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PRESENTATION

David Barden - *BofA Merrill Lynch - Analyst*

Okay, great. Thank you, everyone, for joining us for the kickoff session day two. We are pleased to welcome Fran Shammo, who is EVP and Chief Financial Officer of Verizon, to the ballroom. Thank you for joining us, Fran.

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

Thanks, David. Good morning, everyone.

David Barden - *BofA Merrill Lynch - Analyst*

So let's kick it off. So I think that the big -- one of the big topics that people are having a conversation about is how we should be thinking about how Verizon, a carrier like Verizon is being impacted by the activities that the smaller carriers, Sprint and T-Mobile, are undertaking to try to resurrect their subscriber growth, their relevance to the marketplace.

And in the last week or so we have heard a lot of different data points coming out of the market. We heard Verizon say greater than 40% net add growth quarter over quarter with some meaningful mix of smartphones in there. T-Mobile is talking about best ever gross adds. AT&T said yesterday here that they are not the victim. Sprint is talking about a couple of days of port positive which apparently hasn't happened in years there.

So, it seems like despite this huge amount of activity, everybody is winning and no one is being impacted. So is it all cake, green light, all good here?

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

Yes, this is all good, yes, great. This is a growth industry. Look, I think first let's start out that says, I don't think anyone in this room would dispute the fact that there is a huge demand for wireless services, there is an increasing demand for video over those wireless services. And that is going to drive the marketplace.

Now as far as the third quarter, look, I mean it is not surprising to me that the third quarter is being outperformed by everyone. It is a great quarter every year. We always have a big flurry around back to school. We also are having a big flurry around the new iPhone. So all this pricing moves and staging is all around these promotional periods to grab share.

And I think that that will continue for the holiday season. And then -- and we will start to repeat that next year as we fight for the market share. But I think it is important, as I listened to your last presentation, I do think there is some of this migration between prepaid and postpaid and it is the price point.

I mean before prepaid was a cheaper service, not a lot of data, probably not the greatest handsets. And now you have the ability to move into a postpaid product at a reasonable price with really good handsets.



So I do think there is some migration there. But that is actually good migration. Because history shows that when a prepaid customer becomes a postpaid subscriber their usage and revenue increase over time. So it is not bad and I think that is good for the industry overall.

But I also think that for us, specifically for Verizon, we always say we have to play our game. And our game is not a price game. Our game is a quality of service game. Our game is being that premier network that people come to because the experience on that network far exceeds everyone else.

And I think that is going to be even more important as we move into the VoLTE world, because if you think about VoLTE and you what all the features around VoLTE, you have to have VoLTE at both destinations where you are calling and where you are receiving. And for a company like Verizon we have the coverage to be able to bring that product so that you have seamless experience with our customers.

And that is going to be a differentiator for us because other carriers, where they are just building out certain cities and not filling in all the gaps, they're going to have a hard time really having that experience with that customer based on a VoLTE product. Although they claim they have VoLTE, but it is going to flip back down to HSPA+ and that is not going to give you the same experience on a voice quality call of a high-definition telepresence type call. So I think that is important.

Then you move into multicast. Multicast is a whole new technology that some are not even investing in. So that is again where I think is going to explode the whole video over wireless. And that is when we get into the whole topic of we believe we can go over the top with video.

And of course we can have a whole conversation around what does that all mean in the ecosystem. But for Verizon it does come down to quality of service, we have to watch our competitors. As we showed in the first quarter coming into the second quarter, we had to make some price moves, they were rational, they were intentional, we were out of market a little bit.

But -- and we will watch all of our metrics to make sure -- if there is something we need to adjust we will adjust it. But we are not going to overreact to the competitive market. And as Lowell said last week, we are up 40% in postpaid net adds year over year, our growth is fine, the Apple phone launch has gone very well. So I think we are in a very good spot right now.

David Barden - *BofA Merrill Lynch - Analyst*

So, I think that the price activities that you reacted to at the end of last year, at the beginning of this year, I think people are asking themselves, okay, well we have seen even more price activity and from more corners than historical over the course of this quarter, some of it relatively recent.

Do you feel like the moves that you made then, to the price activity then, are still the right price point to have in the market today given where we are today relative to Sprint and T-Mobile?

