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PRESENTATION

Craig Moffett - *MoffettNathanson LLC - Analyst*

Good morning, everybody. Thank you all for joining us this morning. And for those of you joining us on the webcast, thank you for joining us for day two of the third annual MoffettNathanson Media & Communication Summit. And I am really delighted to be joined this morning by Fran Shammo from Verizon.

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

Thanks, Craig. Good morning, everyone.

Craig Moffett - *MoffettNathanson LLC - Analyst*

Fran, let's start out with sort of a big picture question which is, it's been a little over two years now since you closed the deal for the remainder of Verizon Wireless. Since then you have continued to shape the portfolio with the acquisition of AWS-3 spectrum, with the divestiture of a portion of the Wireline footprint to Frontier, the acquisition of AOL.

With all those puts and takes this year you said flat earnings for this year. But can you talk about sort of the shape of the portfolio? And is the portfolio still a work in progress or have you gotten to something like an equilibrium at this point?

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

Yes, sure, thanks, Craig. Good morning, everyone. So let's start strategically the way we think about this. And the first thing I would say is I don't think you are ever done shaping anything in this industry because if you stand still somebody is going to come in and disrupt you.

So we believe that we have to continue to change as this goes on. So I would probably say, no, we'll never stop changing. But if you think about how we have set ourselves up from a three-tier strategy, I mean first and most important is obviously network.

So, when you think about the wireless network, the fiber network, that is really where our concentration is right now. With Wireless we continue to densify that LTE network, continue to spend capital at a pretty consistent rate, actually increasing year-over-year. And we are doing that for the densification of LTE, but also in preparation of 5G, and I am sure we will talk more about that.

And then when you look at that underlying network, that obviously enables us to do a lot. And if you just look at the entire industry alone, data is going to continue to explode in this industry and everybody has positioned themselves to take a bigger piece of the pie that continues to grow.

So, from an industry standpoint there is so much capability within this industry yet that -- a lot of growth out there to get. And I will come back to us specifically for this year and into next year.

Then if you think about the fiber piece with FiOS, yes, we divested three properties. I get the question all the time: well, if you are interested in fiber why did you do that? And we have talked about they were really three very individual islands, still a lot of copper in those footprints. And it just really wasn't efficient for us to operate them with the rest of the FiOS footprint.

So, it made more sense for us to divest them and get that as an NPV cash flow in. And of course we paid down debt with that cash flow that freed up the balance sheet to do other more strategic things like the AOL transaction and so forth. And as we -- so networks is the foundation. Then we get into platforms.

And that is where we are investing, we invested in Verizon Digital Media Services because we had this view of we wanted to be in a mobile first video world. So, we started to build that platform. We added upLynk and EdgeCast to get closer to the edge so we could deliver video from end to end in our own ecosystem.

We then came out with go90, which was really the preempt to mobile first content. And I want to stress mobile first content because I get the question all the time about linear TV content. That product has nothing to do with linear TV.

Then when you think about that go90 platform, the piece that we were missing was the ad tech piece and that insertion piece. And that is where AOL came into the play is we needed that platform to be able to do that ad insertion. So, now we have this video platform that really is the foundation of how we explode on this what I will call digital first, mobile first video world.

And then of course you have the last piece which is the solution side which, when you think about products like hum, hum is a very specific solution for over 150 million cars on the US highway today. That gives the capability to turn a non-smart car into a smart car.

And then so, when you think about solutions like that and you think about Smart City, which is another solution, we are doing that in Savannah today. That all rides off of both the platforms and the network. So, when you think about those three tiers, that is how you should think about us moving forward within this industry.

Craig Moffett - *MoffettNathanson LLC - Analyst*

So, as I think about your sort of recasting in my mind the business around network, platforms and solutions, talk about how that sets you up for -- this year you said is a plateau earnings year. But how do you think about what the growth engines are and what kind of growth you can generate for this business for earnings as you look out longer-term?

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

Yes. So, sure, so when we looked at this year the big headwind we have is obviously this change from a subsidized wireless model to an unsubsidized. So we have the installment sale. And as we work through that initially it gives you an earnings bump which we saw last year. But as you start to approach that 50%, which is where we are approaching, that earnings now flattens out.

And it was -- and I said all along that was an accounting earnings, it wasn't true earnings. So now that you have this accounting effect you are really now getting a flat earnings because you don't have the accounting benefit anymore. So we have to work our way through that this year and that is the major headwind.

The other headwind that we have is what is the EIP take rate. So, the EIP take rate has an impact on what the current year earnings are. And we had anticipated that we would get to around 75%-76% by the end of the year. And what is actually happening is we are not getting there.

So we are kind of flattening out on the EIP take rate and even through April we are still at 68%. So even though I guided to 70% for the quarter I don't think we are going to get to 70%. We are going to hold probably around that 68%. So again, you are going to have some top-line pressure. And that 68% of EIP could also put some -- a little pressure on the bottom as well because of just the accounting and not getting that benefit.

