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PRESENTATION

Brett Feldman - *Goldman Sachs - Analyst*

All right, everybody. Welcome to the day three of Communacopia.

We are kicking off today with Fran Shammo, the CFO of Verizon. Fran, it's great to have you here.

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

Thanks, Brett. Good morning everyone.

Brett Feldman - *Goldman Sachs - Analyst*

So as most of you know, Fran recently announced he's going to be retiring from Verizon at the end of the year. He's been the CFO of Verizon since 2010 and he has been with the Company for 27 years. This is his last investor conference.

And it's actually the sixth time he's done one of these with me. So, first of all, thanks so much for doing this again and congratulations on a great career.

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

Yes, I appreciate it. Thank you.

Brett Feldman - *Goldman Sachs - Analyst*

So let's talk a bit about 2016 because it's been a bit of a transformational year for Verizon and I will just recap a couple of the big things you have been doing. You completed the sale of the non-core Wireline properties to Frontier back in April. You actually endured a strike that went on for several weeks but you were able to restructure your union contract as a result of that.

You moved past 50% adoption of no subsidy plans in your Wireless business and you are continuing to invest in growth areas like mobile, video including your recent deal to acquire Yahoo. So it's been a pretty busy year. I guess the first question is if you think about all these things you've done in 2016 how do you feel about the positioning of Verizon going forward from here?

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

Entering into 2016 we said this would be a transformational year for us and it has been. I think right now where we sit we are extremely pleased on exactly where we are. We thought we would be exactly where we are.

So let's just back up. Let's talk about Wireless first. Coming into 2016 we knew that would be a lot of headwind in the wireless model just from the switch of the pricing from a subsidy model to a non-subsidy model.

So we still had to go through that transition. And we said that once we broke through the 50% of our base that the dilution that we were experiencing coming out of the first quarter, which was a high of a negative 6.2%, we would start to see improvement once we broke through that 50%. We saw that in the second quarter, so we had an 80 basis point improvement in that.

As we said before, the way math works, and it really is just quickly math, the way the math works is we still view fourth quarter of 2017 will turn back to positive ARPU. And we're still on track to do that. So that we knew coming in was going to be a big headwind for us and, of course, with the EIP model we were very clear with this all through 2015 there was artificial earnings created by that model because of the accounting benefit.

That benefit flattened out in 2016 so we knew that was going to happen. And then, of course, after you get through it two years it all normalizes out and you are back to a normalization. So we are right on track with where we thought we would be from an adoption standpoint and the way the math works.

As far as on the Wireline side as you said, Brett, we've gone through a lot of transition there. We divested to the Frontier properties coming into the year. We said that there would be stranded costs that we would need to offset once those properties left because as we disclosed they were higher-margin properties than the ones that were left and as we reset the gate we showed an 18% margin on the properties that remained.

So we said a couple of things there. We knew that we had to offset the stranded costs that were left behind. And if you look at us, we're down almost 8,000 people year over year.

And we did it quietly. But as I said coming into year, we are going to take the measures we need to take in order to offset the stranded cost. And we are in a great spot.

We've offset all the stranded cost related to that transaction. And you saw that from the first quarter to the second quarter. And you will continue to see the trend here where we are improving the profitability of the remaining properties back to where we were before we divested of that property.

The union contract was another transitional for us and we knew that this was going to be a very difficult negotiation because they were certain things that we had to get from this contract and we knew they were going to be pain points with the representative employees. But we endured the strike. We came to a meeting and we walked away with the top priorities that we needed, which was some work rule reform, the ability to at least give the employee ability to retire early with an ISP which we were never allowed to do before.

And then also we got medical caps in there. So that was a big win for us from a post-retirement, cost-containment perspective if you will.

So that contract will bear about $500 million worth of savings over its term. And just like the last time that will build as the contract goes and as the years go. So we will realize the full benefit at the end of the term which is three years out.

So the Wireline itself is still transforming. And what I would tell you is from a growth perspective during the strike, obviously, growth was very suppressed and we said that in the third quarter we would get back to a normal growth and I'm here to tell you we are on track to report that normal growth back out there. So I think the Wireline is performing well.

Then, of course, we started to realize that we needed to really change the way that consumers start to view video. And I have to step back here and explain really the thinking behind why we're doing what we're doing. So if you look at consumer wallet spend, consumer wallet spend on telecommunications products and telecommunications products includes cable, wireless and telephone.

