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VZ - Verizon Communications Inc at Morgan Stanley Technology, Media & Telecom Conference

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PRESENTATION

Simon Flannery - *Morgan Stanley - Analyst*

Good morning everybody. So as a nice segue I think the last question and the last interview was around 5G, so it's great to have Verizon here again and Fran Shammo, Chief Financial Officer, welcome.

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

Thanks, Simon. Good morning everyone.

Simon Flannery - *Morgan Stanley - Analyst*

Thank you for being here. Let me start first by reading please note that all important disclosures including personal holdings disclosures and Morgan Stanley disclosures appear in the Morgan Stanley public website at www.Morgan Stanley.com\researchdisclosures or at the registration desk. And I know, Fran you have your Safe Harbor up here.

So I think you can describe 2016 for Verizon as kind of a transition year. You've got the Frontier transaction coming up, a number of other initiatives. So perhaps you could just lay out the priorities for Verizon.

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

Sure. Well, good morning everyone. So let me first start I want to start at a high level and then I'll dig down.

So let me just start out with overall industry. And we're very optimistic about the industry as a whole and if you think about the wireless industry you think about video consumption, Internet of Things, the consumption model is going to continue to increase. The pie just gets bigger and bigger in the wireless overall ecosystem.

So if you take that and start at that then you say to yourself okay, how do you differentiate yourself in this entire ecosystem? And so for us, Simon, it's really a continuation of what we did in 2015. So if you go back to our quarterly call we really concentrated on a three tiered strategy structure and the first tier being our network.

We think that as you know we've instituted our brand at Verizon around the best network and we've invested very heavily in that. We continue to densify, we continue to add small cells to that.

And if you look at the last study that was just completed by RootMetrics, to the chagrin of some of our competitors who obviously now don't like the measurement because they lose all the time, but once again it shows that Verizon Wireless won across the nation of having the best network. And we think that that is critical to our success because customers want what they want when they want it and they wanted to work all the time. That's critical to having the best network.

If you look at what we did here several weeks ago around the Super Bowl I mean we installed several hundred cells, small cell technology with fiber. We fitted out the stadium. We carried in the five days leading up to the Super Bowl over 60 terabits of data here in San Francisco.

And during the Super Bowl it was 9 terabits of data and we were by far the largest carrier in delivering that data through our network. So once again it proves that people will use the network and consume if the network performs on a regular basis. So that's the foundation with everything that we do that the network has to be at the top of what we do.

The next piece is platforms. So if you go and look at what we've started and what we've launched in 2015 and will continue in 2016 we have the Verizon Digital Media Services platform which is the foundation of our video delivery which is go90. We then have the go90 platform which sits above that on the application layer.

But on the other platform that we have is we have our ThingSpace platform which is the Internet of Things platform which launches really the Internet of Things world in a more simple way to get people to launch those devices on our network and create value. So everything we do now is on a platform basis and the thing about critical about the platforms is these platforms can be taken anywhere in the world.

So it's not just I have to have the network underlying platform like Verizon Digital Media Services, the telematics platform, ThingSpace. These platforms can run over anyone's network. So it's the platform that gives us the value.

Then if you go to the next layer of strategy which is the application strategy which obviously go90 is that application we're really dealing with a mobile first world. And that's really what the concentration is here around the go90 platform.

Then of course we can talk about 5G and what that means for us as well. So it's really just a continuation of 2015 into 2016 which is the priority.

Simon Flannery - *Morgan Stanley - Analyst*

Great. So we'll come back to a lot of those themes in a minute but on the financial side you talked about a plateauing in earnings.

There is a stepdown, some dilution from Frontier going away, some allocated costs but you've committed to a flat EPS which implies on an underlying basis some growth here. But can you just talk us through the math there and how we think about the growth potential of this business?

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

Sure. So we ended the year at around $3.99 of earnings per share for 2015 and we said that we would be a plateau or flat going into 2016. But there's a lot of math behind that because we got benefit of $0.13 last year from classifying the Frontier properties as held for sale.