And I know one of the issues is upgrades. Upgrades are very slow right now. And we saw this same phenomenon back in the first quarter of last year or first quarter of 2014 into the second quarter because everybody knew that Apple was on this two-year cycle of refresh. And I think what you are seeing is consumers are waiting to see what is potentially coming in the fourth quarter. So we will have to play that out the rest of this year.

But as you look at us overall, that is the big headwind. And then we have of course the sale of the three Frontier properties, which were higher margin properties. So we have to reset the Wireline business and get that back on track. I am still confident that we can offset the stranded cost there, so that was part of our plan.

And then as some of these other things start to build, they are going to build in 2017. And that is why I said this year we are going to be kind of flat pressure on top-line revenue growth, which you saw coming out of the first quarter, as we work through that math.

But then I am still confident, based on everything I see, in 2017 Verizon gets back to what I would call GDP growth and normal -- normalized growth on the bottom line. And normalized meaning don't take into the 10% acceleration when we bought Vodafone, back to a normal normalized earnings per share growth.

Craig Moffett - *MoffettNathanson LLC - Analyst*

Would you say something like the growth rate of the top line is what you are going to see on the bottom line?

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

I would say go back in history to look at what that bottom line is. I'm not going to get specific at this point. But more normalized growth for us. And so, what you start to see is you start to see some of these things that we invested start to take off.

And you are starting to see AOL starting to pick up now. They had their best first quarter in five years. They had a great fourth quarter. So you are starting to see the momentum build.

But the critical piece right now is all about gaining viewership on those platforms. And that is the concentration we are at. And that is what is going to deliver 2017.

Craig Moffett - *MoffettNathanson LLC - Analyst*

Well, we will dig into that some more. But I want to talk about the wireless business today. Let's start at the industry level for a second, which is to me the thing we have been looking for for a long time is inflection in ARPU. And we have finally seen at least a second derivative that is the rate of decline has slowed quite a bit in the most recent quarter.

And you've guided to stabilization of your own pricing in the back part of the year. So, talk about for a second what you are seeing in the market in terms of pricing. Is there any abatement in the competitive intensity or is it a shift from ARPU competition to customer acquisition cost competition or what are we seeing?

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

Yes, we kind of see promos come and go as we always have. What I would say is from an overall perspective it is more of the same of what we saw last year. I wouldn't say it is anything incremental from what we saw last year at this point. So, we will continue to compete there.

And when somebody does a promo obviously you have to look at that promo to see if you are going to respond in a promo fashion on that. What we are seeing a lot of now is discounting on the installment sale which is not necessarily a good place to go in the industry. But when you have nothing to promote on the price side, then that leads you down the path of doing some type of promo on the equipment side.

Craig Moffett - *MoffettNathanson LLC - Analyst*

And that still shows up in margins but it doesn't affect ARPU directly in a lot of cases?

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

That is correct, because it is all equipment.

Craig Moffett - *MoffettNathanson LLC - Analyst*

It is equipment, yes.

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

Yes, so it is going to show up on pressure of margins because when you subsidize a handset on an installment sale you kind of get a double whammy there. But you will have to decide where you are going to play in that space and how you are going to compete on that. So, that is probably the newest thing for this year. But that is really not a big, big issue for -- at least for how we compete in the marketplace.

Craig Moffett - *MoffettNathanson LLC - Analyst*

For you, yes.

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

Right. When you then look at service revenue, obviously this headwind, we came out of the quarter 6.2% decline which -- fairly significant decline. But the positive there is we came out at almost 48% of our base. And we see that, and I've said this, once we pass that 50% --.

Craig Moffett - *MoffettNathanson LLC - Analyst*

Who had already converted to EIP?

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

Correct. EIP pricing, not necessarily on installment sale. So, as we cross over that 50% on that reduced pricing, that should start to flatten out and start to go back up. And we are pretty confident that that is actually going to happen.

Craig Moffett - *MoffettNathanson LLC - Analyst*

And is the reason that you are under running the 70%, is that because the mix is skewing towards corporate customers that tend to stay with the subsidy. Or is it because in the consumer segment people are saying, you know, I really like the subsidy model?

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

Yes, it is actually too early to tell, because we are just coming up on the first maturity of the two-year installment sale when we did it two years ago. So we are watching those customers. But as I said, it is hard to determine whether they are saying, no, I am satisfied, I am going to keep this phone for another year or two because I now had a reduction in my bill. Or are they just waiting to see what is coming?

And it is the same thing we saw in the first half of 2014. So, it is hard to tell whether they are waiting to see what is coming or they have made a conscious decision: I am going to hold onto my phone and not do anything with it. So, time will tell us when we get to the third quarter and the fourth quarter.

What I will tell you is keep in mind that only a third of the base upgraded every year. So, on average people kept their phones for three years, even under the subsidized model. I have not seen a change in that yet. The slowdown that we see is just a slowdown in the overall -- on the overall market. So even upgrades, we are seeing a slowdown in the amount of upgrades. And I am not sure why that is. Again, we saw it in 2014, we are waiting to see what happens here.