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

Yes. Well, I think if you have watched us we have made a little tweak since the second quarter and in certain price plans where we saw we had a weakness, some around single line, we've made some tweaks there. But if you look at what is happening with the four lines and the five lines and the competitive pressure there, if you look at it, these are all promotional prices and they all end on September 30.

Now we will see if that happens or that doesn't happen. But as I said before, you are going to see carriers do promotional periods during very important periods. So back-to-school. The iPhone 6 launch is critical for carriers. So a lot of promotion around there. You saw us come in with our \$200 rebate for a customer who wants to trade in a former iPhone and that is important for us.

We have a lot of customers who have a 3G iPhone. So that entices them to upgrade to the 4G network which is part of our strategy of moving basic phones in 4G into the -- or 3G into the 4G network.

So, look, I am not going to say we are never going to react to anything, we will. But we are going to do it in a very rational approach and only if we feel we absolutely have to react to that price point. And right now I think again quality of service is a big proponent of what we believe is going to win in the end.

The other thing is is that in this business you need to generate cash flow to continue to invest in the network. And if you don't do that we have seen that movie played before as to what happens. Your network will eventually hit a wall and your customers will become very, very dissatisfied.

So again, as I have always said, this price game in my view is a very short-term game that can be played. And we will see how this plays out over time.

David Barden - *BofA Merrill Lynch - Analyst*

So -- and I think as we look at the history we have seen how it plays out through time. I mean as you say, subscribers have generally -- voted with their wallets and they have kind of been willing to pay a premium for a premium network experience.

I think, is there any reason that you see why the improved energy that T-Mobile and Sprint have put into their marketing and business positioning, the negative subscriber growth opening up capacity in conjunction with their capital investment, matched with their prices, matched with the iPhone -- do you feel like we are in an environment where there is a risk of greater propensity to move from one carrier to another than we have been in in historical times?

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

I mean I don't think so. I think that everybody had that fear when local number portability went in. And so, customers are going to move for various different reasons, price being one of them. But again, if you ask any customer quality of service is number one reason why they churn, price is number two.

There are going to be customers who are price sensitive. But I guess I would back up again and maybe settle everybody around this as well that says, look, if you go back to the voice world, what happened to the voice world? Well, what happened to the voice world, prices came down.

And everybody, I remember, back then said, oh, the wireless industry is in a price war, voice prices are coming down, bundles are growing. And what happened during that period of time? Revenue continued to grow because, although minutes grew, usage grew exponentially and therefore more revenue was generated.

The same thing is happening in the data world. So if you look at the price per megabit, the price per megabit for a customer is going to continue to come down, the bundles are going to get bigger, but people are going to use more volume. And that is what is going to drive the usage adoption and also what is going to drive future revenue.

And that is why what you see now is around tablets. Why are tablets so attractive now? Because it is easy to attach a tablet to these plans as you share them and everyone wants their content where they want it when they want it and tablets are mobile.

So I think that there is still a lot of things that this industry hasn't even seen yet from a growth trajectory. And we can have a whole conversation around Internet of Things that is the new name for machine to machine and we can talk about that. But there is still a lot of things that happened.

But again, if you look at every single one of those growth engines, it always comes down to you have to have a network to support all of those devices. And so my point is, in a competitive environment you still need to generate the cash to continue to invest in your network to hold up some type of a quality of service that is going to be especially receptive to your customer base.



David Barden - *BofA Merrill Lynch - Analyst*

So one of your larger peers has agreed to acquire 20 million video customers. And has really put a stake in the ground and said that they believe that the tangent point for making a decision in the wireless business today might be price and device. But in another year it is going to be network and content. And the network I think you guys don't have to really justify.

But the question is is where you guys now stand in the content pecking order? It seems like Comcast Time Warner Cable is going to be huge, but they don't have a wireless business, at least not for any foreseeable time that we can talk about. AT&T has the second largest video business presuming the close of the DTV deal; they've got 70 million wireless players. I mean are they in the best position, are they in the pole position to kind of innovate on content in wireless on a go-forward basis?