So under GAAP accounting rules you stop depreciating those assets. So there is a $0.13 benefit which disappears this year with the sale of that. So as you reset that and then of course with the EIP benefit from the wireless installment sales as we continue to increase the base there, that benefit starts to shrink so there's a little bit of headwind there.

We said that with the Frontier divestiture there would be stranded costs that we would have to offset. A piece of that is the union contract that obviously is not there yet. We still have some way to go there to offset those costs.

But we've taken other measures that we believe will help offset those stranded costs. And we'll have more to say about that once the frontier transaction closes and once we come to terms with the union contract.

So when you put all the puts and takes of that we're really growing, in my view we're growing from $3.86 back to 3.99 because of the $0.13. So we're going through that headwind but on a GAAP basis it will look like it plateaus. And then from that point I said then you should see us get back to a normal growth going into 2017.

Simon Flannery - *Morgan Stanley - Analyst*

Okay. And you see top-line growth in the GDP level over time?

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

Yes. Post-2016 we believe that our growth returns to a GDP plus.

Simon Flannery - *Morgan Stanley - Analyst*

Okay. And on the cost side you've recently done a reorg on the wireless side. You're seeing some drops in call center activity as well so that's given you some leverage there.

Simon Flannery - *Morgan Stanley - Analyst*

Yes, so I mean when I talk about offsetting the headwinds from the divestiture of the three properties in the South which were higher-margin wireline properties than the rest of our properties. One of the pieces that we've done is we reorganized wireless for the first time really in about 18 years.

So we went from a four area with 21 regions to a six market structure which eliminated a lot of really a lot of management tier if you will. And that's helping the wireless business run more efficiently, faster decision-making at the market level. But then in addition to that we're also reducing the amount of calls that we have in our call centers because more people are doing self-serve.

We've tried to simplify our plan structure with small, medium, large. So less questions around our plans drives less calls. That drives a lot of infrastructure cost out of our cost structure.

So if you look over the last two years we've slowly declined the number of call centers that we have and that's a fairly large infrastructure cost for us. So as time goes on, as we take those calls out through attrition because call centers generally have a high attrition rate we will attrit down and continue to close call centers and level set the service level to our customers. So there is a lot of efficiency that still can be gained within the wireless business to help offset some of the headwind from the wireline property.

Simon Flannery - *Morgan Stanley - Analyst*

Great. Well you opened up with the RootMetrics results and clearly that's showing the leadership as other surveys do.

But I think investors you just turn on the TV and there's 50% off and there's this ad and there's -- so how do we get comfortable that you can continue to sustain growth, continue to maintain or even grow market share in this sort of competitive environment? So just talk us through the current wireless environment.

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

So I think -- look, I mean the wireless business has always been an extremely competitive business and promos will come and go and we watch that closely. Really what you need to react to is something that is like a game changer from a pricing standpoint and we haven't seen that in at least the last four quarters. Yes there has been promos in and out.

There is some unlimited running here and there but nothing that's a permanent change and nothing that we see at this point would cause us to react. But from a growth trajectory I think it's a level set that says look, smartphone growth is slowing. And if you look at some of the other growth trajectories of some of the competitors, it's really a flip from prepaid to postpaid.

So some of that is just moving between categories. It's not really new customers coming to the base. So from a smartphone perspective, we grew smartphones in three of the four quarters last year.

First quarter obviously were negative. We believe that we can improve on that this year. But it goes beyond just smartphones.

It's tablets will continue to contribute to growth. But it's more differentiation products like our hum product which we launched last year. There is 150 million vehicles on the road today that can use that product that will turn a non-smart car into a smart car and the difference between hum is you don't have to be a Verizon wireless customer to enjoy the benefit of hum.

Yes, you will ride over the wireless network but you don't need to be our current customer to enjoy that technology. So that is starting to gain some steam and that is $15 a month of recurring revenue. So that's starting to go into the activation level.