But the pressure point for us on the installment take rate, we are still allowing our base to choose the subsidized model. And on upgrades, believe it or not, the majority of the people are still upgrading and selecting the subsidized model. That is why we are having the pressure on the installment plan.

Craig Moffett - *MoffettNathanson LLC - Analyst*

Interesting. Just staying with this theme of the installment plans and the extending customer lives for a second. So it sounds like it is hard to tell, but it sounds like your intuition is when we see the next major refresh on the iPhone we are going to see -- we will finally get to see whether it is that customers want to keep their devices longer or whether they were just waiting for the next iPhone. What is your intuition?

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

I think that is right. I am not sure yet.

Craig Moffett - *MoffettNathanson LLC - Analyst*

Don't know yet.

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

Because remember 2014 there was a dynamic change in the product line. We will have to wait to see if 2016 brings that same thing. Because if there is not a dynamic change, then I think what you are going to see is people will hold their phone.

Craig Moffett - *MoffettNathanson LLC - Analyst*

Now that extending asset or the extended handset life is also one of the reasons why the industry has had such low churn. I think you said the 0.96 that you saw is probably not a repeatable number. What do you suspect is going to happen in terms of market share volatility with the next iPhone cycle? Do you think it is going to be the same as we have seen in the past major refreshes?

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

Yes. So let me clarify, Craig. I may have maybe miscommunicated this. The 0.96 is a good number for us. What I was talking about is if you looked at a year ago our churn actually dropped in the second quarter to 0.90. And I said the 0.90 could not be repeated.

Craig Moffett - *MoffettNathanson LLC - Analyst*

Is not repeatable.

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

So the 0.96 is what I said that is the way you should think about us.

Craig Moffett - *MoffettNathanson LLC - Analyst*

Okay.

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

So, churn is still extremely low. And even within that category what is putting pressure on that category is the tablet churn, because our tablet churn is going up because of that free tablet that I said when you give something to someone for free they don't really value the tablet. So after the two-year commitment is up they are taking it off the network.

But our phone churn rate is actually even performing much better than we had expected. So, the continued retention is there. And as I said coming into 2015 and into 2016, the concentration for Verizon Wireless was to really attack the base and keep our base of our high-value base. And we are doing a very good job with that.

Craig Moffett - *MoffettNathanson LLC - Analyst*

And have you seen the efficacy of Sprint's half off? It has now been in the market for a while. Has that started to fade a little bit as a competitive force in the market?

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

When it first came out we saw some blips, but that has really tremendously faded. I mean we don't even react to that promotion anymore.

Craig Moffett - *MoffettNathanson LLC - Analyst*

Got it. Let's turn to the margin side. Because you have done a tremendous amount in terms of shrinking the organization structure and streamlining the field force for Wireless. And you got to the highest margins anybody has seen. Some of that was the EIP transition, but the margins really have been an extraordinary story. How much runway is left in that story in terms of taking cost of the business?

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

Yes. So we don't really focus in on service margin anymore because it is kind of a false calculation because you are taking all the revenue and putting it in equipment and of course your margin is still high so you get this false percentage.

And Mike and I have been trying to say just focus in on EBITDA margin on total revenue because that kind of normalizes out the whole shift between equipment revenue and service revenue.

And look, I mean we have continued to improve on that margin. And, gosh, since I have been CFO six years I think I have answered the same question, well, Fran, can you increase the margin of wireless?

Craig Moffett - *MoffettNathanson LLC - Analyst*

Even more.

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

And of course my answer is always the same, of course I can. So, look, I mean we continue to streamline this business. There is still a lot of opportunity; we identified some of those opportunities in the second quarter around call centers.

As calls start to shrink down because people are doing more self-service and we are improving the online experience. And attrition rate is very high in call centers. So we don't rehire, we let attrition take care of itself and equalize that out, that reduces costs.

So, there is still a lot of opportunity to improve the efficiency model of Wireless. And that is important because as more and more competitors come into this bigger pie that I explained in the industry, and where cable may come into the industry, the pie gets bigger, we have to become more efficient to be able to compete with those new entrants. So that is the whole plan of how we progress here.

Craig Moffett - *MoffettNathanson LLC - Analyst*

Is it fair to say you have always had the industry leading cost structure in Wireless, some of that is scale and some of that is efficiency. Do you think that you are expanding that gap, that gap is narrowing --?

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

Yeah, look, I mean I watch everybody else's margins, but I really don't pay too much attention about what they are or not doing. I mean we have a whole plan and I mean if you look at Wireless for like the last three years we have said we've been taking out almost $1.5 billion to $2 billion of expense a year and that is the track that we continue to be on.

Do we hit it every year? No. But we have plans to get there eventually over time. So look, we have to continue to do the things that we need to do. And I don't really worry about what everybody else's margins are.

