we didn't capture a huge amount of value for Verizon in that.

I know $9 billion is nothing to sneeze at. It's a lot of money. In comparison to how big this market, is in comparison to the valuations of the companies we are competing against I think it's a very reasonable amount of money for Verizon to take a real shot at this.

Jessica Reif Cohen ***- BofA Merrill Lynch - Analyst***

But can you talk about some of the metrics that you will use to judge your success or failure in these efforts?

Tim Armstrong ***- Verizon Communications Inc. - CEO, AOL***

Yes, I think there's probably at a high level two really simple metrics. One is, and again -- let me take a step back. This is what I look at Verizon.

I have a very small pool inside of the total pool that Marni and Lowell deal with at Verizon, so the metrics I'm going to give you may not be the metrics that Verizon is going to give you. But if you talk about success in this landscape, I would say it's monthly active users, like how many monthly active users do we have engaged on these platforms overall.

And the second is what's the daily ad value that runs through our systems against those monthly active users. And there's two types of monthly active users. There's the ones that we own that are on our properties overall and then we power about, just at AOL, I won't get into the Yahoo numbers, but there's we power about 40,000 other publishers with either video or ads.

So we have monthly active users we can access like Microsoft, we own Microsoft advertising for display. We did that deal last year. So we are building up a giant pool of monthly active users, which allows us to transact with revenue against them. And I think those two metrics are probably the things that we look at the most which is how actives are engagement and how much ad volume can be run through the system every day.

Marni Walden ***- Verizon Communications Inc. - EVP & President, Product Innovation and New Businesses***

Just in terms of any of our new businesses that we're trying to stand up though the way that I think about that is top-line revenue growth. So having top-line revenue growth and making sure that your expenses aren't outpacing that and then margin to follow.

One of the principles that we've tried to make sure last with the acquisitions we've done is that these acquisitions have run lean and we want to keep that thinking. So it's not Verizon showed up with money, now it's time to relax. That's not how we think about it at all.

We do want to help make strategic investments that will help grow that revenue stream. But very much think about top-line revenue growth, great expense management that doesn't outpace revenue and then margin to follow.

Jessica Reif Cohen ***- BofA Merrill Lynch - Analyst***

And how does Hearst fit into all of this? Is this like a one-off situation or is it your primary -- will there be more ventures like that? How are you thinking about content?

Marni Walden ***- Verizon Communications Inc. - EVP & President, Product Innovation and New Businesses***

Yes, so we did the deal with Hearst. We saw a great interest in Complex, Hearst already had an investment with them. And so we started looking at them actually as a partner and started to see their audience growth and said, hey, this might be a good way for us to get engaged with something that's growing at a very rapid pace.

Same thing with AwesomenessTV. We were in a commercial partnership with Awesomeness. Hearst was in an ownership position with them and we decided to form a group.

Over time, what does that look like? We will see. We like the brands that are being built in there.

The goal is to be able to leverage those across the assets that we have. But the Hearst JV is not a primary strategy, it's a complementary strategy, if you will.

David Barden ***- BofA Merrill Lynch - Analyst***

So I think reverse engineering the question we asked earlier about how media guys might look at telco, I think a lot of the investors in Verizon from a telco perspective have scratched their heads a little bit about how Verizon takes AOL and Yahoo, puts them together and make something greater than the sum of the parts. Tim, I think you've been clear that the Yahoo acquisition was about first and foremost talent and there's been a reticence to create lines that include or exclude different people before we really know what we want to do.

But there is a strategy that you've been talking about that outlines how you want to differentiate yourself from the Facebooks and Googles which guys like me go, well, you're trying to compete against Facebook and Google. Because that's all I really understand about the market. Can you elaborate a little bit more on this brand strategy that you have?

Tim Armstrong ***- Verizon Communications Inc. - CEO, AOL***

I would say just, again, super high level is there's two strategies that it won't work. One is basically the anything but Google and Facebook strategy overall and the second one is copying Facebook and Google.

So I think we were successful at AOL because we chose a very clear gap in the market where there was opportunity and we invested against it. I believe there's a gap in the market that's bigger than when we got to AOL. And if Google is search and Facebook is social I think we will be the brand Company that essentially builds brands, builds consumer brands but also on the B2B side helps other people build their brands.

