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# EDITED TRANSCRIPT

VZ - Verizon Communications Inc at UBS Global Media and  
Communications Conference

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## CORPORATE PARTICIPANTS

**Lowell McAdam** *Verizon Communications Inc. - Chairman and CEO*

## CONFERENCE CALL PARTICIPANTS

**John Hodulik** *UBS - Analyst*

## PRESENTATION

**John Hodulik** - *UBS - Analyst*

If everybody could please take their seats, we'll get started.

Again, I'm John Hodulik; I'm the telecom and cable analyst here at UBS and thanks for attending our Global Media and Communications Conference. I am very pleased to announce that our second keynote speaker this morning is Lowell McAdam, the Chairman and CEO of Verizon. Lowell, thanks for being here.

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**Lowell McAdam** - *Verizon Communications Inc. - Chairman and CEO*

Good morning, John. Good morning, everyone.

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**John Hodulik** - *UBS - Analyst*

And as always, we've got about 40 minutes for Q&A. I'll also be taking questions from the Crowd Mic app, so if anybody hasn't heard, you can download the Crowd Mic app and put in any questions and I'll read them off as we proceed through the presentation.

So, Lowell, as we sit here at the end of 2016, there's been a lot of change in the industry. Could you give us a sense for Verizon's roadmap as we look out to 2017?

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**Lowell McAdam** - *Verizon Communications Inc. - Chairman and CEO*

Yes, well, I think what you see from us, John, is a strategy that continues to be focused on network first, network superiority; obviously mobility is the biggest piece of that.

You see us evolving the network over time; I'm sure we'll come back and talk about 5G, etc. And then adding a series of products to the portfolio around digital media and IoT and you see that performance throughout 2016.

We have continued to win all of the wireless network reliability and quality. We have won in virtually every category. The last one we won, 93% of the markets were first place, so we feel very good about that.

You have seen us announce and go out and build more fiber; the city of Boston is the best example of that. We think that is the prototype for what the networks are going to look like in the years to come.

You see us evolving to 5G. As we said, we will be in pre-commercial trials in first quarter of this year. We have moved that up from a general 2017 comment, and then we continue to see growth in our services like go90.

We just added the telematics suite with Telogis and Fleetmatics so we expect to be big players in the supply chain in the telematics world.



And then, obviously, our AOL product is -- or our property is performing well for us, up 10% year over year in revenue and as we move through 2017 we still hope to close Yahoo and we see some significant scale there.

So continuing to refine and build the strategy, but consistent with what we did in 2016.

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**John Hodulik** - UBS - Analyst

Got you. Now one of the big themes of the conference is the change in administration; we're going to have a new president come January 20, which could mean some real changes for the telecommunications industry. What is your view on the new regulatory landscape with the new administration?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Well, I think it is too early to tell, and those of you that follow Verizon know that we didn't get into Twitter wars with one of the candidates and we didn't publish blogs favoring one over the other.

The bottom line is we think we need to play our strategy and we are now, I think, beginning to see some potential direction but it is really too early to adjust your strategy based on that, John.

We do hope -- we have hoped for a long time though -- that we would see corporate tax reform. We are not planning on getting into the 15% range; that would be great if it did, but just in that area, depending on what they do with interest, what they do with capital expense, you really have to wait and see before you make any decisions based on it.

So our strategy relative to the administration is continue to play our game and see what happens when things actually begin to be implemented.

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**John Hodulik** - UBS - Analyst

There's been some speculation that a Trump administration would be more favorable or more lenient towards M&A in the wireless industry. Would that -- would either consolidation in the number of players or have one of the smaller companies be bought out by another entity, would that be helpful for the environment in wireless?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

I've probably been asked that question for the last 20 years and I continue to go back to -- look, if we play the game that we think is the most critical to customers, and that's providing a superior product, it doesn't really matter what the competitive environment is, you are going to be successful. So we're continuing to believe that.

Whether there's three wireless carriers or four, I don't -- it doesn't matter to us whether a satellite company buys a wireless carrier or a cable company buys a wireless carrier, we will react to that at the time, but it isn't anything that we're basing our strategy around.