Craig Moffett - *MoffettNathanson LLC - Analyst*

So, let's talk about your network strategy then. You have obviously talked a lot about densification even before we moved to the topic of 5G. Is it fair to say that you are transitioning in your thinking from the first lever to pull for network capacity is increasingly densification rather than more spectrum?

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

Well, again, it is a balance. Back before the AWS-3 auction spectrum was relatively inexpensive compared to build. So, obviously you bought spectrum for capacity. AWS-3, I mean we spent $10.4 billion in the auction, so it is not like we didn't spend and get what we needed. I think we got over 90% of what we wanted.

But there is this phenomenon now that spectrum has become fairly expensive up to the AWS-3 auction; I won't talk about what is going to happen going forward for obvious reasons.

So, what we have done is, when we walked away from Chicago and New York we said, look, we can build it much cheaper then we can buy it. So that is what we did and that is what we have been doing for the last two years. How that progresses we will have to wait to see.

But regardless of whether we get more spectrum or we don't get more spectrum, you have to keep in mind that we still have a lot of spectrum that we are re-farming. And even after we re-farm the PCS spectrum we'll only be utilizing maybe 50%, slightly above 50% of the spectrum that we have. And it is all for LTE, which is carrying [92%] of the data (company corrected after the call).

So we are really not feeling any pressure with our spectrum portfolio. There is many different means of building capacity via spectrum or via build and we will take both of those options. But the way we are engineering right now is, regardless of spectrum, we have to density the top cities in the US.

And that is becoming more and more critical because when you get to the 5G piece that piece of the story is going to matter when you say, okay, I am going to turn the lights on on 5G because we will be ready to turn those lights on because of the densification that we are doing today.

Craig Moffett - *MoffettNathanson LLC - Analyst*

What cities make sense? There was an interesting item in the Wall Street Journal this morning that just caught my eye, that the top 50 cities in the US account for 20% of the population. And that number is actually as low as it has been in a long time.

And yesterday in my presentation I was showing there is only 10% of the population that lives in areas denser than census tracts that are denser than 10 people per square mile. What is the density at which it is actually economically viable to do that real densification? And when does it say, look, the population is just not dense enough in those markets?

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

Well, I mean keep in mind, densification that we are doing today is to continue to expand our leadership in the LTE network. And I think the drive tests show that. That is critical to us. As I said, you go back to the strategic initiative network, we want to be the premier network in the world with Verizon Wireless and FiOS. And that is our strategy because we believe that the network does matter.

And we don't believe that millennials don't care about the network, they do, they hate a spinning wheel, they hate when they can't get what they want when they want it. I mean that is their mentality. So we want to be that network that they look to that says I need to be on the Verizon Wireless network because I can get it anytime I want it. And we believe that is going to matter.

So, the densification we are doing is all around LTE. All I'm saying is once we do that densification for LTE -- and we look at the top 100 cities, that is kind of the way we look at it, it is the top 100 and then the other piece.

The top 100 cities we believe are critical to densify just for the capacity needs -- we are going to need to consume the data of what we believe data will grow. And that is going to be critical to us. So, it is a matter of servicing our current 112 million devices on the network today that matters to customers.

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Craig Moffett - *MoffettNathanson LLC - Analyst*

And what have you learned in the early densification projects about cost and time to market?

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

Well, you can't wake up one day and say I think I'm going to densify New York, because it is going to take you about 24 months to do that, just to put your first small cell up. So, it is plain that we've been executing over the last three years because it is about a 24-month period of time by the time you get a location, you negotiate with the landlords, you get the fiber to that location because every single one of our small cells has fiber backhauled to a macro cell.

And that is critical for the capacity need of that small cell. Whether you are doing in-building to distributed antenna systems, this all takes zoning. So it is a long process. So, if you -- you need the time plus vendors need to know exactly what your forecast is for equipment manufacturing. So it is a process that you have to plan for; you can't just wake up and execute on it.

Craig Moffett - *MoffettNathanson LLC - Analyst*

So that is a good transition to 5G. I think what you described in Boston with the fiber build in Boston I think was a really striking expression of the new Verizon where it is no longer an expression of let's justify the fiber build based on video plus broadband, it is let's think about the fiber build as terrestrial plus wireless and small cell densification.

But that is a somewhat unique situation for Boston. How do I think about that on a more national scale for what it is going to take to support a 5G network? I mean there is the standard -- they are not fully set yet, but we are talking about 300 foot radii for a cell. That is an incredibly dense network with a lot of Wireline assets.

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

Yes, so I mean Boston is a unique situation because obviously we have CO presence up there already from being a legacy telephone provider. But when we looked at Boston, LTE we needed to densify in Boston. So Wireless was going to run the fiber regardless.

So when we looked at running the fiber for wireless we said, okay, well that will enhance what we can do from an enterprise perspective. Oh, and by the way, it is only $300 million more over the next six years to actually deploy fiber to the home from that same fiber. So that made perfect financial sense.

When you go into cities like a Chicago outside the footprint and some others, Wireless is already densifying them with a lot of fiber and small cell. It will not make sense for us to go and deploy fiber to the home in those because we don't have the backhaul infrastructure from a Wireline perspective to handle FiOS because you need a central office, you need all that.