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

Well, first I think we need to define what content over mobile is because it is very different than content in linear TV. If you look at it content over mobile are very short clips. We saw what happened during the World Cup where people wanted to watch certain things around the World Cup, usage in the network went way up from a data perspective. And normally that is on average no longer than 30 minutes.

So this is not someone sitting on their couch at home watching a television series for an hour. These are very real time live event type functions, sports, news, maybe concerts, those types of things, fights, those types of things.

So the content in the wireless world is going to be very different than content in the linear world. And I continue to say that one does not transfer to the other. So just because I have 5 million subs over here at FiOS doesn't mean that I have any different leverage to the content provider in the wireless world.

And if you talk to any of the content providers they will say they view the wireless world as a very different ecosystem than the linear TV world. And one will not carry to the other, because, if you look at it, I would have the most leverage in the wireless world because I have the most eyeballs of anyone that would be perceived as having value.

So it comes down to, again, quality of network and technology. And I think that when you get to content over mobile that is where multicast will play a very, very important role. Because in order to deliver that content in an efficient manner you are going to have to have that multicast technology. Because I will be able to deliver that program to millions of people and it is extremely efficient from a spectrum perspective to do that.

So I don't think that there is any tie. There may be some relationship tie, but we have all those relationships with our content providers. And I would say with our Verizon digital media services platform all of those -- a lot of those content providers are our customers because they are putting their content through our platform.

So I think there is different ways to measure what leverage is. But I think the wireless world and how the ecosystem develops will develop around that content. And I think if you look at it, look, we have the NFL content, I have IndyCar content. So we are building on our content and I think those relationships and those deals are going to be independent of linear TV subscribers.

David Barden - *BofA Merrill Lynch - Analyst*

Is that NFL and Indy content -- is that part of a strategy of building a portfolio of content exclusive to Verizon to marry it to the business or is it -- are you a little bit more in wait-and-see mode to see when multicast comes out next year in a bigger way, how it goes down?



Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, I mean we are having conversations with all the content providers, especially around the multicast technology and what that can bring. I mean here is the problem with multicast right now, is the chipset just started to get embedded into the phone, so the Galaxy 5 has it, most of the phones in the fourth quarter that we will launch will have that chipset in it.

So it is going to take, if you think about that, the upgrade cycle, a year or two before you have a meaningful number of subscribers where the content providers say, okay, I can get my hands around this, you now have a meaningful set of subscribers.

The second piece is is that the one piece that has been missing in this ecosystem for the content providers is who tells them who watches what program? And that is really -- going back to linear TV world, that is Nielson, right.

So Nielsen will have that capability and they did a big presentation a couple weeks ago where they will have the capability in the fourth quarter of this year to be able to tell the content providers who is watching their content on what mobile device and how many minutes they are watching it.

And that is important for this ecosystem to develop around, okay, so how does the ecosystem develop? Is it a pay-per-view model? Is it an advertising model? Is it the consumer just assumes it in their data bundle? Which I don't think is the right answer here. So we still have to work that out.

But there is a lot of attention with the content providers around the multicast technology and there is a lot of attention around the content providers about enabling their content to go mobile without an authentication back to a linear TV subscription, which is where it is today.

David Barden - BofA Merrill Lynch - Analyst

So shifting gears a little bit and thinking about the handset, it does seem to be -- the handset selling approach seems to be an increasing differentiator across the different carriers. There seem to be different philosophies.

One philosophy is that getting rid of the subsidy or at least making the subsidy transparent in the marketplace is an absolute good for the business and who wouldn't want to do that. Alternatively another theory is that subsidies are a way to differentiate your business on the basis of scale, margin and balance sheet. And why not use every competitive weapon that you have available to you if it suits your purposes.

And you guys seem to be threading kind of both sides of that. Is there a reason to push more along one front or the other? You said consumer led so far, but is there a reason to go one path or the other instead of letting the consumer make the choice?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, no, I don't think so. I think that it is important for -- to allow the consumer to choose what plan is best for them. You have seen us do a lot of promotions around the subsidy model. We have our pricing around the Edge program. And when customers come into our stores we lay out both plans and they decide.