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**John Hodulik** - UBS - Analyst

Got you. Now on the topic of M&A, today the Company announced a sale of its data centers. Can you walk us through that transaction?



**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Yes, so I think from a high-level perspective, when I took over, inside the Company, I use the term that you trim the branches on the tree so that the tree can be as strong as possible.

And if you look back, whether it was selling the smaller properties that we did to Frontier, we thought -- while those were good properties they were better off in Frontier's hands; we could take that capital and redeploy it into our Wireless and Wireline footprint, and that's the Boston example of we have expanded there because we contracted elsewhere.

This is another good example of that. If you look at the competitive players, those assets, while they were great assets, were in better hands when they were with Equinix than they are with Verizon. We've got a very good multiple on it; we'll be able to take and redeploy that capital when we get it.

So we will look for opportunities where we are subscale and put the money into an area where we think we can scale, because in our business, your cost structure is absolutely critical to long-term success.

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**John Hodulik** - UBS - Analyst

Got you. Maybe turn to the wireless industry, it seems like we have been on this process really since 2013 of increasing competitive intensity. Can you continue to grow the business both from a subscriber standpoint and a profitability standpoint in this environment?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Yes, that's another question I have gotten for the last 20 years. So, yes, I have been in this business since early 1990s and we have gone from three to seven or eight competitors if you count MVNOs and so it's always been very dynamic and our view is when you have a competitor push you like that you end up doing better things.

So the third quarter, fourth quarter has had some interesting dynamics with the Note 7 issues that, because we are such a big Samsung player, impacted us more but fourth quarter to me is more traditional -- fourth-quarter competition -- it's a very -- there's three weeks of the year that really make or break the fourth quarter.

You've seen some competitive intensity; I've seen that every year that I've been in the business. So what you see out of Verizon is a relatively disciplined response.

When we are more than 20% higher than the competition, we have to make some adjustments, and we did that over the Thanksgiving holiday and we are happy with the results and so I don't view this as any worse than any other time in our history to be honest, John.

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**John Hodulik** - UBS - Analyst

Have you seen an impact from competitors moving to unlimited data plans? Is that sort of a major change in the industry or sort of more of what we have seen in the past?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Well, it's one of those things, both advertising and some of the product offerings right now. When you read the description of the dish on the menu, it looks a little bit better than the actual dish looks so -- and that is no relation to Charlie and DISH -- I know you're going to go there, so --

**John Hodulik** - UBS - Analyst

No, no, no (multiple speakers) --

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

-- just to be clear. But unlimited data is, when it has got a lot of limits on it, when it has got caps and you're throttled, and you can only get this on Tuesday afternoon, it is a little bit different. So I think there has been a lot more flurry in the press than there has been with customers.

I think the thing, John, that we look at is what is our customer loyalty and we have had 6 quarters with our phone churn less than 0.9%. When I remember the days of 2.5% churn, you feel pretty good about your position in the marketplace.

Again it doesn't mean we don't need to react and we have put some new pricing in the marketplace and we have made some adjustments on handset pricing as necessary but this isn't a doomsday from our perspective.

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**John Hodulik** - UBS - Analyst

Got you. Would the -- last thing on competition -- do you expect the entry of the cable companies with their MVNO, with Verizon midyear 2017, to fundamentally change the competitive landscape or change some of the churn dynamics that you have seen?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Well, I happened to be here for Randall's answer to that question and I think he and I agree on that. Look, there is an increasing requirement, I believe, for customers to have a seamless transition between their services.

In the old days that was between markets and when you were roaming that was a problem and now Wi-Fi is more important and so have a customer be able to move back and forth there is important.

There is really only two companies in the US that have a lot of experience in being able to switch large amounts of traffic and make that relatively seamless and that is AT&T and Verizon. So I agree with Randall's point is over the 20 years I have been in the business you have seen MVNOs come in and out.

As you look at the dynamic in the marketplace and you look at the products that are coming, having a static offering I think is going to be difficult; it does become kludgy. So will they have some impact? I believe they will. Is it the kind of thing that we wouldn't have done that deal again? I would do that deal in a minute the way it is structured.