It really, the percentage of spend by the consumer has not changed for 20 years. It's around 4% to 5%. And if you look at the shifting of that model over time it went from telephone to cable, now cable to wireless and cable and wireless kind of share the bulk of that spend.

If you look at it, wireless is starting to take over more of that spend as we all see that the bundled TV product is starting to decrease because people are starting to consume content in different methods. So when you look at that we know that in the wireless world, because I'm not going to go to unlimited, and we can talk a lot about that, but in the wireless world we know the consumer is going to hit a certain peak where they say I just can't pay for the consumption of data anymore.

So we created this model that said we need to be able to deliver data through the network and have someone else pay for it other than the end consumer. And that's how go90 was born, that's why we purchased AOL, that's why we looked at Yahoo because at the end of the day in order to make that model work you need to have the viewership in order for the advertisers to sell to.

So currently today when you look at AOL and go90, and I am sure we will talk a lot more about this, Brett, but if you look at that as we consolidate these platforms and drive viewership, and it's not only a wireless viewership because a lot of this viewership happens off of our network actually and happens on WiFi and happens on other wireless networks as well, we're building an audience that we can then build advertising dollars to generate a revenue stream that's different than any other revenue stream we have. So we believe that this is a growth engine for us in the future. And as I said when we entered into the go90 and AOL this is a two- to three-year venture.

This isn't going to happen overnight. It is going to take its time to build upon this model.

But we truly believe that this will be a shareholder value accretive over the term. And it's a new model for us and we think we can really make some headway into that industry. So I will stop there because we probably can get into a lot more questions here.

Brett Feldman - *Goldman Sachs - Analyst*

Let's start off talking about the underlying earnings power of the Company. Because you noted that many of the initiatives that we started off talking about created an earnings headwind in 2016 for a variety of reasons and, in fact, it was at this conference last year where Lowell came out and updated everybody on that expectation.

But the longer view was that Verizon would return to more sustained earnings growth after this transition period. And so do you still feel comfortable that as you look into 2017 and beyond that you are recovering and going on to sustained earnings? And how do we think about what the real underlying earnings growth of the Company is?

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

Yes, so when we talk about earnings let's first start at the top line. So from a top-line perspective, we believe we can be around the GDP growth in 2017 and, of course, everybody says, well, how does that happen? Well, some of it is just, again, the math.

So if you think about the wireless math that we just talked about in getting back to accretive in 2017, the comp year over year starts to improve for us. Therefore, it generates a growth profile on the overall portfolio.

So as you look at that then you look at the growth at we're seeing in the AOL, and we're going to talk more about that in the third quarter so I won't get too much into that, but we are seeing nice growth. And we've alluded to this in some of the earnings call about the best quarter ever in the first quarter and so forth.

So we're seeing some good progress there that's contributing.

You saw that we've made some investments in the Telematics business which we believe is a very good growth area for us and something that we have a lot of expertise on with the Hughes Telematics platform, now with the acquisitions of Telogis and Fleetmatics which will close hopefully by the fourth quarter. We put all those assets together, that also contributes to a growth profile for us. So when you combine all that we feel really comfortable with a top-line growth trajectory.

Then as you work that down you have to go through the expense lines because if you just look at GDP growth, as Brett always points out, the math doesn't flow down to get me back to a normalized earnings growth. You also have to look at the amount of work that we have done around our cost profile and the amount of work that we continue to do around that cost profile. So like I said at the beginning here, we are already down 8,000 people year over year.

You are going to see Wireless continue. We restructured Wireless at the end of last year. That model continues to reform itself and we need to get more efficient in that model.

And as we start to see the shift if you look at the new pricing that we just launched and the app that came with that there's a lot more self-serve that can happen. And that's really important because as customers do more self-serve and we give them more information at their fingertips, they stop calling the call centers. And as those calls start to decrease those call centers start to shrink.

Now that happens through attrition because of the turnover rate in a call center. But as those call centers start to shrink you will start to see us start to close call centers.

We did a little bit of that last year. That will continue into this year.

As we start to look at our distribution models, and you've seen us do this over time where we have turned over some of our distribution to indirects and have closed some of our direct scores because the model continues to reform itself. So you will continue to see that and you may see additional store closures from us in certain areas or turning them over to indirect. And we will continue with that model.

So as we refine this the cost structure is very important for us to continue to decrease that cost structure. And, of course, in Wireline we've talked a little bit about that.