And the gap in the marketplace are the following two places. On the consumer side you're having consumers basically connected 24 by 7 where they are ingesting more media than they've ever ingested overall, and that pie is growing. Most of the companies are going to struggle to go to analog to digital to provide the content brands to people. And so we believe there's a gap for us to provide consumer content brands out in the world both on our platforms and on other people's platforms: Snapchat, Facebook YouTube which we partner with, Apple we partner with all those people today.

And then the second gap is on the monetization. If you are in the advertising business and you follow what Google and what Facebook do, they both have tremendous, first of all, both of those companies are executing very well and they are very, very, very great competitors overall. And I think it's something we aspire to get to the same level of output that they are and they are doing a great job.

So what I am about to say is not them not doing a good job, it's where the opportunity is. But in the marketplace right now brands have really three things they are concerned about advertisers: one is building their brand so they can keep pricing value and things like that, the second is scaled ROI and the third is innovation.

And Facebook and Google systems have very specific ways they go after those needs from customers. What we're building and have built is a different way to go after those needs. And a lot of it is built around actually brands.

When you talk to customers who are in brand pressure positions, which a lot of people are in the retail channels, auto channels, those things, we are coming to them with a different set of metrics, different set of data in different set of targeting criteria around content. And that allows us to have a differentiated place in the marketplace.

And the number two is in a lot of cases where search and social have gotten tremendous traction and they've done a very good job at that overall, a lot of the dollars that have lagged behind are in this brand space. And that's we're working on a number of things I think are super innovative that will be done the end of this year and into 2017 that will allow us to push new types of metrics and opportunities to those customers overall. So the easiest way to think about us is if they are search and social, we are brand.

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David Barden ***- BofA Merrill Lynch - Analyst***

And I think as a follow-up, so if you look at mobile stats about 40% of data consumption is Facebook and YouTube. And Google and Facebook have roughly consistent advertising market share with those usage statistics. And then there's everybody else.

And in that everybody else category there's Yahoo and AOL at the top and then everybody below you. Is your game plan to try to cultivate that position as the next best platform that everyone has -- a platform that has access to the everyman of the Internet so to speak?

Tim Armstrong ***- Verizon Communications Inc. - CEO, AOL***

Well, I think we look at it two different ways. One is we want to have premier positions in the categories for consumers. So a Google and Facebook may have those positions and those platforms. If you take news, for instance, with the Huffington Post or TechCrunch in the tech space we want to have the number one chair in that space.

So there are places where we are going to be number one. For instance, on Facebook we are generally the largest distributed news service on Facebook. So Facebook may have the number one platform, but we want to be the number one news provider on that platform and with ourselves.

The second thing I would say is that I think I would just be very careful with the anything but Google and Facebook strategy. It's them and everybody else. I think that we because we partner with Google and Facebook and because we partner with many people in that food chain that are in a secondary tier we can bring real value to customers that Google and Facebook, frankly, probably don't want to.

Their businesses are big and strong enough that they basically have their essentially walled garden and this is the value they produce. We're in a different position. So we tend to do a lot more open partnerships where we're going to actually increase customers' data capabilities, their media capabilities and their platform capabilities overall.

So we may be in the third position now and, by the way, the third position in the market I describe consumers are going to double and everything is going to go from analog to digital. We're not shooting for the bronze medal, but if out of the gates we're at bronze medal position and we can work our way to an Olympic gold medal that's what we will do. And I think it comes down to being really focused and knowing what we're going to do, so that's what I'd say.

Jessica Reif Cohen ***- BofA Merrill Lynch - Analyst***

So can we just talk a little bit more specifically about your ad strategy, your ad tech strategy you've touched on a few times. So you're driving this video platform with new brands and scale worldwide, but can you talk about how are you organized, how are you selling, are you selling cross-platform, are you selling by division? Are you just kind of drill down into like how you see your ad capabilities in the market evolving?

Tim Armstrong ***- Verizon Communications Inc. - CEO, AOL***

So super simply, the structure of the Company is federal and state. The states are all the consumer brands we had, so we have a full portfolio of consumer brands. And the federal government is how we monetize.

So our job is to lay down superhighways of revenue across all those states overall. And I will give you a couple of simple examples so it's tangible. One is we just developed over the last six months a new video player which we call 02 which is rolling out.