If you remember, that was back in the single line; that was even before Family Share. And if you look at unlimited streaming and moving between -- moving content between product sets, that is a complicated business.

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**John Hodulik** - UBS - Analyst

So you think from a -- as far as the contract's concerned, that is an attractive deal for you, that there is going to be attractive revenues that Verizon is going to generate?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Yes, I mean MVNOs have been great for us over the years. They have very strong margins and I would certainly rather have the cable companies on the Verizon network where we get those margins than somebody else providing it to them, so we are satisfied with that and hopefully they are as well.

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**John Hodulik** - UBS - Analyst

So -- well, we started out with the strength of the network as one of the key pillars. Can you talk about a couple of things; there's a couple areas we can explore here. First, the densification efforts. What are the early learnings from some of the cities that you have worked on so far and where are we in that process?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Yes, so we sort of swam against the tide here during the AWS auction. We knew where we needed spectrum and what we were willing to pay. And our theory in the case was that the small cell technology, the cost and the ability to deploy had crossed over with the cost of the spectrum to generate a certain amount of capacity.

After the auction, we were ramping up to Super Bowl 50 in San Francisco, which saw about 10 times more traffic than we had seen in the Super Bowl that was here in New York a couple years earlier. So we went in and did a lot of cell splitting; we spent about \$70 million on that and more than achieved the capacity that we would have achieved from 10 megahertz of spectrum, which is multiples more than that.

We are now ramping up to Houston and we have densified Houston and we have gone in and densified Chicago, and every time we densify a city, we are more and more convinced that the decision we made to not pay that top dollar for AWS was the right decision.

Now the beauty of it -- and we didn't know this at the time so I won't claim great insight here but -- is that you set yourself up for 5G and millimeter wave; you're doing exactly the things you need for 4G and almost getting 5G at no cost.

So if you look at Boston -- and I think Boston is going to be the prototype of the architect for the networks to come. We are going out and putting \$300 million and we're going into -- deep into the neighborhoods and, as we do this, we are working with other companies to put in a smart city sort of architecture.

And one of those is that you replace the street lighting with new poles that are LED so you save a lot of money for the city on electricity. Well, every one of those poles has the capability of being a 4G cell site as well as a 5G cell site.

So we will be able to go in and offer an IPTV-based service, a streaming service, a broadband service either via 4G Advanced or via 5G, and I think we will get to 5G.

So while we are on that, then just to put an underline on 5G. We will be bringing up relatively small towns but small towns in a pre-commercial architecture here in first quarter. We won't be charging for the service, but we will be learning from it and figuring out the distance between the transmitter and the receiver in a 5G environment.

But, so far, we think that all of these efforts give you the perfect architecture for delivering 4G at a reduced cost and delivering 5G and all the services that go along with it.

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**John Hodulik** - UBS - Analyst

Okay. So gotten -- have a lot of questions from a lot of the topics you mentioned. Maybe first starting with the economics.



You said \$70 million spending in the San Jose/San Francisco. Can you give us a little -- a better sense for -- in terms of like -- I don't know if you guys talk about this -- what the cost per POP is in that environment? Or is that \$70 million a decent -- a representative number for the kind of numbers you would expect to spend in other markets like Houston and Chicago?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Probably not, John, to be honest because the main focus in San Francisco was on Market Street, a block or two outside of Market Street, where you had the concert venues and those sorts of things, so I don't think you can draw a line there. But if you look at cost of spectrum in those markets, it's a significant reduction when you densify versus buying that spectrum at this point.

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**John Hodulik** - UBS - Analyst

Got you. And on the 5G side, you said first-quarter pre-commercial rollout in a number of small markets. If you could give us some more color on that. Are you going to actually be selling services to sort of friendly customers at that point or is it just a function of testing the infrastructure or the business case or what would you hope to learn?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Well, the -- so let's be clear on what we mean by 5G. I call it wireless fiber. If you think about the way we deploy Fios today, we go fiber all the way into the home and then Wi-Fi within the home. This will allow you to stop anywhere from 200 feet to 1000 feet, somewhere in that range we think, from the home and then make it a wireless last leg into the home. And I think that is going to be the predominant architecture for wireless service going forward.