And what you're seeing is when they look at it side by side the majority of them are still going after the subsidy handset. And now a lot of that is because they know that they can get that handset for free in a lot of instances or they only have to pay \$25-\$50 for that handset.

Whereas the installer model, consumers are somewhat intelligent to realize they are going to pay full price for that handset, which for an Apple phone could be upwards of \$650-\$750. Of course less the residual value when they trade it in. But if they stay on for the full boat of the 24 or 20 months they are going to pay \$750 for that phone.

So when you lay out the math side-by-side our customers are, for the majority, still sticking with the subsidy model, and we are fine with that. And if they decide to take the Edge model we are fine with that.



The economics over time are the same. The NPV is relatively the same. The only difference between the two models in my view is that there is a balance sheet issue with the Edge model because you are not getting cash up front and you are in essence financing that. And so cash flow comes in slower so you have a buildup of receivable on your balance sheet.

So, look, again I am indifferent from a financial standpoint of which one we sell. Again, we are very focused on it is consumer choice.

David Barden - *BofA Merrill Lynch - Analyst*

As you mentioned kind of the different approaches, one of your competitors has innovated yet again on the handset selling front and now is not actually selling phones but is now leasing phones. And I guess the idea here is that without transferring ownership the customer can avoid sales taxes. And presumably the asset on the balance sheet strengthens your balance sheet to a degree. I mean what say you, CFO of Verizon, about leasing phones?

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

Well, it's interesting. It takes me back to when I entered this industry in 1989 when we sold bag phones for \$3,200 and we leased them. So, look, it is a financial model, it is a different choice for a customer. I don't see us getting into the leasing business with handsets. There is no need.

I mean, you have an installment sale; you have an outright buy model. And as I said, most -- with our \$200 trade-in credit you are walking out with a brand-new iPhone with zero down. So I mean why would you lease that phone? So again, it is just a different type of marketing ploy. Financially I would not support a leasing model.

David Barden - *BofA Merrill Lynch - Analyst*

The conversation about subsidized phones, installment payment plan phones, leasing phones -- it is interesting because GAAP gives us different ways to account for all these things. And those GAAP accounting treatments require companies to make different assumptions along a host of different parameters.

And as a result of that there is a lot of new noise that is now inside the GAAP financial statements that make these statements harder to read relative to history, harder to read between companies.

It seems like with Verizon having the lowest amount of installment payment plan take rate you guys have stated you have got hyper conservative assumptions about recovery rates when you sell a phone or trade in a phone down the road. You probably have the least amount of noise in your numbers relative to others although still some noise. What do you, as a CFO, try to do to make it clear where your numbers are relative to other people's numbers?

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

I mean I have tried the last two quarters to give you the sense of what the EBITDA margin would have been without the Edge bump up in EBITDA margin because you are getting the full revenue upfront and not taking the subsidy loss. And you can see from our take rate that is relatively immaterial to us.

Others have not done that because my feeling would be is that they don't want to disclose it because they're going to show you how much their EBITDA has been bumped up from the installment sale programs.



The other thing too is that, depending upon where you set that residual value at, if you set the residual value at a high residual then you will actually record more revenue during the term of that installment and then potentially have a loss at the end if you can't get the value of that residual.

We've taken a very different approach. We have really made the residual very low so our actual revenue is less recording upfront. Now I may have a benefit at the end if I can get more for that phone when the customer decides to upgrade, but we are taking a very low viewpoint of that residual.

Because our projection is with the flood of phones that will come to the market and this iPhone trade-in may show us that and it may show us that we are wrong. So we will have to adjust if we are. But given that there could be so many phones that come to market I think the price will get compressed on the residual values of these phones.

But it is very difficult for us to stand up and give information so that everybody can peel everybody's financials apart. But what I always try to say is, just go back to cash flow because cash is king and the cash flow will show you exactly what is being generated in the operations of the business. And that is why I keep saying you come back to you have to generate cash in this business because it is a highly capital-intensive business that you need to continue to invest in or else you are going to fall behind.

David Barden - *BofA Merrill Lynch - Analyst*

Another not handset accounting question, but handset and technology question is, for some reason Wi-Fi calling is now in vogue. Apple has now made it a part of its kind of native technology inside the phone. Some carriers are going further and kind of following the Femtocell strategy and pushing Wi-Fi out into the corners of the network where it might not be because this is an easy, cheap way to enhance capacity.