So the video player is having tremendous success. It is viewable, it has brand metrics against it. It works on our sites, it works on a partner, it runs across our entire partner network overall.

So if you were to come look at a satellite map of our states and federal systems you would see in the last six months a giant superhighway going through all of our states and partner states with a video player that is one of the most sophisticated video players in the marketplace that's able to target content, target ads, kick off metrics, work on all devices. And then behind that with the DMS asset that Verizon had we're able to then put in a serving layer behind it so as an advertiser and media partner you can basically target 400 different devices instantaneously across all the states with a video player that works on mobile, OTT, web, all those things.

So I think those are the types of things when you look forward over a couple of years for our media strategy and our ad strategy you're going to see these superhighways start to come out through our landscape that basically allow you with one input as an ad customer at the federal level to essentially aggregate states of audiences across the board. And I think that's maybe that's not the right analogy, but that's maybe the simplest way to think about it.

Jessica Reif Cohen ***- BofA Merrill Lynch - Analyst***

How are you combining these national or semi-national federal and state with your local Fios footprint?

Tim Armstrong ***- Verizon Communications Inc. - CEO, AOL***

With a local what?

Jessica Reif Cohen ***- BofA Merrill Lynch - Analyst***

With your local Fios footprint, is this like your local footprint --

Tim Armstrong ***- Verizon Communications Inc. - CEO, AOL***

Yes, so we actually have a number things going on with Fios. One is sharing data. So Fios has a lot of data to show how people consume things on digital TV platforms and then how it affects digital on mobile and things like that.

The second piece of it, there's a huge synergy, which I think Marni can probably talk better to, which is Verizon is one of the -- people always ask about this, they say why is Verizon investing so much in content? They are a telco player.

And the reality is one of the things that was surprising for me coming in is Verizon is probably one of the top three or four most sophisticated content buyers in the world because of Fios. And so there's a huge synergy also in the content aspect of the business that we leverage across both. I don't know if you want to --

Marni Walden ***- Verizon Communications Inc. - EVP & President, Product Innovation and New Businesses***

Yes, just maybe to talk about the content strategy. I know we've spent some time talking about this with some of you this morning. But ultimately we no longer as Verizon think about content as let's just do content for Fios and then we will go do it different deal for one of the other entities.

We think about it as a Verizon deal. So when we go and talk to any of the content providers today we say, look, we would like content not only for Fios, which is where our largest spend is, but we also want it for the rest of our platform. So if you think about the assets we've assembled we have our Fios asset, we have our digital platforms with Tim and now soon to be AOL, we certainly have a mobile platform with what we've done with wireless and then 5G is the next thing that we're talking about where we can bring a fixed wireless solution to homes in the future as we build that out, so getting content for over-the-top.

So we think we've got a unique place in the market with how we can distribute content. And certainly not all of that content is right for each one of those audiences because an audience at Fios is a bit different than what you get on digital platforms or on mobile. So we talk through what content we want for each one, but we've had some great success with some of our key content players.

We will continue to push that. But we've approached content buying as a single entity, not doing it for different business units so that we can leverage that spend across all of our assets and get to different audiences because each one of those platforms there may be overlap but there's distinct audiences that happens on the each one so we can now get to different audiences.

The other thing too we now have the capability of is we can monetize in different ways. With a linear licensing deal the way that works is you provide broadband, you make the money off that content and it just goes with it. There's typically not much margin if any in the content play, it's in the broadband or the connectivity. But what we've done with AOL and now through OTT we have a way to access and monetize not only through network connectivity but also through subscription and now certainly with advertising capabilities.

Jessica Reif Cohen ***- BofA Merrill Lynch - Analyst***

And on that advertising capability will you be leveraging your ad tech capability solely in-house? Or will you supply third parties as well? And how can AOL play a role in measurement versus let's say Nielsen?

Tim Armstrong ***- Verizon Communications Inc. - CEO, AOL***

Yes, so that's a huge strategic topic for us overall. So the advertising technology that we bring to the marketplace is called ONE by AOL. And that we will be mixing that with Yahoo has platforms also.

But the easiest way to think about this is a supply and demand set of technologies for advertising. On the supply side we work with many of the largest brand publishers in the world. And what we bring to them is essentially the capability to do creation, distribution and monetization of content on their properties and help them get to other properties, as well.