So when you add all that up, Brett, what we've said and what I continue to say is, look, if you look into 2017 you should think of Verizon as a normal EPS growth Company. And then, of course, I get the question will what does that mean Fran? What's normal?

Well, go back a few years. Take the Vodafone transaction out, take the 2015 EIP accounting benefit. If you go back you will get a normalized growth trajectory for Verizon and we're comfortable we can grow earnings.

Brett Feldman - *Goldman Sachs - Analyst*

So if we talk about some of these margin initiatives and I want to start off with Wireless. Because you noted that your Wireless margins have improved meaningfully over the last few years and if we just go back to when you introduced no subsidy plans and the accounting benefit you got from that, you got 500 basis points on total revenue and significantly more on service revenue.

Some of that was your own cost initiatives as well so it's a great story. So the question is those initiatives that you outlined, are those initiatives that will allow you to sustain margin expansion in Wireless? Or at this point is it really focused on keeping margins where they are and, therefore, growing EBITDA as you grow the top line?

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

Yes. It's funny how we repeat this question year after year. Six years ago I think I was getting the same question at 45%, then I got the same at 47% and then 48%, now I'm getting it at 50%.

Look, I think that the model that we have if we can execute upon the model right, we get the efficiencies that we need to deliver the value to the customer. We believe that we can expand the margins of our Company.

I'm talking about overall some of that will come from Wireline, some of that will come from Wireless and, obviously, some of that is going to come from the new Company as well, the new segment around video. So, look, we are confident that we can grow the overall margins of our business and we have to in order to generate the earnings growth that we just talked about. So we are fairly confident in that.

Brett Feldman - *Goldman Sachs - Analyst*

The move to EIP definitely smooths out the quarter-to-quarter margin performance of the business because you were taking subsidies out of the mix. The new iPhone 7 promo has brought that back in the sense that you are giving away free iPhones in exchange for a trade-in. So there is a variance there that is effectively a subsidy.

So I guess a couple of questions here. First of all, what's been the success of the phone? I know you said it was around normal.

Is that really being driven by the free iPhone promo? And if that's the case, do we need to rethink the way we model margins in the back half of the year?

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

Yes, I mean, look, I know some of our competitors have made a big announcement around the iPhone 7 and how great it is. Of course it's great. It's free.

So we drove volume because it's free. So customers decided, well, if I can get a free one I might as well upgrade or I might as well do something.

The question, though, is when those promos end, of course, the market right now is saying they are going to end at the end of the month, does that continue? Quite honestly I don't know the answer to that yet. And I still believe that volume will be similar to 2015.

I don't think this is going to be a 2014 event to be honest. From us personally, yes, we saw some increase in our volume from 2015 to today. But I contribute that to it's zero, it's free to the customer.

So now let's go back and talk about the math because from an investor standpoint and an analyst standpoint when you hear free you say, my gosh, that's a $650 subsidy. Well, it's really not.

If you notice what has been done is the trade-in is only on the iPhone 6 and the 6 plus. And those phones really have not been available in the secondary market. So as we collect these phones and we go to the secondary market that value of that phone I will tell you on average is somewhere between $320 to $400.

So now if you do the math from that, and it's only the $650 credit, so if you buy up in the iPhone 7 the difference between the $650 that you would get as a credit and any incremental you are paying for. So we're dealing with the $650 quote subsidy. Well, you have to take $320 to $400 off of that number.

Now you are down to a $250 number. And if you looked at second-quarter promos what was the industry doing? Well, we were doing trade-in credits, we were doing get a $100 off credit of your bill.

So when you do the math this promo mathematically is not that much different than what we have previously done. So for us at Verizon I will tell you this will have no impact in our margins, especially for the third quarter. I can't really talk to the fourth quarter because I am not quite sure yet what volume is and what other promotional activity will come out.

But here sitting at the third quarter this will really have no impact on our profitability for the quarter. So from this perspective this is just another promotion. It's to stimulate the marketplace but from a mathematical perspective it really has no impact to us.

Brett Feldman - *Goldman Sachs - Analyst*

Do you feel like the launch of this phone has intensified the competitive environment? Because we talk so much about how competitive the market is, but if you look at the first-half numbers we saw a record low churn levels, people were keeping their phones longer.

That actually suggests that people were generally happy with where they were but then we see all these headlines. Has it shifted or is this just normal seasonal behavior?