I don't think that Verizon actually has a Wi-Fi calling capability today. Do you care? What is your game plan on the Wi-Fi calling front?

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

Yes, so with the new iPhone we have to do some technological work in our network to make that feature available. So we will do that and we will have that available I think midyear next year. It was just never a top priority for us only because we built our voice platform so extensively that there was never a need for us to tell our customers, oh, our network is not good enough, you need to default to Wi-Fi to complete your call.

So it is something that our customers are asking us for in the LTE arena so we will deliver that feature to them. But again, we really want our customers from a quality of service standpoint, because once you transfer that call to Wi-Fi the quality of service for me disappears, I can't guarantee the quality of that call anymore.

So for us it is all around the quality of service, the quality of that call and of course in the LTE environment it is even more important again because of what I mentioned before if you are doing a video chat or some of those things. So we will deliver that feature but we will still continue to broaden our own LTE network to be able to deliver the quality of service we think our customers expect.

David Barden - *BofA Merrill Lynch - Analyst*

And just kind of wrapping up on the wireless side. This may be more of a personal observation. But it seemed to me that a year ago the messaging around monetizing the wireless power portfolio was very clear, which was that it is a strategic asset not for sale. And I think more recently the tone has softened a little bit and the message is more along the lines of if we could get the right terms and conditions we would be open to it.

And I guess it seems like there is certainly some capital requirements coming up in the near future that some incremental money wouldn't hurt. But I was wondering if you could kind of just talk about the evolution of your thinking on that topic?



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

Yes. Well it always came down to it is really two things, price and terms and conditions. And some of the recent deals that have been done, the terms and conditions seem to be much more favorable.

Of course our demands are probably a lot higher than most because we want to protect the ability for us to expand our network when we want on our own towers. Where we need space we want to get the space without having to go through a bunch of hoops in order to get that. So, look, I think it is an option for us, we continue to look at it and we will see what happens.

David Barden - *BofA Merrill Lynch - Analyst*

When you say price and terms and conditions, I guess the deal that seems to have innovated probably the most on terms and conditions was the Crown Castle AT&T transaction where I think two things were novel, at least appeared novel to me.

One was that AT&T was willing to -- or Crown was willing to reserve space on towers for their future use so they wouldn't have to worry about future capacity on towers that they had built with that purpose. And the second thing was that the escalator around that deal was a little bit less than historically normal.

Are those the terms and conditions, those kinds of terms and conditions, are those the things that kind of piqued your interest and maybe changed your perspective on that asset?

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

Yes. I mean the AT&T deal was a good deal for them. And it kind of opened our eyes and said, okay, well, maybe there is a way to get through this and protect all of our interests and get a deal that is palatable to us. So again, and that is why we said we are open to the idea and we will see what happens.

David Barden - *BofA Merrill Lynch - Analyst*

Are you -- is this part of any larger asset monetization strategy that you have? Are you looking at the real estate portfolio and -- I don't know -- your stock portfolio or whatever it is and trying to raise cash to delever to open up investment opportunity somewhere else or is this just opportunistic?

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

Well, look, I mean I think that when we closed the Vodafone deal Lowell was pretty clear that said, look, we are going to trim some limbs on this tree. You saw us divest of a piece of our federal network business last quarter. We continue to look at our portfolio. We are open to divesting if it means -- if it is the right strategic move for us.

But I think it is clear because there is no fire sales here, we are not desperate to divest of anything. It has to be under the right conditions with the right terms and right for our shareholders. And if that makes sense and it makes sense strategically then we are open to it.

David Barden - *BofA Merrill Lynch - Analyst*

So maybe shifting gears a little bit to the Wireline side of the business. There is the obligatory question on the enterprise services side, the engine that keeps the revenue and doesn't really ever kick into gear. And I would love to kind of get and just your 2 cents on that.



And maybe just what would be your prescription for getting that business to really rev up and grow? I mean the economy seems to be doing okay, the global economy isn't terrible anymore and yet your business just doesn't seem to really kick into gear. Something is missing in that unit. It just -- it would be interesting to hear what you think it is.