And that is a super sophisticated supply-side marketplace that does monetization yield management for them. So every time a publisher creates content we offer them the ability to get the highest marginal dollar for that creation overall. And on the demand side we bring tools to clients and agencies that are essentially self-service that allow them to have one front-end plug-in and look at the world of advertising to target, bid and measure their advertising.

The thing that's different than Google and Facebook that we're doing is the measurement of what you're measuring overall. Google and Facebook tend to hang at the very bottom of the funnel about just ROI.

Google is at the I would say at the total bottom of the funnel. Facebook is maybe one level up.

Our metrics and data essentially measure from brand at the top of the marketing funnel, I know people may not know this nomenclature is very marketing nomenclature, but is we help people basically find and measure what customers they are dumping in the top of the funnel and then taking them, try to take them all the way through the funnel to ROI. So for publishers you want to know where you are building audience from, how you are getting audience, how do you maximize that audience, especially for mobile. And then on the advertiser side you basically need to keep up the new ability for demand pipelining overall.

If you listen to ad marketplace a lot of the ad customers will talk about in their search spend their marginal increase in search ad prices or in their category how because basically those in some cases are saturated markets of bottom of the funnel ROI-type spend on advertising. And where we come in is we help customers find new customers overall.

And we help people measure how do you find new customers. And that's a very, very important, I'd say, strategic different lens into the ad marketplace than Facebook and Google are doing.

Again, Facebook and Google are way above us. They are executing very well. But for the areas that we're focused on we think there's a clear market opportunity for us in the ad technology and marketing space.

David Barden ***- BofA Merrill Lynch - Analyst***

You know, just following up on this fact that we've got the media and we've got the telecom, we're all here together on stage, we're talking about this, I think a lot of investors come in here and look at Comcast and wonder what their mobile strategy is going to be. And then they look at AT&T and DTV and they think about, well, what is a linear and a mobile company do and is it better to be mobile with a linear option or is it better to be mobile only, and Verizon is more of a mobile only with the exception of the Fios side.

And I guess could you articulate why a mobile-first or a mobile-only platform is going to be the winner in this game? Because obviously you have only that platform to start with so, of course, you have to assume you can be successful from it but Comcast thinks that they are going to be successful and AT&T and DIRECTV think they are going to be successful. And I was wondering if you could compare and contrast, like how you see the world evolving such that Verizon is in the sweet spot in three to five years and why the Comcast and AT&T, DTVs might not be at the margin.

Marni Walden ***- Verizon Communications Inc. - EVP & President, Product Innovation and New Businesses***

Do you want me to start and you want to add to that? So I think, first, mobile is our strength. And so even when we were developing go90 we said we wanted to have a mobile-first application, we would leverage the strength of Verizon.

You had eyeballs moving off of what's happening on big screens, more to mobile screens, particularly the growing audiences, millennial and younger. So we believe leading with mobile is important. And, again, I will say that having a leading network is always going to be a part of Verizon's bigger strategy.

So if you asked me, when we look forward does network matter, having the best networks will always be a foundation of the success that Verizon has. And we think a lot about that in terms of 5G.

But then if you think about aspirations for media co, certainly we can leverage what we do with the network, Verizon's network and our mobile lead with what Tim's business is. But we're thinking much broader in terms of global.

And so how do we get even above the network and participate in monetization there. And so mobile will be a big piece of that and we can help lead that in the US, but then globally we have to do other things because we don't own the mobile networks there. And making sure that we've got good global aspirations to capture that growth will be important.

Tim Armstrong ***- Verizon Communications Inc. - CEO, AOL***

I would just say that I wouldn't comment on the AT&T strategy. I would say in our business let me just give you what the mobile world looks like versus digital desktop.

So if you'd say analog companies are here, desktop is here, mobile is here in the progression chain of -- if you take one of our products properties like TechCrunch, for instance TechCrunch's highest desktop usage is Mondays between 10 and 2 p.m. And you'd say why is it Mondays between 10 and 2 p.m.?

It's typically because people are at work and they basically are going to some, most companies have Monday, Tuesday meetings where they have to be talk about where the future is going and what you're doing in those things. So a lot of business people are catching up on where the tech world is going on desktop on Mondays because they are starting their week off. And those things are very kind of normal human behavior.