So as we continue through 2016 you are going to see us come out with some of these differentiated products that you don't necessarily need to be a current customer to enjoy. Take that further, go90 is another one of them. So go90 is our video mobile first strategic initiative.

Early stages, there is still a lot of progression and evolution that has to happen in that platform. But we continue to add content to it. But again this is content that you can enjoy if you're sitting at home on a WiFi network.

You don't have to be a Verizon wireless customer to download the app and enjoy that. However, starting on March 5 first with FreeBee data and now taking that to commercial launch if you are a Verizon wireless customer you will be able to enjoy that content free because we will monetize it via the advertisers. So it's a whole different revenue stream for us with our customer base and customers who are not in our base that we can enjoy getting revenue from if they watch the content in go90.

Simon Flannery - *Morgan Stanley - Analyst*

And what's the early conversations you're having with advertisers around the sponsored data?

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

Again early stages. Advertisers are excited about the prospects around go90 and the reason is because we can target more directly if you will not using individual customer information but combining that. So if I'm an advertiser in New York who only wants to target 20- to 25-year-olds with my product we can actually do that using our database and using the go90 platform to actually launch that advertisement to that base.

So more targeted advertising. And that's worth more to an advertiser rather than a blanket TV ad the goes across multiple units and there's multiple segments that would never buy that product. So that strategic direct marketing is very pleasing to them but we have to get the viewership up and like I said this was a two- to three-year project.

This was not something that was launched last year that was going to take off immediately like a new smartphone. This is going to be a progression and evolution for us over the next two to three years. But as we bring in some of the content we're seeing some pleasing things around since we launched the NBA, since we launched music, some of the original content that we're getting from AwesomenessTV, we're starting to learn of what's pleasing to the customer, what works, what doesn't work and we'll continue to evolve this product through 2016.

Simon Flannery - *Morgan Stanley - Analyst*

So we've seen the ARPU under pressure across the industry as we move to installment plans and leasing plans in some cases. I think you've talked about your hope that that starts to stabilize. Just give us a little bit more color about what you're seeing out there and how we should think about that.

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

Sure. So when we go from a subsidy model to the installment model you immediately have a decrease in the service revenue because you're substituting that subsidy with the installment. So with service revenue if you just look at that you're going to see that service revenue decline because you're losing on average about $20 month because that was transferred into the equipment sale. So as time goes on mathematically once you hit 50% of your customer base on that installment sale or new pricing, not necessarily that they took a new phone --

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Simon Flannery - *Morgan Stanley - Analyst*

You're out about 40% now?

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

We're about at 42%, so we think midyear we will get that 50%. You'll start to see that dilution start to level out and then we believe by early 2017 you'll start to see it reverse and start to go back up and then crossover at some point later. So it will rebound.

If you look at the key ingredient that I'm looking at now is the installment plus the service ARPU. And if you look at last year in the third quarter we were about 2% which was kind of our floor. That went back up to about I believe 8% at 9% in the fourth quarter.

So you're starting to see the underlining starting to recover a bit. And that's a sign that says the math is starting to recover. Midyear will start to flatten out and then we'll start to go back up.

So it really is just math. But the underlying customer base is continuing to consume more data and buy up in the bundles.

But with the go90 product we know that wallet share is an issue going forward. So we have to get people to consume more but we know that they are not going to continue to pay for that consumption so we'll monetize that via the advertising model.

Simon Flannery - *Morgan Stanley - Analyst*

Okay, great. You talked about the traffic at the Super Bowl and you also brought in small cells.

Your overall LTE traffic I think grew 60% in Q4. So how does your -- how do you think about balancing spectrum, CapEx, small cells and maybe you layer your XO purchase into that as well.

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

Sure. So look I mean when we came through this year we said that we would continue to densify. There were two markets that we did not win AWS in which was Chicago and New York.

And we said we made a strategic decision not to buy that spectrum. And we said we would build out over the next three years. That build plan is on target.