Wireless though for years has been doing all their own backhaul on fiber or via the old MCI network or cable companies or wherever they can get that backhaul from, microwave and so forth. So, Boston was a unique situation because it was in footprint. And I always say, when you look at Boston you kind of think -- I get the question, well, Fran, would you expand FiOS more?

Well, when you think about cities like a Baltimore or an Alexandria where we don't have FiOS today, could that same model work? Probably at some future point in time. But at this point we are focused on Boston only because Wireless was going to densify Boston for LTE and that is what made sense.

Craig Moffett - *MoffettNathanson LLC - Analyst*

So, how do I think about that though for the capital spending impact? There is a rough rule of thumb that I tend to use of above and below $10 a subscriber per month, because that is typically where CapEx has trended for most of the carriers over a long period of time.

It doesn't seem like that envelope is big enough though to support a big network densification project for -- on the scale of what we are talking about for 5G. Does that have to rise for you and for the whole industry as you look out over the next five years?

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

No, and this is important. So I have continually said, Verizon you should look at a consistent CapEx Company, $17.2 billion to $17.7 billion. And why do I say that? Well, a lot of people have been talking about how CapEx is going to come down with SDN software defined networks. And I have said, no, it is going to stay flat for Verizon.

And the reason I say that is if you look at what we have done over the past two years, you see Wireline starting to decrease, you see Wireless increasing. And you see a shift within the Wireless portfolio. Now you probably don't see it because we only give you one number. But the shift that you have seen in the last two years is all of the wireless CapEx spending is densification. Although we still build macro cells, it has significantly decreased. It is all around the densification.

So the majority of that capital is all going to densification. The Wireline CapEx will continue to decrease -- even with the Boston build it will continue to decrease. Because as you think about it we have been at this for now 12 years; a lot of homes already have an ONT on them. So it is not like I have to re-dig when a customer reactivates. So I am not incurring that same CapEx anymore.

So, you should continue to see that Wireline CapEx go down, we are allocating more capital to the platforms which is Marni Walden's area, and Wireless is taking the percentage of the rest. But you should consider us as flat.

And 5G is an overlay to LTE, it is not a replacement of LTE. LTE is going to be here for a very long time handling voice and data. 5G right now -- think about it as mainly a fixed wireless broadband solution to the home.

Craig Moffett - *MoffettNathanson LLC - Analyst*

And that is up until 2020 until mobility standards or set or that is even longer?

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

Well, I think that there is -- I mean there is some talk around mobility. Applications like a Smart City could run on mobility. But right now there is not a ton of stuff that you need to have mobile on 5G. It is mainly a fixed wireless broadband solution, which is where mainly our trials are being conducted.

Craig Moffett - *MoffettNathanson LLC - Analyst*

And it is going to have to be a pretty urban solution too because of the density it requires, is that fair?

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

Well, urban/suburban. There is suburban and some of our trials are kind of looking at there is a 3,000 foot radius right now off a small cell in a suburban area and how many homes can you hit with that. And that is still very premature; we still have to do a lot of trial testing to see concurrent users at 1 gig speed and so forth.

Craig Moffett - *MoffettNathanson LLC - Analyst*

And talk about how 5G fits into your video strategy. You were talking about video before. I have written about it as it is really about trying to generate ad inventory and that the real value is actually selling the ad inventory. So you're trying to get eyeballs just watching stuff. You are not trying to create a competitor to Netflix, you are trying to create an occasion to look at your device. Is that a fair way to characterize it?

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

Yes. I think that someone put it best is if you look at folks, I mean sometimes they have 10 minutes in a day where they are going to look at their phone. We want to capture that 10 minutes by looking at either go90 or AOL or AwesomenessTV or Complex TV or something like that. So we want to capture that 10 minutes.

And you may have five 10 minute sections during a day, we want to capture you five times a day in 10 minutes. So, when you think about the content that we are deploying, it's mobile first, and that is critical because most of these clips are 5 to 6 minutes, maybe 7 at best. Some will be episodic. So, you watch 10 minutes now, you come back you watch another 10 minutes and it is going to be episodic.

And we saw -- we actually watched when we did some AwesomenessTV episodes, usage just spiked way up. And as soon as they watch the seven episodes usage dropped off. So, there is appeal on certain content and that is what we are really learning in the beginning stages here is to what content is appealing.

Right now the Mexico soccer league is huge, a very diverse group that is watching that on the platform. And what is really good about this platform too, Craig, is I get a question a lot of times: well, how could you possibly monetize the advertising to offset the cost of the network?

Well, the great thing about this is you don't need to be on the LTE network. You can be on my Verizon Wireless LTE network and you will get it for free, so that is how we compete against unlimited. But you can be on anyone else's LTE network and watch it and you can be sitting in Wi-Fi and watching it.