So we have these scatter graphs at AOL up on the wall that show real-time desktop usage and real-time mobile usage of all our properties. When you look at TechCrunch's mobile usage and we have these heat maps that are red when it's the highest use periods, TechCrunch versus desktop on mobile, first of all, the entire week is red, meaning there's usage, heavy usage all over the place.

There's also hyper-red usage late at night like before people go to bed. And what people are doing is on their mobile phones, probably in bed, is checking the news, what happened that day in terms of the tech world overall. So if you were a Company like ours and you were a desktop company and you looked at it our teams and our ad teams would normally optimize everything for Monday.

You have the whole Company basically saying that's our day, that's when the highest usage is, let's maximize that. In general when you take a step back and look at mobile you say wow, overall usage is increasing. It's also increasing by different behavior type overall.

We'd actually set the inside of the Company up differently to talk to those type of consumers. So all these little things are 1,000 step towards success.

I believe that from an analog strategy the reason analog companies, and I've worked at them before, have trouble making the jump to digital, to desktop digital and a lot of companies have trouble doing that is because the behavior is so different in getting your inside company to match that behavior difference. When we did the Verizon deal, I think the reason that Verizon wanted to do the deal and we wanted to do the deal is because we realized that behavior is changing again right now.

And so if you came back five years from now and said which companies are going to be most successful I think very simply the companies that basically are able to shift their operations to match what the different mobile is a significant behavior difference driver for consumers on media, super significant overall. So I think our trick is to get our Company aligned internally with how significant that shift is and make that alignment faster than the other people are going to be.

So if you asked me if it was better to be weighted on analog or whether it would be better to be weighted on mobile right now, from our standpoint I'd say unequivocally it's better to be anchored in mobile. Because your internal changes to the Company and your business model changes you're going to get forced to make those changes anyway, so you might as well start from desktop to mobile rather than analog all the way to mobile. And I think there will probably be history written five years from now to determine which was the better strategy, but that's the way things look now.

Marni Walden *- Verizon Communications Inc. - EVP & President, Product Innovation and New Businesses*

You see the viewing trends, we've talked about this, but whether so live sports, let's just take that. And what we've seen inside go90, and I'm not going to give numbers here but people said, hey, people won't watch the Super Bowl on their mobile device. The reality is over 1 million people did watch the Super Bowl on their mobile device, and it wasn't everybody gathering around a big screen in a bar or somebody's house.

NBA Finals, we have the purview of seeing what happens with that because our digital media service does the work of content delivery and record numbers watching on mobile devices. You take Mexican League Soccer which is on go90, record numbers watching the games on a mobile device. And so you see the trends happening. It doesn't mean that there is not a home for linear, clearly we believe in that with what we're doing with Fios, but if you follow the trends, the first screen for the growing audience is mobile and lots of old people doing it, too.

Jessica Reif Cohen *- BofA Merrill Lynch - Analyst*

Can I just follow up on your sports? So sports is one of the key tenets of your content strategy, you've said that over and over. What -- is this a global strategy, what rights do you need, how do you think about European sports, football, American soccer?

Marni Walden *- Verizon Communications Inc. - EVP & President, Product Innovation and New Businesses*

So from a Verizon perspective, most of the rights we have today are all for domestic use. But we clearly think the brands that Tim is building are all global brands. What Yahoo has they are global brands as well.

So we need to continue to build up those channels and create customer engagement. So we will work through that.

But global clearly whether you are talking about Tim's business or the telematics business, if we're not thinking globally we're not thinking in the right way. So each one of those, and I won't say it specifically to content, each one of these businesses we're standing up need to have global aspirations and do have global aspirations.

Tim Armstrong ***- Verizon Communications Inc. - CEO, AOL***

I just think from -- if you take the Olympics, the Olympic viewership that happened this year, first of all it's sports are global, you look at what the investments that have gone into Yahoo Sports and Verizon put into sports overall through the digital properties, sports is one of those things that is in a key part of peoples' time, many times it's on the weekend.

So programming time on the Internet, if you look at Internet traffic it goes down on the weekends, programming and sports is a way to basically have a more throughput on viewership. And I'd say the second thing is you know internally we say this jokingly but I don't think it's a joke, is we want to program things that people change their clothes for. And if you go anywhere in the world at any point from an emotional standpoint consumers are incredibly attracted to sports.