Obviously if you have large multiple dwelling units, high-rises, large businesses, you can take fiber the rest of the way in. Our plan is to offer 1 gigabit broadband service to them and an over-the-top bundle. We could go all the way to a 300-channel bundle.

The market -- in our view, the market is moving more toward what we call skinny bundles and we expect to offer that, but the early phase is not mobile oriented. And the huge advantage for Verizon is when we bought XO Communications, which we now have FCC approval by the way, and it is the first approval that I have seen in my career where we had absolutely no comments from the FCC.

We got that several hundred megahertz of bandwidth, that millimeter wave bandwidth, which now is approved and we can move forward with that deployment very rapidly. So the devices are going to be extremely simple. It is basically the kind of router that you have in your home only with a 5G chip in it versus the fiber conversion chip.

So the time to market is greatly compressed for us. We don't need to worry about handsets and tablets and mobility handovers and that sort of thing. That is the business case that proves 5G.

So what happens with use cases around autonomous cars and tablets and those sorts of things? That will be dependent on the standards bodies, which everyone speculates is 2020; I think it might be a year earlier than that. There is a lot more interest around those standards at this point, but by that point, we will be two, three years out ahead of the competition on this sort of a deployment.

Others are going to have to wait for that spectrum to be found, to be auctioned and, as you see from the 600 megahertz auction process, those can be elongated.



**John Hodulik** - UBS - Analyst

Maybe -- given the capabilities, especially that you would get with XO, any sense for what the number of homes passed with a 5G service might be in 2020?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

It really will depend on the distance between the transmit and receiver and we won't know that until probably mid-next year. This is very much a suburban and a, I would say, a dense suburban play. I'm not sure it is going to be in a rural market early on in the deployment, so lots of opportunity for us, but it is not going to be a 4G sort of thing where it is 100% of the US population.

We will go into those areas where we can sell a lot of broadband; we think it will be at a much lower cost than we offer service today, and we will be able to answer that question better in the next six months.

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**John Hodulik** - UBS - Analyst

Got you. And then what is the densification and maybe the 5G strategy, what does that mean for the capital intensity of the Wireless business? Does it change the dynamic at all?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Well, people always are waiting for us to say we are going to reduce our capital and you do see some companies go way up for a while and way down for a while. Our philosophy has always been sort of steady-state.

If I stand up here and say we are going to reduce our capital by a large amount, that means we don't see opportunity. In front of us right now, not only with 4G densification but the 5G deployment, we see lots of opportunity for this.

If you look at how Boston -- how we expect Boston to play out -- we see an opportunity to deploy more fiber into these urban markets to displace what we currently lease for our Wireless market and we see an opportunity to go in and attack small business in the enterprise market more if we deploy fiber in cities outside of our ILEC footprint.

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**John Hodulik** - UBS - Analyst

So maybe that is a good segue into the Wireline side. So Boston -- the Company had, I would say, slowed its rollout of local fiber and the Fios strategy in general, and then you announced Boston, I would say, middle of this year. Can we expect to see more fiber deployments similar to what you are doing in Boston going forward?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Well, I would hope so, because the business case for something like that is pretty significant from a cost reduction perspective as well as tapping into the better SMB. As you know, we've lost some share in small and medium business to the cable companies because providing DSL service just isn't enough for them, so going back in and taking that market back, I think, is a good opportunity for us.

I think the other thing -- Mayor Walsh in Boston deserves a lot of credit because he is taking the approach of -- if I partner with business, we will provide a platform for more businesses to grow within Boston, and there is a lot of cities that we're having similar conversations with right now. I think there is a little less of a war on business mentality from politicians than there was probably a year ago.



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**John Hodulik** - UBS - Analyst

Okay, so I think that is interesting. So there could be other cities like Boston out there. Do you feel that we could get back to where we were years ago when we were -- when Verizon was -- Fios was and fiber deployment was a central part of the strategy and sort of where a lot of the incremental dollars were going? And when you talk about new cities, are you talking just within the existing footprint or sort of major cities throughout the US?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

No, I do think the architecture is going to be different than Fios. If you look at -- Fios was a residential-only fiber deployment taking fiber all the way to the home. We refer to it inside the Company now as sort of One Fiber.