So, when people say well, Fran, what is your over-the-top philosophy? I say, well, I am already doing it with the go90 platform. I mean you can sit at your home and watch the videos on go90 through Wi-Fi. But the benefit is it is eyeballs, as you said, and it is monetizing that via the advertising dollars. And that is how it is the eyeballs that grow scale, bring the advertisers and that is how I get a return.

Craig Moffett - *MoffettNathanson LLC - Analyst*

Can you talk about how Yahoo! would fit into that or what the latest thinking is on Yahoo!?

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

I was waiting for that. Yahoo!, who is Yahoo! (laughter)? Now look, I can't talk about Yahoo! specifically. But just think about what we said, eyeballs matter. Scale matters in this business. And if you look at like Complex and AwesomenessTV, they both bring 500 million to 600 million views.

So, those eyeballs matter. And the reason, as you said, it's the eyeballs that generate the advertising. You have to get to that viewership to get the advertisers to advertise. And that is the model that we have to follow.

Craig Moffett - *MoffettNathanson LLC - Analyst*

And this is maybe a good way to start to transition a little bit into the Wireline business. But is it reading too much into your willingness to divest the properties to frontier that you said if we are going to disrupt the model with an ad based mobility platform, it makes sense for us to reduce our exposure to the linear TV model, is that part of the thinking?

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

Yes -- no, I mean again, the divestiture of the three properties is because they were islands and we could not operate them efficiently. I mean, if you are ever going to enter the broadband market you would either pick the West Coast or the East Coast. And we have one of the best footprints from Washington to Boston. So, right now that footprint is a strategic footprint for us.

Look, as Lowell and I always say, nothing is ever off the table, right. But from a Wireline perspective the East Coast would be a very, very difficult transaction to conduct. And the reason I say that is you have to keep in mind there is probably about $28 billion of unfunded liabilities that go with that business. And no one is going to take on $28 billion worth of unfunded liability.

So, when you start to do all the math that becomes very difficult. And then you get into the regulatory side and everything. So, it is very strategic to us. And, look, we believe that as you have seen, even with the reset of those properties we raised the margin from 17% to 19%. And I have said we will continue to improve the margin of that Wireline business. And that is the way we look at it.

Craig Moffett - *MoffettNathanson LLC - Analyst*

So, let's talk about the Wireline business for a second. And maybe you could start by just updating us on where things stand with the labor negotiations and what impact economically that looks like it is going to have at this point.

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

Yes, sure. So, I think we are entering into our sixth week at this point. All I can say at this point is that we are at the federal mediation table, the Department of the Secretary -- Secretary Labor called the leadership down to Washington on Sunday. They agreed to go to federal mediation, that is where we are now. And at this point we are not allowed to talk about any of that. So we are under a gag order at this point. So I think there is progress -- that is a good sign to make some progress.

As far as the economic input, right now where we sit is we are kind of cash neutral and that is important. But there is a shift because right now the dedication of the management team is to handle current customer repair and maintenance. So when you think about the Wireline model, when we do installs for FiOS there is a lot of capital labor that goes with that.

Our installs and new orders have significantly dropped. I think maybe over the last week and a half we just started to do some initial installs and new orders. We have mainly been focused on repair and maintenance. So what you are going to see is, you're going to see a declining CapEx from a cash perspective, but you are going to see an increase in OpEx from a [cap] perspective. So there will be some impact on the Wireline margin (multiple speakers).

Craig Moffett - *MoffettNathanson LLC - Analyst*

And that is because the labor cost is simply being expensed rather than capitalized?

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

Correct. It is still $1, but instead of capitalizing $0.50 and expensing $0.50 you are expensing a $1. So, it is just the shift between the two buckets, but it does have a P&L impact. But cash right now is neutral.

Craig Moffett - *MoffettNathanson LLC - Analyst*

And we would also expect to see significantly lower numbers for FiOS, is that right? That the install is not happening but churn probably happening at about the same normal rate?

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

Yes. I mean I would say that -- I would be optimistic if I said we would be net positive for broadband and TV this quarter.

Craig Moffett - *MoffettNathanson LLC - Analyst*

And then how quickly after you get out the other -- let's be optimistic and assume that you can reach an agreement with labor relatively quickly. How quickly can you ramp up FiOS again to get it back to a normalized trajectory as you work through the back orders and things?

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

Yes, we actually -- coming out of the first quarter we actually had built a lot of momentum. And my history of this situation, what normally happens is customers who were going to buy FiOS during this period of time just take a step back, and they just wait until things settle down.

The piece that we miss and we will never get back are the people who move. So, a person who moves into a new home, they want service today, you can't deliver it, they are going somewhere else. So they are probably lost for two years.

But people who are going to make a switch, they kind of just sit tight and then they come back. So it ramps relatively quickly that we can get back in line when the full force comes back in. So that is not as big of an issue for us.

Craig Moffett - *MoffettNathanson LLC - Analyst*

And as I think longer-term about FiOS -- and once again let's sort of jump over the current set of issues which are so complicated in the near-term. How do I think about price and volume in your longer-term thinking for FiOS, outside of a Boston where it is a new market, in your more mature markets for FiOS?