They basically will put on, you will see normal human beings during the week put on different clothing and go to a soccer match or a football match for those things. And it's almost a religion overall.

So I think from the standpoint of if you look at European soccer, which is on the Verizon platform, Yahoo does a good job covering soccer, that is a megatrend in the world right now. And the question is if you went out to all the middle schools or high schools in the country and you asked all of the middle schoolers or high schoolers to name every single player on the New England Patriots or name every single player on Manchester United, you would have a 90% hit rate on kids being able to name every player on the Manchester United and what their record was versus them being able to name a handful of players on the New England Patriots.

I think that behavior change overall is why sports is such an important driver of consumer usage in traffic. And then to get nerdy for a minute on sports is the CRM data that comes out of sports, you tend to be a lifelong sports fan of your team. You tend to have an ongoing relationship with them.

Yahoo Fantasy Sports, for instance, is a huge database of people who are sports fanatics, not just in football but in all the sports. And I think we see an opportunity if you connect Verizon database, Fantasy Sports database, AOL database, Yahoo database all together most of the sports teams at this point do not have synergistic CRM data strategies.

We could be the Company that does a very good job providing sports databases for these companies. Not just the content and not just ads but actually add tremendous value to them. Most sports franchises actually don't know all their fans, and that's something that we've been thinking a lot about.

David Barden ***- BofA Merrill Lynch - Analyst***

Obviously a huge opportunity. Thank you guys for coming. I really appreciate it.

We blew through our time. But there's so much more to talk about. But I know that you guys are sticking around a little bit.

So thank you guys for coming. We really appreciate it.

Next up in the ballroom will be John Stephens, CFO of AT&T. Thank you.

Thomson Reuters Editor

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Important Additional Information and Where to Find It
On September 9, 2016, Yahoo! Inc. ("Yahoo") filed with the Securities and Exchange Commission (the "SEC") a preliminary proxy statement regarding the proposed sale of Yahoo's operating business to Verizon Communications Inc. ("Verizon") and related transactions, and the definitive version of which will be sent or provided to Yahoo stockholders. **BEFORE MAKING ANY VOTING DECISION, YAHOO'S STOCKHOLDERS ARE STRONGLY ADVISED TO READ YAHOO'S PROXY STATEMENT IN ITS ENTIRETY (INCLUDING ANY AMENDMENTS OR SUPPLEMENTS THERETO WHEN THEY BECOME AVAILABLE) AND ANY OTHER DOCUMENTS FILED WITH THE SEC IN CONNECTION WITH THE PROPOSED TRANSACTIONS OR INCORPORATED BY REFERENCE THEREIN BECAUSE THEY CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTIONS**. Investors and stockholders can obtain a free copy of Yahoo's proxy statement, any amendments or supplements to the proxy statement, and other documents filed by Yahoo with the SEC in connection with the proposed transactions for no charge at the SEC's website at www.sec.gov, on the Investor Relations page of Yahoo's website investor.yahoo.net or by writing to Investor Relations, Yahoo! Inc., 701 First Avenue, Sunnyvale, CA 94089.

Yahoo and its directors and executive officers, as well as Verizon and its directors and executive officers, may be deemed participants in the solicitation of proxies from Yahoo's investors and stockholders in connection with the proposed transactions. Information concerning the ownership of Yahoo securities by Yahoo's directors and executive officers is included in their SEC filings on Forms 3, 4 and 5, and additional information is also available in Yahoo's annual report on Form 10-K for the year ended December 31, 2015, as amended, and Yahoo's proxy statement for its 2016 annual meeting of stockholders filed with the SEC on May 23, 2016. Information about Verizon's directors and executive officers is set forth in Verizon's annual report on Form 10-K for the year ended December 31, 2015 and Verizon's proxy statement for its 2016 annual meeting of stockholders filed with the SEC on March 21, 2016. Information regarding Yahoo's directors, executive officers and other persons who may, under the rules of the SEC, be considered participants in the solicitation of proxies in connection with the proposed transactions, including their respective interests by security holdings or otherwise, also will be set forth in the definitive proxy statement relating to the proposed transactions when it is filed with the SEC. These documents may be obtained free of charge from the sources indicated above.