If you look at what we did here in San Francisco, we took care of the amount of traffic just by installing small cells. There was no incremental overlay of spectrum in San Francisco even though we have AWS-3 and we started to deploy some of that. But that's not going to be deployed until next year.

So we did that mostly through small cell and fiber technology. And capacity is a balance between spectrum and capacity and right now capacity is cheaper than what the spectrum was at least coming out of the AWS-3 auction.

So we will continue to densify our network. And as you look ahead and you think about the capability of 5G that fiber becomes much more important which led us to the XO acquisition because bringing XO into it we acquired a lot of metro rings around the major cities of the United States.

And that fiber capacity is going to be critical both from an LTE densification standpoint but also when you look at 5G and the fiber capacity that you're going to need to deliver that high-speed data. So that's all in where we need to be in the next three to four years from an overall wireless strategic positioning of our network capability.

Simon Flannery - *Morgan Stanley - Analyst*

And you also have an option to purchase their LMDS spectrum as well?

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

Well, right now in the agreement we're actually renting that spectrum with an option to buy. And the reason we wanted that was because with the FCC right now we've been granted by the FCC some 28 gigahertz which we're trialing through five cities currently with different manufacturers on what's the capability of 5G.

This rental agreement enables us to include that in some of our R&D development with 28 gigahertz. So that just continues the path that we're on in launching 5G as soon as the FCC clears spectrum.

Simon Flannery - *Morgan Stanley - Analyst*

Okay. And you hear some things coming back from Barcelona, it's the standards aren't set, it's 2020. But you seem to be trailblazing here a little bit like you did on LTE, so just talk about how you think this is the path to commercial deployment here and the use cases?

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

Sure. So as I said in five cities currently we'll trialing this right at our Basking Ridge headquarters. We actually have a van that drives around the building that is delivering 5G from the building into the van.

At the FCC Tom Wheeler was just at our building to look at the demonstration. It's live, it's operating, it's working, it's delivering over 1 gig of speed into the van whilst driving around. So right now it's just educating on the capability.

The technology is there, it works and what we're trying to do is accelerate the FCC to clear the spectrum and move on so we don't have to wait until 2020. So the technology itself we believe could be commercially launched sometime in 2017 but we need that spectrum clearance from the FCC. So we continue to work with them but we'll continue to trial.

We still have to work out the business case for it. Candidly as Tom pointed out at the earlier presentation, look, 5G has the capability to be a substitute for broadband into the home with a fixed wireless solution. The question is can you deploy that technology and actually make money at a price that the consumer would pay?

That's all part of the trial that we're doing. So it's here, it's now. It doesn't have to wait for 2020 but it all hinges around the availability of that spectrum.

Simon Flannery - *Morgan Stanley - Analyst*

Great. So you just bought XO, you've bought AOL. You're mentioned in the same name with Yahoo as well.

Can you just talk about your M&A philosophy what you've been doing here, sort of I would say sort of tuck-in transactions. What's your philosophy here and what you're looking for?

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

Well, it it's pretty consistent with what Lowell and I continue to talk about which is, we're going to look at every single opportunity whether it's an opportunity to divest of some of our portfolio or whether it's an opportunity to acquire that we believe will increase our shareholder value. So we will continue to look at that. Yahoo falls in that bucket.

I mean you're going to always look at something that comes up for sale. Does it fit, is it strategic, can it add value to us? Don't know the answers to those questions yet until we get through as to exactly what the process of that sale could be or will be.

So that it's too premature yet to really understand what that's all about because I don't think anybody knows what's under the hood yet until it's opened up and people go in and investigate as to what that is. So that's just an opportunity that we'll take a look at. Just like with our data centers we're looking at the opportunity of potentially selling the data centers as we did with our towers.

These are I put them in the same classification as a tower with colo. Is it better off outside of our portfolio, take the cash now and do something else that can increase shareholder value and we're looking at that. Have no conclusions on whether we'll execute on that or not.