And if you think about our old structure when we had the Vodafone relationship and then the Wireline and Enterprise, we deployed these things independently. Now we deploy one set of fiber and it goes across the entire portfolio of assets. So it would not be just in the Wireline footprint that we have today.

I think that it's going to take a little while to change some mindsets in the political realm for cities to work better with us in that Washington-to-Boston corridor. Certainly Mayor Walsh has shown the way, but we see a lot of opportunity outside that footprint. There is no reason for us to be constrained.

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**John Hodulik** - UBS - Analyst

Got you. So we should sort of think of this build out as more in line with not just addressing the business market but really it's underpinning the wireless densification efforts and the move to 5G?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Right, right. If you look at what we want to do in cities like Chicago around the country to get the capacity into the network for Wireless and last year our Wireless service grew 45% in our data traffic.

So if you look at that capacity need, you want to get out in front of it as far as you can. We have always done that and this is the way for us to do it economically going forward.

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**John Hodulik** - UBS - Analyst

Do you think over time that it could -- that this build-out could help change the trends that you are seeing in the small, medium-size business market or even enterprise market?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Yes, no question. It is very difficult to compete with DOCSIS even 2.0 when you have got DSL service and we see it in the Fios markets today. We don't lose market share to the cable companies; it's the places where we just have copper. So we'll -- as we make this transition, we think it will be a much different story for both enterprise and small business.



**John Hodulik** - UBS - Analyst

Yes, and what about the enterprise market? I mean, again, we haven't seen a lot of growth in the industry. We have seen some consolidation recently with Level 3 and CenturyLink. What's the outlook for -- first of all, is that a core part of Verizon and what is the outlook?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Well, I think, John, one of the changes investors are going to have to make is thinking about companies as either wireless or wireline because the biggest fiber networks are going to be those supporting like Verizon Wireless, companies like Verizon Wireless.

So enterprise for us we used to think of as our Internet backbone and all of our nationwide and global fiber and submarine cables and those sorts of things. I think now of our Enterprise group as the sales and distribution channel for that fiber that every part of the Company is using.

So when people ask me the question of are you interested in divesting the Wireline? No, I mean you couldn't. If you did that you wouldn't have the economics around the Wireless asset. And if you look at Verizon Wireless, it's the most cost-effective wireless Company out there on a per sub basis, and to divest your fiber assets would make no sense at all.

So the fiber part of enterprise is important for us. As we indicated today by our decision to sell the data centers, the data centers aren't necessarily a key part of our enterprise strategy but enterprise fits very well with what we are doing across the board.

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**John Hodulik** - UBS - Analyst

Got you. And maybe on the residential side, can you characterize what you are seeing in terms of cable competition? You mentioned DOCSIS 3.1, Comcast and Charter are rolling out new video products, and more recently, we have heard Altice announce a fiber-to-the-home strategy. Do the cable companies keep ratcheting up the level on that side?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Well, I think they will, the issue that you run into with DOCSIS is the upload speed versus the download speed and I think that is why you see companies like Altice make the decision that they've made to go fiber.

Now they don't have the access to the millimeter wave and the wireless technology that we do so I am beginning to believe that the better architecture is fiber into the neighborhood and then the wireless service from there on out, but I think, to answer your question, Fios continues to show good growth for us in the markets that we are in.

We typically top out at the 35%, 40% market share, which is pretty strong. That is why we like the idea of Azure densifying wireless to go into these neighborhoods, do the things we talked about with Boston, and give us the ability to open up new franchises.

But I would also point out that the franchise requirements in a Boston are different than the franchise requirements in a New York. And so you pick and choose and you negotiate with the city and you make sure you get the sort of relationship you want rather than being required to go in and do blanket deployments.

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**John Hodulik** - UBS - Analyst

So lastly on the residential side, quad-play I think is getting some more -- certainly in Europe -- maybe a little bit more focus here in the US with some of AT&T's move. What's -- do you believe that that is sort of a strategy that is finally coming to the US and how could Verizon -- and would love to hear your opinion on that.