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

Yes, we will talk more about this on the third quarter call. But I think our churn metrics speaks for itself regardless of what everybody else says and how many customers they take from us. And I think it's important to understand, too, that a customer that goes to a postpaid that looks like a port could actually come from prepaid.

So you have to really dig into the numbers when people start to talk. But if you look at our postpaid churn, and we are actually going to talk a little bit more about this and maybe give you something we've never given you before, but our postpaid phone churn is still very, very good.

So, look, coming into 2015, coming into 2016 we said the top priority for Verizon is to protect our base. And we are protecting our base. So we'll talk more about this on the third quarter call, Brett, but we are very satisfied where we sit right now.

Brett Feldman - *Goldman Sachs - Analyst*

Well, let's talk about some of the things that you are doing to make sure your customer base is satisfied. And you recently launched a new data plan that I guess you could say offer more value, meaning that you are getting a lower price per gigabit but you paid more for that tier of service.

And you've also done some other things to make the bills more predictable. You can protect the overage charges, for example. So I guess the first question is why did you decide to go ahead and refresh your plans now?

Because if it's successful then it's ARPU accretive. And so that would seem contrary to being worried about how competitive the market is. Then you said it earlier but why do you not see a need to respond to an unlimited offer that all of your competitors have in the market now?

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

If you look at what we did, the two biggest pain points to our customers was overage in two different perspectives. So the first was I blow through my bundle, you hit me with an overage charge and that's a pain point. So what we did was we said okay, well look, if you hit your level we will put you to a safe mode.

So you can determine if you want to just stay at safe mode which allows you to do text messaging, voice. It gives you some capability to do email. Certain videos you can watch but probably not much video because video is really the high driver of usage. So safe mode gives you the ability to just sit at safe mode until you reset for the following month.

The second pain point was, well, when I buy up the extra gig and I only use 100 megs of that gig I pay for a gig and I lose it. So we said okay, well, we will let you carry the 900 megs that you didn't use over to the next 30 days and you can have it then for your usage at that point in time. So we feel like we addressed two of the biggest complaints that our customer base had.

And we saw really good response to that. So launching this new price plan, obviously, you always have your optimizers go to the new price plan first and normally your optimizers are people who constantly go through their overage. So now they've optimized and we think that this is a good path.

So as I said before, Brett, we are going to look at our competitors very, very closely. We are going to respond when we need to respond. If you look at the unlimited plans, after you get done reading the 75 asterisks of what you don't get, we want to be simple to our customers.

So what we did was we rebundled our price. We are giving more data but there is no asterisk. So you can tether, you can do whatever you want at a very high speed network that we're not going to degrade on you if you hit a certain cap.

So look, it's just a matter of -- we believe it's more customer friendly and at the end of the day the majority of people don't need unlimited plans. But the people who use unlimited plans can be abusive, they can really wreak havoc to your network. And at the end of the day as we launched LTE I continue to say you cannot make money in an unlimited video world.

You just can't do it because you need to generate the cash flow to keep up with your demand. At some point that's going to catch up to all the people who talk about how great their networks are, yet the drive tests prove that their networks are starting to get cracks in their armor. So we will just play this out and we will continue to be the premium provider in the industry.

Brett Feldman - *Goldman Sachs - Analyst*

What do you think about the opportunity to continue monetizing more usage at a subscriber level? Which is essentially what this most recent price adjustment is. So you've got -- you had a huge tailwind because you went through a period where people went from feature phones to 3G devices, 3G to LTE, LTE to better LTE and they kept buying more data along the way.

But you are now getting to a point, particularly with these new iPhones that are out there, where everyone has a highly capable device. And so the rate at which they suck down more data may not be as intense as it previously was, and so they may feel comfortable longer in whatever tier they are on. So as you think about that GDP growth target that you have over time, for how much longer do you think a decent chunk of that will be achieved by your existing customers spending more with you for usage?

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

Well, I think that this is similar, very similar to the voice world. The price per meg is going to continue to come down, just like the first price per MOU came down. But then the industry, as you noticed, reflected and then we launched LTE in beta.

So you are seeing the same model and the way we look at it is you have IoT, so if you look at our hum product that is product that is gaining good awareness in the industry. So we are doing net ads there. That's incremental.

So the way we look at it is IoT is an incremental business that we can sell into to that customer base. I believe we're the only Company now that gives you the revenue growth for that which is in excess of 25% quarter over quarter, year over year. So if you look at that, that has a great growth potential for us to be able to sell incremental devices into our base.