But we will look at every single opportunity for the ability to create shareholder value and if it makes sense then we'll execute on that. That's kind of the M&A strategy at this point.

Simon Flannery - *Morgan Stanley - Analyst*

Okay. And how does the balance sheet act as a constraint or as a driver of some of those decisions?

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

Well, I think if you look at the strength of our balance sheet and what we committed to when we closed the Vodafone transaction, we said that one of the goals was to get back to an A minus Company. And I know everybody has questioned me as to well, Fran, you can borrow as much as you want on BBB plus, why is it important? It's important because as monetary policy constrains, which we all believe it is going to it some point in time, you want to be in a position to strategically execute on what you can.

And if we were a BBB plus Company back when we wanted to do the Vodafone transaction, the fact of the matter is we couldn't have done that transaction as a BBB plus. So I need to position the balance sheet in a position of strength. Right now if you look at our balance sheet I mean we have taken down our leverage ratio just like we said.

We're still on target to 2018 and 2019 and I have plenty of capacity in my balance sheet to do what we need to do and still meet that target. But that target is something that we will need in 2018 and 2019 regardless of what happens. And that is with spending $10.4 billion in the auction post the Vodafone and again we've declined our leverage capability.

The other thing is we will close on the Frontier transaction here at the end of the first quarter and as I said before all of that cash in will be to deleverage the balance sheet. So we're going to put ourselves in a position of strength. If and when we need to do something we'll have the capability to do it but the priority right now is to get back to that A minus in 2018 to 2019.

Simon Flannery - *Morgan Stanley - Analyst*

So there's a story it seems like every month or two about you're selling this, you're selling that. But should we think now that your wireline assets from Boston to DC both residential and commercial that that is your core infrastructure or is that something that could be reevaluated as well?

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

Well, look, never say never, right? I mean everything is open at some point in time. But I think right now we're very happy with the strategic footprint from DC up to Boston with a fiber footprint with broadband into the home.

And as I said if you believe where the world will be in the future it's going to be broadband whether it's fixed or its wireless and wireless. And that's just going to be where we're going to be.

So that asset is critical and if you're ever going to launch broadband to the home you're either going to pick the West Coast or the East Coast and we have the East Coast with the population density from DC to Boston. So it's a very good footprint for us. We believe that the properties that we have are still underpenetrated.

We're the only Company last year that added TV subscribers in all four quarters. So we still believe we have a good runway to increase the growth of that product, to increase the profitability of that product. As you know we just again reshaped the CustomTV package and I said last year in the middle of the year we were going to have to do that.

We've done it and there's some positives around that reshaping of CustomTV. So we believe we still have a very good runway with the East Coast on the wireline footprint.

Simon Flannery - *Morgan Stanley - Analyst*

And so you've been having take rates what 40%-plus for that CustomTV, you see a lot of demand for sort of skinny bundles?

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

Yes, so last year when we launched CustomTV we were saying about a third of the customers were taking it. Since we re-bundled it into two basic packages, one being sports, one being non-sports and then there's another packages below that which are different genres that you can add to that.

We now see the take rate at 40% and we also see some of an uptake in the additional packages which is also good for an RCM or ARPU driver from a wireline perspective. So the repackaging so far but it's very early stages. We'll have to watch this as we go.

Simon Flannery - *Morgan Stanley - Analyst*

Okay. So you talked about the penetration potential and you have been growing TV subs but we have seen a deceleration in Fios adds both on the data and on the TV side. How should we think about that into 2016 and beyond?

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

Well, look, I think as we have build out and penetration starts to grow, that is going to slow until if and when we have decide to build out further. So it's going to slow but the key for us right now is we believe that we're still underpenetrated.

In addition, if you look at the three properties that we divested they were some of our higher penetrated properties. So as they go the net adds could improve once they get spun off here at the end of March.