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

Well, as you know, we continue to massage the content bundle. I mean, we launched the skinny bundles which was a new way of facing the market. And now we have 40% of our customers coming in on those new bundles which gives them a reduced bill. Obviously it causes us top-line pressure, but it actually does generate a higher percentage margin for us because the content costs are lower.

So we will continue to attack that content model, if you will, because most people today on average watch 17 channels and they are paying for 300. So, the more we can massage that content funnel and bring people and consumers what they really want, that is what we will continue to do.

But look, we were the only TV provider last year that had net adds all four quarters. So, we still believe we have growth penetration in the FiOS market given the current price and we will compete aggressively.

Craig Moffett - *MoffettNathanson LLC - Analyst*

By the way, there are cards on the chairs if people want to pass cards to the center, we will collect them -- oh, okay, Tracy has some already. So if people want to watch 17 channels and yet the skinny bundles that you had created with your custom TV offering, to some extent you've sort of re-bundled those back into bigger bundles.

Can you talk about the learning there? Was that because the contractual pressure said thou shalt re-bundle? Or was it some learning that said that we have gone too far in the direction of skinny bundles and customers want something fatter?

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

No, I mean, look, we knew -- going into this I was very upfront and said, look, we knew that the initial skinny bundle only had a certain life because of other contractual obligations we had. So, come into the first quarter this year, we were starting to bump up some of those other contractual obligations. So we knew we were going to have to refresh the skinny bundle. So we did that.

It is still, yes, there is more to the bundle. But what we are actually finding with the reformation is people are actually starting to take more of the -- once you get the basic bundle there is these other things that you can add on. We are actually seeing a higher take rate on the add on.

The initial bundles we saw less take on -- on the additional bundles and we had actually assumed that we would have a higher take rate on that. So there was some benefits of re-bundling some of the packages that we did. But it still doesn't go away from the fact that people only want to buy certain things. And if we can continue to mature this content model that is what we are going to continue to do.

Craig Moffett - *MoffettNathanson LLC - Analyst*

Yes, I want to transition to your balance sheet in a second. But a last Wireline question is just the enterprise business. You have had this long migration from legacy services to strategic services, growth on one side, repricing on the other side. Are we mostly through that transition now? We have been waiting a long time to sort of get to the point where we are looking at greenfield in front of us.

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

You and me both. Look, I think that the enterprise business is extremely, extremely competitive. I mean when you look at the managed services side of the business, when there is a bid you could be competing against 100-plus bids. It is very price sensitive.

Look, I think where we are with this business is we went from a 6% decline to a 3% decline. I am not going to get out in front of my headlights here. I would say, look, I think what you see today is kind of where we will be for the rest of this year and then we will see where we go in 2017.

Craig Moffett - *MoffettNathanson LLC - Analyst*

All right. Now let's turn to the balance sheet briefly to close here. So, you have been delevering from the peaks after the Vodafone transaction. You have made it clear you want to maintain your investment grade rating obviously.

But at the same time you have got a big change coming when FASB starts to count operating leases. That is going to, at least on a reporting basis, take your leverage higher. Is there a target ratio we should think about longer-term in that kind of new world, the post-FASB operating lease world?

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

Yes, it becomes complex because we disclose GAAP ratio, but the rating agencies really don't pay attention to that. I mean, some people take in pension, some people don't; other people take in the unfunded OPEB, some people don't.

Two of the agencies already do their own calculation that takes the footnote where we have our lease commitments, they do a net present value, they add back that net present value as if it's debt. And generally it is around $15 billion to $17 billion on a Verizon basis.

And when we look at what GAAP is going to require us to do, it is not going to be materially different than what the agencies already do. So when we do the accounting change there is no impact to the way the rating agencies look at a rating. There will be a GAAP change, but that really doesn't impact how they look at it.

From a ratio standpoint I have also said, look, we are going to look the market for alternatives to securitization. There could be some rating agency pluses or minuses to that depending upon how you look at that. So we will have to work through this, but look, regardless of what else all happens and whether what we acquire or don't acquire in the future here, everything -- we are still committed getting back to that A- by 2018 and 2019.

Craig Moffett - *MoffettNathanson LLC - Analyst*

Do you have the balance sheet flexibility that you would want at this stage just given the pressures on delevering that would -- to allow you to do all the things that you want to do?

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

Yes, absolutely. Because when you look at how does the calculation of the ratio happen, I mean EBITDA is a part of that ratio. And if you think about at least what I said about 2017 into 2018 and you start to grow that EBITDA it doesn't necessarily mean you have to get dollar for dollar reduction in debt to get back to that ratio because it's a combination of growth of EBITDA and reduction of debt. So, yes, we absolutely have the flexibility to do what we need to do.

Craig Moffett - *MoffettNathanson LLC - Analyst*

A lot of the questions that were passed forward are about 5G. So let me go back to 5G for a second. Two quick and easy ones, just when and where and then what kind of return on invested capital can we expect to see on those investments?