Tablets is still a growth area for us. So you look at IoT as a growth market. But this is where, exactly where we get into the conversation up how do we stimulate the usage of the customer to use more but get revenue from somewhere else.

That's where we get into this advertising model that we talk about when we talk about our video strategy. It's gaining revenue from someone viewing a video. And that video doesn't necessarily have to be on my network but I will still generate the revenue from that if someone views it.

And that's where the go90, AOL platform comes in. And as we bring in the Yahoo business we get the 1 billion-plus viewers that you need to attract advertisers. So that's really what our vision is from a revenue accretion perspective and profit growth.

Brett Feldman - *Goldman Sachs - Analyst*

So if you think about the investments you are making in that digital media business, you already have AOL, you are planning on bringing in Yahoo, you are going to have to go through a period where you integrate them. Where do you -- what are you trying to get them to? Where do you need that platform to be so that it becomes much more of a revenue engine for Verizon, the kind of engine that we actually have to model because it matters to our revenue forecast?

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

We will get a little bit into this third quarter and, obviously, Matt will take this into 2017. But at some point we are going to have to disclose more information around this to give it to you. But, first, I think it's prudent to integrate the companies.

So I would tell you probably January 2018 is when we will be ready to do that. But, obviously, that will be Matt and Lowell's decision at that point.

But, first, we need to integrate these things, generate the synergies. We will talk a lot more about the synergies that we plotted out as to what led us to buy these businesses. And then I think we will go from there, Brett.

Brett Feldman - *Goldman Sachs - Analyst*

I want to back up for one minute because I want to finish the conversation we were having before on margins. You mentioned that when you sold off the Frontier properties you had to do a margin reset and now you are working your way back up. I just want to be clear, do you feel like you make at the point where you have removed all the stranded costs or is that something that's going to take a couple more quarters to be in the full run rate?

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

You can't -- the stranded costs can't be removed because quite honestly what you have is you have a corporate entity that allocates cost out. By divesting three properties the corporate entity itself didn't really change. So the simple example I'd give you is I didn't lose accountants because I sold three properties.

So that cost structure remained there. But what we did was we looked at other areas of the business and as I said we went down 8,000 people. So in essence we already did away with the stranded cost.

Not exactly dollar for dollar like individual by individual but we have dealt with the stranded cost. So in all intents and purposes the stranded costs are gone.

Brett Feldman - *Goldman Sachs - Analyst*

And it's not just the Wireline segment where you'll get margin recovery because you are doing this across the Company. Some of that recovery you're getting is actually in Wireless. Is that the right way to think about it?

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

That is absolutely the right way to think about it.

Brett Feldman - *Goldman Sachs - Analyst*

I want to go back to some of these growth initiatives. And there is so much headline around AOL and Yahoo. But if we look at where you are investing, you've done three sizable acquisitions in connected car.

So you did the Hughes Telematics, you just mentioned Telogis and you are going to finish up with Fleetmatics. It almost feels like that initiative area may be getting closer to being fully operationalized in some of the bigger, long cycle, digital media stuff. So I'm just wondering why are you guys so bullish on connected car?

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

Well, when you look at Internet of Things it's probably the most advanced. It's been there for a while. If you look at the industry itself from a market share standpoint really no one owns the market at this point.

It's all single-digit marketshares. We believe -- Hughes had a great platform but Telogis, I think everybody would agree, because everybody was bidding on it, had these state-of-the-art platform for this business, which was critical for us to get.

Then Fleetmatics brings volume and a lot of expertise both from an international perspective and they also are involved with a lot of the OEMs. So we believe that given the maturity of this marketplace and our expertise from when we acquired Hughes a long time ago, and hum because actually hum came out of Hughes Telematics as a developmental product, although it's sold by Wireless it's really a Telematics product.

We believe that we can really make inroads and there's a lot of growth yet to happen in this industry. It also sets you up down the road when you have smart city, autonomous cars, it sets us in a premier environment to be able to deliver those solutions once they are solidified, which I think will take a couple more years before we get there. So it puts us in a really great position in that segment of the IoT marketplace.

Brett Feldman - *Goldman Sachs - Analyst*

Got it. So we were just earlier talking about your digital media business and the way you are going to be approaching this down the road. But you are already in the traditional video business through Fios. And last year, actually at this conference, Lowell said there's clearly pent-up demand to get away from the 300 channel bundles and he talked about two ways this was going to play out.