So I still think that we can show positive adds in TV and of course positive adds in the broadband sector which is a bit more highly apt because you have a whole population out there that wants nothing to do with linear TV. They just want the broadband connection and as much speed as they can get and Fios can deliver that. So I think between the combination we can continue to be positive and we can continue to gain penetration.

Simon Flannery - *Morgan Stanley - Analyst*

I think AT&T has been very vocal about how much more their U-verse content is than DIRECTV, maybe $17 differential. How are you thinking about controlling those content costs and improving the profitability of the video product?

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

Well, again I think obviously the content providers have the leverage in the linear TV side. But through our negotiations I think we've made good headway. We have - obviously CustomTV helped in that perspective by re-bundling some of the content there.

I think that you're going to see this year, maybe next year you're going to start to see more conflict between content and linear TV providers and more maybe going dark and some content being dropped over time. I think it's just nature of what's going to happen in this ecosystem.

But I think with Fios we've been fairly consistent with what we have. It's a high margin product for us and we'll continue to do that. But I think the other thing, too, is with go90 we've given the content provider a way to monetize their content in a very different ecosystem.

So we're not trying to disrupt the ecosystem of linear TV but we're giving them a different platform to earn money on their content and that helps with the negotiation of our Fios content over here. So between those two models I think we have a little bit of leverage there but I think you're going to see more conflict in the future here between the cable providers and linear content providers.

Simon Flannery - *Morgan Stanley - Analyst*

Okay. We just heard Charter talking about the enterprise market as being an interesting market for them.

How are you seeing the competitive environment in enterprise and how does the macro play into that as well? Because you've obviously got the broader range with your global footprint there.

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

Yes. Well I think you have to get down to what's the definition of enterprise. Because you have small business which a lot of them say is enterprise.

We consider that small, 500 or less employees. When we talk about enterprise we're talking about companies like Morgan Stanley who have hundreds of offices worldwide. That's an enterprise customer to us where you have $100 million, $200 million contracts a year and providing all types of services.

That to us is an enterprise customer. So there is not a lot of, I mean there's a lot of competition in the enterprise space at that level, but from a network perspective there's only a few that can drive that network connectivity around the world.

The small business look I mean the cable companies have been very, very successful in the small business and even some maybe the medium business. So that's a point of contention for us. And we have to get better at that.

But as I go back and look at the XO acquisition one of the things that XO gives us as well, once we close we're going to be able to take a lot of traffic which is one of the synergies, a lot of traffic off paying third parties and moving that over to the fiber of now owned fiber around the XO asset. So that's a synergy to us.

It also gives us the capability to another almost 4,000 lit buildings which we didn't have before which we didn't have before to penetrate more small business and medium business in those buildings. So there is some opportunity that comes from a synergistic standpoint with the XO acquisition.

So the enterprise base is still very important to us. And we will continue to compete in that space very effectively with our offerings.

Simon Flannery - *Morgan Stanley - Analyst*

And coming back to something you said earlier, are you seeing more enterprise adoption of Internet of Things? And I think we saw it re-acceleration of that business again at the end of the year. So is that starting to come through as a better financial impact?

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

Yes, what's interesting with Internet of Things, is there's really two categories. If you take hum for instance since that's a business to consumer model. A lot of the Internet of Things really for us is business to business to consumer.

So we're not necessarily the Company that sells to the consumer. It's the individual who is buying from us on the Internet of Things and that's what the ThingSpace platform comes into.

So when you think about healthcare and some of these other energy and some of these other silos that we operate in, manufacturing, it's really the B2B that's buying the Internet of Things from us and then they are selling it to their end customer. So a lot of that is enterprise relationship and that's why we do so well.

If you look at Smart City if we weren't in the enterprise business and had the dealings that we have with the governments and the municipalities in the states we would have no credibility sitting there selling these solutions to these counties and to the states. And obviously Savannah is the first Smart City that will be launched this year and we're having a number of discussions with other larger cities to deploy Smart City technology. This is going to continue to grow and that's part of the relationship with the enterprise business.