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

Yes, so the when piece is hard because, look, I think the industry commercially with the manufacturers and where we are with our network, we could actually go as early as 2017. The overhang here is, first and foremost, you need standards set.

With Japan and Korea, they are building their 5G out on 28 to 30 gigahertz. We currently have 28 given to us from the FCC for trial purposes. And as you know with the XO acquisition, we have an option to buy more 28 gigahertz. But we have to get that scenario set because the standard may be set at 39. And then therefore we'd have to shift to 39.

But really then, once you get the standard set then it comes down to the FCC. And of course you can ask Tom this when you interview him as to how do they think about the free up of spectrum for 5G, because it is going to have to come out of the DOD either at the 28 or 39. And that is probably going to be a little slower roll. So when you think about commercial launch, when spectrum is freed up, when the standards are made, anybody's guess at this point, but it is not going to be in 2017.

Craig Moffett - *MoffettNathanson LLC - Analyst*

And on the media side, you talked a lot about go90 and Awesomeness. One of the questions is just what is the advantage of trying to own that content versus rent that content so to speak? If what you are trying to sell is advertising eyeballs, why do you need to be in the content business?

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

Well, I would say it is unique content, right. And this is not putting an hour episode up for $2 million an episode. This is very simple professional content but done in a very, very different way, if any of you know how Awesomeness and Complex work.

But the reason we don't -- we have an interest in Awesomeness, we don't own it outright, but we do have a very good agreement with Awesomeness on exclusivity. And really that is what you are after. You are after some exclusive content that is extremely appealing to this space, that you are the only one that gives it to them and therefore they are going to come to your platform. And again it is all around strategy of how you build those eyeballs.

Now over the long-term do I need all that exclusivity? Probably not. But when we think about the go90 platform also think about that I can take that platform and other platforms that we are developing outside the US. And we have done that with our telematics business from -- we use our platform to service Mercedes in China. I own no network in China. So I am utilizing that platform and providing that service for them.

So when you think about the platform, when you talk about returns, I am investing nowhere near what it takes to run a network. I'm investing a lot less capital. But if I can take those platforms outside the US and gain revenue on that, that return comes a lot quicker. And that is kind of the way we think about the platform business going forward.

Craig Moffett - *MoffettNathanson LLC - Analyst*

I have a last question here that is maybe a good transition because we have some cable companies coming in later this morning. As I think about your relationship with the cable companies, they are -- you have got Comcast exercising the MVNO and they are going to be a customer of yours.

In the special access NCRM they are going to be a supplier of yours for special access. They are potentially going to become a competitor of yours as they enter the business. How do you think about the cable companies? Friend, foe, all of the above?

And then a very specific one of the MVNO agreement, does your pricing in the MVNO agreement give you confidence that they aren't going to be able to undercut you with your own MVNO deal that you have given them?

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

Yes. So I mean, look, we have lived this in our business for years. If you look at the enterprise business, I mean we have vendors, customers and competitors. And I mean look across the board, IBM -- I mean they are a vendor, they are a customer, they are a competitor. And Accenture and everybody else that plays in this space.

And look, you compete, you utilize them when you can and you sell to them when you can. And so, we are used to operating in this business and I don't look at anything any different than that.

Look, the cable companies, as I said, as this wireless pie gets bigger for the industry, and if you are sitting there without a piece of that pie you are looking at how do I get a piece of that pie. And we are not naive enough to think we are not going to have additional competitors in this space.

But I guess the positive of this whole thing is that is what makes this business so interesting and that is what gives us the confidence that we can grow, because that pie is going to get bigger and we are going to take our share of that bigger pie. And, yes, we are going to have new competitors.

And, look, go back to what I said before -- it matters for us to become a lot more efficient. So we know new entrants are going to come in and we will be able to compete with them on a very good basis. I am not going to get into the MVNO, we are under NDA. And I would remind the cable companies as well that they are under NDA and they can't talk about the MVNO (laughter). So that is where I will leave that.

Craig Moffett - *MoffettNathanson LLC - Analyst*

All right, we are just about out of time. But are there any thoughts you want to leave a group of current and potential investors about Verizon? And maybe if there is one thing that is perhaps most misunderstood about your Company as an investor?

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

Well, I guess what I would leave you is thanks so much for coming this morning. Craig, thanks for inviting me. What I would leave you is over the last -- as long as I have been in this business everybody has talked about, oh, wireless has stopped growing, wireless is flattening out. And if you looked at what happened to voice, wireless slowed down and then data came and we took back off.

And I would remind you, as I continue to talk about this industry and the growing pie, the world is going to be a wireless world. The pie is going to get bigger. And so, there is a lot of room for growth left in this industry and that is what I would leave you with.

Craig Moffett - *MoffettNathanson LLC - Analyst*

Well, that is a great way to leave it. Fran, thank you very much for joining us this morning. It has been a pleasure.

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

Thank you, everyone.