He said skinny bundles and OTT would be how consumers moved away from it. So I want to start by asking you about your own skinny bundle strategy. You've been in the market with Custom TV and I was hoping to get an update on how that product is doing?

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

It continues to do well. We still have about 40% take rate on that product. We still have migrations into that business.

So it's something that's palatable to the consumer. Obviously, we had to refresh that because of certain contractual arrangements we had which we knew we were going to do so we had to repackage that. But even the repackaging is going quite well. So I think that will remain for us, the skinny bundle will remain for us.

When we talk about over-the-top I think it's important, as I said before, I know that people talk specifically about taking content and taking it over-the-top and we have all the negotiations. So the way that we have approached the ecosystem and Marni's area is when we deal with content it's all about rights. So when we go out to negotiate a content deal with anyone of the content providers, when we walk in we negotiate both for Fios, we negotiate for wireless, we negotiate for the content to be taken externally into an over-the-top model.

But if you step back a second and if you look at the product of go90 in essence go90 is an over-the-top product. We have people sitting in their homes today watching go90 content via their WiFi connection. So in theory you could say that is over-the-top.

I mean, NFL is a perfect example where our Wireless customers sit at home and watch that video. In essence that it's coming over the Wireless network but in essence you could say that's over-the-top.

So as we talk about our strategy we don't necessarily say well, we are specifically going to over-the-top. We are looking at a mobile strategy that is much more comprehensive but it actually is an over-the-top model. It just happens to be we always talk about mobile first because we are talking about content that is not linear content.

You have sports, you have news but then everything else we are not really into the business of trying to take a CBS series and bringing that over-the-top. There's many -- Hulu does that. You have all these other players that do that well.

We are looking at unique content that no one else has which is why we entered into AwesomenessTV and Complex TV and we entered into the joint venture with Hearst. We want to develop that uniqueness. And we can see already when we launch an episode our usage on go90 just pops.

So we know exactly what the consumer wants in the target segment that we're going after. We saw it with the episode of Runner that we had exclusive on.

So we know what works. We now have to build that out and gain the viewership. So we will talk more about this at the third quarter but that's going to happen over the next two to three years.

Brett Feldman - *Goldman Sachs - Analyst*

So basically you are talking about expanding your video presence by doing it by pursuing new areas of video growth. At this conference over the last two days both Comcast and Charter indicated that they are going to be getting into the wireless business.

And it sounds like in a sort of traditional way, and you know this because they are using your network, so Comcast says that they are going to be in the market with something before the middle of next year and Charter seemed pretty sure that they had activated the MVNO agreement with you. That's TBD.

So they will have something coming at some point, as well. So what are your thoughts on the cable guys coming into your space as a wireless competitor with your network?

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

Comcast activated that, gave us notice almost a year ago. So we know they are coming. And we've done our scenario planning around that and we will see where they go with that.

I can confirm Charter took the first step in the activation process. But we knew that when we entered this agreement. And as I say to people, we've been in the reseller business, because whether you call it an MVNO or reseller, we've been in the reseller business for 20 years.

So we have sold our network to plenty of providers over those last 20 years. And what you have to understand is a wholesale model in a Company is extremely profitable because you don't have all of the additional retail overhead with it.

Now that doesn't -- so we are perfectly happy with the agreement and I think Lowell and I have both said if we were to walk in a room today we'd do the exact same agreement. So we knew exactly what we needed in that agreement and we are perfectly fine with that agreement.

So it's just a matter of whether it's a wholesale or retail. Obviously, being a retail consumer-type Company we want the contact with the consumer because then we can sell things more into it. But, look, we know that the cable companies have to get into wireless.

That pie is growing and it's not only cable companies. I've sat here before and talked about the pie of wireless and if you believe where the world is going the world is going to be a wireless world. And if you look at 5G you are going to have fixed wireless data into the home using a 5G network with 1 gigabits of speed.

The world is going to become wireless. So if you believe the world is becoming wireless, which I think most believe, then, therefore, this pie is going to grow and everybody is going to try to figure out how do they get a piece of the pie.

But for the carriers who exist today that doesn't mean that their pie shrinks, their pie grows as well and we all grow together. I think it just enhances the pie, it enhances the growth of Wireless and we will compete competitively. So I am not worried about it.