Simon Flannery - *Morgan Stanley - Analyst*

So given that we are at TMT conference I'm sure there's plenty of tech investors out here who'd love to hear more color around your capital spending program. You've always been very sort of as you've started off network-centric having the best network out there. But what's your philosophy on capital spending and what are the big buckets, the big projects that you're really focused on right now?

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

Yes so I mean, look, we guided to $17.2 billion to $17.7 billion for 2016. $150 million of that is still the commitment that we had to Frontier to spend this year. So when you really look at it it's somewhere between $17 billion to $17.5 billion on a normalized basis which is very consistent with what we've been spending the last three years and we said that we would be a consistent Company.

And you're going to see shifts within that portfolio. So wireless obviously is going to continue to tick up. As we said we're going to continue to densify the network.

We're going to prepare the network for more LTE capacity and usage and have that network perform day in and day out. We want to be the best performer out there.

Fios obviously has come down over the years from a build perspective. The savings that we're getting from that we're transferring into the Marni Walden portfolio which is some of the new products, the go90 products, telematics, hum, developing new innovative products to bring the market, the ThingSpace platform, the VDMS platform.

So there's a lot of capital now that's being shifted into more of these strategic-type products. So you will continue to see that shift in these portfolios but think of this as fairly level-type Company when it comes to CapEx spend.

Simon Flannery - *Morgan Stanley - Analyst*

Great. Well I think we've got time for a couple of questions from the audience.

There are some mics roving around if people have questions. I think there's a question in the back there.

QUESTIONS AND ANSWERS

Unidentified Audience Member

I have a question about your 5G plan. I know that you and other companies have talked about doing 5G at 26 gigahertz or 28 gigahertz, I'm not exactly sure.

But have those experiments really been tested correctly? Because I'm quite skeptical that you can really do 5G at 36 gigahertz in a sort of cost-effective manner throughout the country.

Has somebody planned how much it's going to cost? Because doing an experiment from a building to a van is very different from doing it from a tower into a building. And at 26 gigahertz is that thing going to penetrate inside?

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

Yes, so you're not going to have it going off the tower. These are point to point, site to site. But if you're a skeptic at this I think my sense would be is take a look at what Korea is doing and what Japan is doing.

And they have already started to deploy 5G technology throughout the country for preparation of the Olympics. So the technology works. As I said before part of it will be in development of the trials is the business case around this.

But think of this as this is not a replacement of LTE. This is an add-on. So this is not a capital intensive.

It's going to run off of the same densification small cell technology that LTE is currently running off of. The question will be is how many homes can you deliver high-speed broadband to off of each small cell? And that's the piece that we still have to trial and get our hands around.

But don't think of this as a multibillion-dollar launch of new technology. It's not that it all. This will ride over the current infrastructure of the LTE network.

It's not a replacement of the LTE network. It's an add-on.

Unidentified Audience Member

Well what about something in between? I mean instead of going to 1 gigabits per second just to get to like 150 megabits per second like you would get from Comcast Blast or something like that, without the spectrum how would you be able to get there to that 150 megabits per second at the LTE band, like the 1.7 gigahertz bands or the 1.8 gigahertz bands? You don't have the spectrum to do that, do you?

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

No, the FCC controls that spectrum. It's held by the DoD today. So right now Korea and Japan are deploying theirs on 28 and 39 gigahertz.

Right now we have licenses issued to us from the FCC for trial purposes at 28 gigahertz. The XO deal gave us additional 28 gigahertz. We'll have to wait and see what the world standard is around that.

But again these are trials and we'll figure out exactly what we can deliver, what the base cases are. But if you think about 5G 1 gig into the home it is a substitute product for broadband.

Simon Flannery - *Morgan Stanley - Analyst*

And the cost per bit is much lower than you're currently producing last bit at, right?

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

Yes, you're getting, so if you think about CDMA to LTE, we got about a four to five time cost reduction. You're looking at the same magnitude, maybe even slightly higher going from LTE video delivery to 5G video delivery.