And then, we have often, as we were discussing earlier, recently gotten questions about potentially Verizon linking up with the cable company and, to a certain extent, you are with the MVNOs, but would that type of a relationship be helpful to you given how the industry and mobile video is evolving?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

So linking up --?

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**John Hodulik** - UBS - Analyst

There's a lot of ways to link up.

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

So let's talk about quad-play. I remember being in Europe in the mid-1980s and we were talking about IoT and the Internet of Things was going to be the great thing and here we are in the mid-2000s and it is like, okay, it is finally here.

The quad-play has kind of been similar and I have to believe that the quad-play is going to make a difference here in the next decade or so, but so far, it has been a bottom of the bill discount and it hasn't really made a huge difference in anybody's economics.

So I think AT&T is certainly going to push the envelope here. We are a bit more bullish on the digital media because the Millennials don't seem to be buying the 300-channel bundles and they seem to be much more mobile and much more Internet oriented.

And that is why we are going the route of Complex Media and AwesomenessTV and Rated Red and some of the other content that we have gone through and then putting it on go90 as the mobile screen rather than the big screen in the house. But we will have to see how that evolves over time but I don't see, in the short run, quad-play being the silver bullet.

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**John Hodulik** - UBS - Analyst

Got you. That is a great segue into some of your new Wireless initiatives. Where are we on that process? Can you give us an update on the AOL transaction and maybe where we stand with Yahoo?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Yes, so AOL continues to perform for us, up 10% in revenue in the last quarter. Tim and his team are bringing in new products, integrating some of the acquisitions that they put in place that sort of strengthen their advertising portfolio. We think that is going to be critical as you monetize, especially as you monetize in the world of unlimited or very large bundles. So pleased with that.

Yahoo, really not a lot to say there, John. They have been doing all their work on the breach. This is one of those things that we need to give them lots of time to do a full analysis before we move forward with that and that is the process we are in at this point, so --

But we do think that a combination of an AOL with a go90 offer combined with skinny bundles and then the full Fios offering gives us the ability to monetize content across all of those platforms whether it be the NFL or the NBA relationship or, for example, Complex Media.

Now a lot of people in this room probably haven't heard of Complex Media, but in the 18- to 24-year-old male, there are more visits to Complex Media than there is to ESPN every month.



So that's what I mean by we are not investing in the traditional streaming, 300-channel media; we're investing in the things that resonate more with the younger group because that is where we think our growth opportunities are.

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**John Hodulik** - UBS - Analyst

So how have viewership trends been in terms of the assets you have now and are there ways that you can drive increasing share of audience?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Yes, go90 -- there was an awful lot of hype on this early on, but we knew that this was going to be what we call patient money inside the business. If you look at, for example, how long it took Netflix to really ramp up and hit their stride, that is sort of a model for us.

So as we have launched these new AwesomenessTV episodes -- when we did things like The Runner with Matt Damon -- people thought, boy, that is a very different offering, but you would see huge volumes when the new episode came out and we are continuing to see those sorts of episodic performance.

So the last quarter we announced that the viewership was up to 30 minutes per month. Now I know that doesn't sound like a lot, but people are coming back and they are doing it two or three minutes at a time and that gives us a chance to put our other monetization efforts into play such as the advertising that we mentioned from AOL.

So we are building slowly, we are happy with the build and we are continuing to invest in that sort of unique content.

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**John Hodulik** - UBS - Analyst

Any particular areas of strength in terms of the viewership? You have mentioned AwesomenessTV, Rated Red, some of the sports franchises that you have rights to?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Yes, the pillars for us are going to be -- will be sports, will be finance, will be news and entertainment. Those are probably the big four with lifestyles behind that. And so you can see the logic of building off of the AOL platform, and then if you add in the subscribers when Yahoo closes, you see an opportunity to really scale this business.

So we think about streaming TV in the 10 million to 20 million to 25 million subs and we think about Wireless in the maybe 100 million subs. Well, when you look at Internet viewership on this content, it could be up in 1 billion-plus.

So there is an opportunity here for us to monetize well outside of the monthly Fios subscription or the monthly data subscription on the Wireless side and that is what gets us excited about our portfolio.