Brett Feldman - *Goldman Sachs - Analyst*

What they are really trying to do is they are trying to offer a bundle and then maybe something that's more integrated down the road. I know you've talked in the past that you think the traditional bundles really don't create a lot of value. But you have talked about moving beyond your core footprint with 5G.

And so as you build out that fiber density densification and you start layering fixed wireless 5G on top of this, particularly out of footprint, what's your vision for the type of product suite you're trying to bring to consumers? Because presumably you will be going up against the cable companies in that field.

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

Sure. 5G fixed wireless would be a competitor to cable or any broadband connection for that matter. But I think it's way too premature to get into the marketing capability of 5G.

If you look at 5G we're at the beginning stages. Now we're much further ahead than some others, and I know others talk about 2019 and 2020 and we can have a discussion why they are saying that. It's because they don't have any spectrum.

We do. So we acquired XO which brought along with it 28 gigahertz of spectrum and that covers 40% of the US. And we're currently leasing that.

We got approval from the FCC to go ahead and commercially launch that for fixed wireless purposes. It's only eligible for fixed. We are hoping down the road it will become mobile at some point.

But we're really concentrating on the fixed piece. You will start to see us do commercial trials next year with using that 28 gigahertz spectrum. You will see us in different markets testing different manufacturers' equipment in different models.

So you will see us in cities, you will see us in suburbs, you will see us in rural areas. Part of the commercial trials is to really test exactly what is the capability of 5G, how many beams can you deliver to homes, how many homes can you cover with one small cell. So there's more to come on this.

But as we look forward I'm sure we will talk a lot more in the future about the marketing around that, but it's going to be a fixed broadband wireless solution. And if you think about the cost benefit of that, today if you think about Fios and what it costs me to connect a prem to Fios, I have to lay the fiber down the street but then I also have to then connect the home, go into the home, make sure the wiring is right, install the boxes, install the routers.

If you think about 5G you put the fiber down the road which is what we're doing in Boston. Then all of the labor and the expense of drilling up your driveway, connecting the OT to your house and all the labor involved with that, all that goes away.

Because now I can deliver a beam into a window with a credit card size receptor on it that delivers it to the wireless router and there's really no labor involved and there's no real hardware other than the router and the credit card. So the cost benefit of this is pretty substantial, at least we believe it is.

Brett Feldman - *Goldman Sachs - Analyst*

And you'd be leveraging presumably a lot of fiber you would have deployed anyhow to densify the LTE network. Is that fair?

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

That's very fair.

Brett Feldman - *Goldman Sachs - Analyst*

So in general the cost to create this fixed capability into homes, if it ends up working the way you hope, would be substantially lower than the traditional Wireline model for doing that. So the extension of that question is, it would mean you would have the optionality of competing on price.

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

Well, again, I'm not going to get into the whole marketing side of this thing. I think what I would say is that the capital requirement for 5G is not like LTE. It's not a replacement technology.

It actually rides over the same infrastructure, so the dark fiber is there. When you put a small cell in we lay fiber to the small cell. The only incremental is we have to add an antenna to that small cell to create the beam for 5G.

And then, of course, the spectrum behind that because you need the high 28 to 39 gigahertz-type spectrum. So I would say the capital requirement is not a huge incremental lift because once you densify you're just going to shift the densification capital over to a 5G capital.

Brett Feldman - *Goldman Sachs - Analyst*

Okay. Let's talk more about your Wireless network you have today.

Some of your competitors are saying that wireless quality is not a differentiator anymore. And I know you don't agree with that. So the question would be what is Verizon doing to ensure that your differentiated reputation is intact with consumers?

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

Well, we continue to spend on the level of about $10 billion to $11 billion a year in our Wireless network to densify. I know a lot of people talk about software developed networks and CRAN and all the efficiencies we're going to get and therefore CapEx is going to go down. And I've been very clear that as far as Verizon is concerned our CapEx will be, think of us as a consistent Company because what's going to happen is I'm going to take that capital and, yes, there is a benefit for all this software development but everybody's got the same technology and I'm moving into 5G.

While everybody else is talking that it's not an 2019 or 2020 event that's great because I'm going to speed into the 5G world in 2017. And it will be just similar to LTE as far as I'm concerned where we get a leap on all of our competitors.

So we are moving forward. At least two of our competitors are still trying to deal with building out their LTE network. I mean that's like five years ago already.

So look we're moving forward. They are still dealing in the LTE world, I'm dealing in the IoT world, smart city world, Telematics. So I moving ahead and they are still talking about how great their network is in LTE.