So the cost benefit is there. You just have to go through the trial now and see how much do you have to deploy to get that site to site and get that high speed into each, if you have a multi-building how much is that going to cost. So that all still has to be worked out.

Unidentified Audience Member

Thank you. Can you talk a little bit about how the AOL acquisition is tracking relative to your initial expectations? And is that an area of the business where you think there's a benefit to having greater scale?

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

Yes, absolutely. If you look at AOL in the fourth quarter alone they increased their revenue $300 million sequentially from the third quarter. So with the Adtech platform, with what Tim and his team are doing, we can gain momentum in the AOL portfolio and that's what we're after.

In addition, what you're going to see is more convergence between go90 and AOL coming in 2016. Remember we bought AOL for the Adtech platform. The Adtech platform is critical for us to launch go90 on.

Now what we also got with AOL was a lot of high-caliber talent that brought us into this ecosystem that quite honestly Verizon did not have the talent around the advertising, the content, that ecosystem that we're really working in with go90. We now have the talent capability, we have the platform and we'll grow on that.

So we just closed midyear on AOL and it's already starting to show signs of volume growth with some of the deals that they have and obviously the fourth quarter showed that. Now that's seasonal, but it shows you the demand for digital advertising is out there. And AOL is one of those platforms that can deliver that on that demand and that we believe will scale and will continue to improve on our top-line performance.

Simon Flannery - *Morgan Stanley - Analyst*

So we heard Charter talking about their interest in the wireless space. You have taken a very different path from AT&T in terms of convergence. Can you just took about how you see the world here in terms of quad play and you've had these assets for a while but you've really chosen more of a double play, triple play type approach?

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

When we bought out the Vodafone asset within the Fios footprint we went out with a quad play offer. And really a quad play offer is nothing more than giving your customer a discount to take all your services.

At the end of the day it just for whatever reason people don't buy that way. Here in the states people by in-home content, they buy one way and for mobile it's a personal, really a personal purchase and they buy a different way.

And if you look at the millennial population they could care less about quad play because most of them don't have linear TV. So really all they care about is broadband and wireless. So the convergence, yes, the content convergence is going to happen as linear TV and mobile converge but they are very, very different types of content.

If you look at go90, go90 content is very different than linear TV content. So as that converges the ecosystem will work itself out. But we just don't see where the quad play is going to be the way of the future as to where people are going to consume content which is either on broadband or on wireless.

Simon Flannery - *Morgan Stanley - Analyst*

And you've really seen you've had experience here it's a different purchase decision as well, is it with your customer when they are buying a wireless service plan versus buying their triple play?

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

Correct, yes. It's just people buy in-home this way and wireless this way and they don't necessarily converge on it. We've been running with our customers a single bill for years and if you got on single bill you got a discount and customers just don't choose to take that.

And in some respects I'm not sure I want the customer to look at their total bill as to what they're paying Verizon. So sometimes it's better off if they if they get two separate bills.

Simon Flannery - *Morgan Stanley - Analyst*

One last quick one here. Can you just update us on some of the other bands that you're looking at, things like LTE unlicensed and so forth, anything else we should be focused on there?

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

Well, the LTE unlicensed is a strategic positioning for us. The FCC still has some rulemaking around that. People claim that unlicensed in the LTE provider's hands will cause more congestion on WiFi, it's actually the complete opposite.

If you went to the Consumer Electronics Show this year every manufacturer showed that LTE unlicensed actually enhances the performance of WiFi. There's no congestion at all. So I think as the FCC starts to understand that we think we will get through that and that the carriers will get granted the access to unlicensed.

And that's important for capacity purposes. You can dynamically increase and decrease capacity as you need it. So it's important for the overall strategy of the wireless companies to be able to gain the unlicensed capability.

Simon Flannery - *Morgan Stanley - Analyst*

Great. Unfortunately we're out of time. Fran, thanks so much.

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

Thank you everyone.