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**John Hodulik** - UBS - Analyst

Got you. The AT&T/Time Warner deal change anything for you from an industry standpoint either on the Wireless side or in terms of your mobile video strategy?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

No, because, again, I respect the strategy and if you look at the assets that they have, that makes perfect sense for them, but we believe that -- we use the term we want to skate to where the puck is going.

And if you look at the digital media and the Millennials and how they choose to consume their media, it is much more mobile and snackable and Internet-based and so we like the strategy that we are on. We have to prove it out over the next couple of years.

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**John Hodulik** - UBS - Analyst

And in terms of monetizing the content spend, is advertising and maybe bandwidth purchases, is that enough to sort of create the return for that spend?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Yes, absolutely. I mean, the early experience that we have had with AOL is very positive, and I think if Tim were here he would say he could sell twice as much advertising as he can today just because of the scale of the business.

So as we bring on more go90 customers and as we take that content across that full portfolio, it will give us the opportunity to do that, so at this point it's just a scale game for us.

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**John Hodulik** - UBS - Analyst

And with Title II -- getting back to our earlier thoughts on regulation -- would a change in Title II reclassification or -- and I guess the impact on privacy -- would that improve your ability to monetize these assets?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

We were never against the Title II as it exists today. What we were against was what we felt was overreach of the FCC to be able to get in to do price regulation and that sort of thing in the future even though they agreed to forbear it for now.

But that -- so the answer to your question is no; we don't think it makes a difference right now and AOL is treated like other Internet service providers. Some of the companies tried to get us lumped into the common carrier standard for our Internet assets and I think we've beat that challenge back.

So our plan is more based around aggregating data, doing data analytics to do smarter placements of advertisement. I don't need to know what John Hodulik did with his phone or what Lowell McAdam did with his phone. We can aggregate that data and be almost as exact about ad placement, so no, I don't think the Title II changes or the privacy changes are big issues for us.

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**John Hodulik** - UBS - Analyst

Okay, and lastly on the topic, with Yahoo -- assuming Yahoo transaction is completed, would you have all the pieces you think you need to fully execute on this strategy?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Well, the thing about our business in general is the consumer needs are changing so dramatically that you never want to lock in and say the assets you got are the assets that you need. So we will probably add some things to it as we go along to strengthen the portfolio, but it certainly gives us a big opportunity to digest those assets and we think we can do a tremendous amount with them along those four pillars that I mentioned before.

But we will keep our options open as we go forward, because this market is growing at 10%, 15% a year and we want to keep pace and we want to take a little bit more than our share and if we do that, it will be a very profitable venture for us.

If you look at what we paid on a per sub basis for Yahoo at \$4.8 billion and 1.2 billion users on a monthly basis, you offer those folks some good services and you have got a great opportunity to monetize.

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**John Hodulik** - UBS - Analyst

Great. Again sort of finishing off where we started off, with the potential for tax reform in the United States, corporate tax reform, can you give us a sense for what Verizon's priorities are for any excess cash that they may have pre- or post- tax reform?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Yes, so the answer that we have given to that over the years really doesn't change; it is focused on the network, it is paying back our bondholders. When we did the Vodafone transaction, we always targeted 2018, 2019 unless some transformative deal came along for us.

And we have had a long track record on dividends. So as I look at where we want to spend on the network, we have talked about it, it's more fiber in more places because that allows us to densify for 4G, sets us into a position that no other carrier has around 5G and we want to exploit that, so we are going to be pushing the envelope on all those fronts.

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**John Hodulik** - UBS - Analyst

And the leverage, remind us what your target leverage is, and would you feel comfortable carrying more debt just given -- if we did have tax reform and were able to convert more EBITDA into cash?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Well, it really depends on what the tax reform is, right? So if you lose your interest expense, then you don't want to have as much interest, so I think we have to really wait and see what the overall -- how that bill comes out of the sausage making, if it is, in Congress and then we will decide from there.

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**John Hodulik** - UBS - Analyst

Great. Well, Lowell, that's all the time we have today. Thank you for joining us.

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**Lowell McAdam** - Verizon Communications Inc. - Chairman and CEO

Thank you, all. Thank you, John.

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**Editor**

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

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