So every drive test proves it. Verizon wireless has the best network. We've built our brand on that, we're not going to lose that and we will continue to move forward.

Brett Feldman - *Goldman Sachs - Analyst*

You noted earlier that the principal reason traffic grows in your network is video consumption and that's seen as being very capacity intensive service. Our traditional thought process is capacity needs to go up, you've got to get more spectrum.

So the question would be, how do you feel about the runway you have using your existing portfolio? And big picture how do you think about options for adding more spectrum over time? And I appreciate you can't talk about the auction.

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

Don't ask me about DISH either, but --

Brett Feldman - *Goldman Sachs - Analyst*

Are you going to buy DISH --

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

The answer is no. So anyhow from our spectrum portfolio I think it's very important. Only about 55% of our spectrum today is used for LTE which means there's still 45% that's running the CDMA network.

And if you look at the new iPhone 7 out-of-the-box it's WiFi and VoLTE enabled. It really doesn't -- CDMA is just there for safety sake if it can't find a VoLTE signal.

But as time goes on you're just going to get into, and think by end of 2017 we will just have LTE-only phones. And once you start to decline in that CDMA usage, all of that spectrum will start to be reallocated to LTE.

Then you also get into unlicensed. So we will start to deploy unlicensed on 5 gigahertz next year for downlink purposes. So that's available for capacity.

Then there are some -- there's the 3.5 that's out there that could come to auction, as well. That's also for capacity. So when you look at for LTE we are in a very good position for LTE regardless of what all of our competitors say about us.

We are very, very comfortable. And I think we've proven over the years we are the most efficient Company when it comes to deploying spectrum and building.

But really the critical piece here is if you look to 5G that spectrum that currently exists today can't work on 5G. And the reason it can't is because you need that millimeter wave. So you need that 28 to 39 gigahertz.

Now some will say no, we can package this together and use it and that's true but you will have a refrigerator hanging off of a lamppost instead of an antenna at 28 gigahertz. So, yes, it's possible but physically I don't think we're going to do that. So it's 28 to 39.

We are working with Japan and we are working with Korea, we are working with the international body to try to set the standards around 28. Obviously, we'd like it to be 28 because that's what we have.

The FCC has talked about 28 gigahertz to 39 getting it freed up from the DOJ. We encourage them to get that done quickly and come to market with that. So this technology is coming, and so I think we're very well-positioned for it.

Brett Feldman - *Goldman Sachs - Analyst*

I want to talk about the balance sheet. You set a goal when you did the Vodafone deal that you would be back to pre-Vodafone leverage levels in 2018 and 2019.

And I think is that multiple times that you are on track with that. So I guess, A, I will just check are you still on track for that?

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

We are on track with that. And I want to make sure that you will understand, Matt was the one that raised the $49 billion. So Matt is absolutely on track with it.

Brett Feldman - *Goldman Sachs - Analyst*

All right. So the real question is, you've talked about all these growth areas you are investing in and you've continued to do it. You are bidding for spectrum now, you might be bidding for spectrum now.

How do you do that? How are you able to allocate sufficient amounts of capital to growth areas while also accomplishing a very significant balance sheet project?

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

You saw us spend almost a year in and around the consumer financing model. And we worked very diligently with the credit rating agencies, and two of them have accepted the captive financing model for us and we launched our first asset-backed security in a non-public forum and you will see us come to market again with that. It's been extremely well-received.

The benefit to us is twofold. Number one, it's a very low cost of financing for us to advance those receivables to us. And the second is it gives us a rating benefit, because the way the rating agencies will treat this is they treat it more like a consumer financing model like a Ford or a Cisco where you get treatment but they don't take that full liability as unsecured debt.

So there is a ratio benefit by getting captive treatment because it is a very different form of debt versus unsecured debt. So that was there. The other thing, too, is you have to understand we divested of Frontier.

We bought some growth properties. We will talk more about third quarter and some other strategies that we have.

I don't know if you are going to ask me but I will tell you now, data centers I will have an update at the third quarter on that. But we know from our planning perspective that given everything you've said, and we know a lot more than you do sitting here, we will get back to that rating by 2018 and 2019.

Brett Feldman - *Goldman Sachs - Analyst*

Well, we are out of time. Fran, thanks for doing this one last time.

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

Brett, thank you. Thank you everyone.

Editor:

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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.

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