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

Well, I think unfortunately you can't see the full portfolio of the enterprise business. And if you look at certain portfolios within that business around IT, security, data centers, cloud -- that is all growing nicely. The problem is is though the core LD in voice is more than offsetting that. And that is part of the issue with enterprise.

And it is almost like you have to look at this almost like a copper access line in FiOS, right. So we started building out FiOS. FiOS started to grow, but access lines continue to decrease. And just recently in the last two years we finally crossed those lines where FiOS now is a bigger piece of the pie than the access lines. That is what is going to happen in the enterprise business.

So the new strategic services will eventually outpace those declining services and we'll get back to a growth business. I don't see that happening within the next year or so though.

The other thing is is I would take a little bit of a counter view on the economy is good. I don't think the economy is good, I don't see the consistency, if you will. I don't think it's -- it's not going backwards but it is not growing. And that is a viewpoint of business where the job roles are still not increasing to where expectations were.

If you look at now with bonus depreciation being expired, look at this huge effective tax rate of the US verse the rest of the world, and you look at now where you don't even have incentive to invest anymore, that puts more pressure on businesses not to invest.

And of course this is a big issue in Washington and of course everybody is getting criticized for inversion. But what else can a business do with the highest effective tax rate in the world? So something has to change in Washington to get tax reform and if we can't get tax reform then they're going to have to do something else to extend these extenders that were helping the investment of the economy.

And I think up we can do that, and I think there is a consensus in Washington to do that, then maybe we can get this thing back on the road while we go through the hard part, which is tax reform. But I will tell you, I don't see us having huge amounts of investment over where we are today until we solve this tax problem, because it is just too much uncertainty for enterprises.

David Barden - *BofA Merrill Lynch - Analyst*

Are you saying that if the tax problem is solved Verizon's CapEx is going higher?

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

See, for a company like Verizon it is hard for us to go with the cycle because we have to deliver a certain amount of service for our customers. So, no, when you saw bonus depreciation come in my CapEx didn't change, when you see it to go away this year my CapEx doesn't change.

But for the majority of companies who want to do -- maybe upgrade their infrastructure or switch from old technology voice product to an IP technology product, that causes them to invest. There is not a lot of incentive today to invest in those two technologies because there is too much uncertainty as to what that investment is going to return with the tax law.



David Barden - BofA Merrill Lynch - Analyst

So I think it is most people's view that given that the Senate is looking at proposing deferred tax for 2014-2015 retroactively and the House is looking for doing it maybe in perpetuity, that there really isn't a lot of debate around whether there will or won't be, it is really about how long it will be. Do you have a -- you seem to be more energetic about the topic and like wanting to get something more definitive done. Do you have a reason to believe that there is any risk to that?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

No, I don't think there is a risk to it. My personal opinion is is that you are never going to get anything in perpetuity, right. Because really the general consensus, and I totally agree with this, is the US needs to go through a tax reform. So just give us a bridge to get to that point.

So I think that what is being discussed in Washington, which is the right thing, which is a two-year extension for bonus depreciation, so 2015-2016. Don't make it retro for 2014, it is gone and done, who cares. So if you are going to do it and try to stimulate investment do it for 2015 and 2016, that gives us the bridge to get tax reform done and get us more of a competitive player in the world.

David Barden - BofA Merrill Lynch - Analyst

That is the first time I've heard that. So are you -- is that your official kind of advocacy in Washington, 2015-2016, forget about 2014?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes. Because I mean you are already almost going into the fourth quarter. Who is going to change their investment now because you get bonus depreciation? Nobody.

David Barden - BofA Merrill Lynch - Analyst

Fair enough. Just a quick one on just the government generally. I mean you have called out the government as being kind of an outsized negative in terms of your revenue growth. Because you report government in your enterprise segment, some other guys break it out. Has there -- is there any kind of stabilization in the government side of the business right now?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

We actually have seen some positive trends in both the federal government and within some of the state and locals, more the federal though. But keep in mind as you start to see these bright lights come you are still talking six to eight months down the road where we'll actually start to see the build revenue come in because these projects generally be -- are longer projects to implement.

But we are seeing more activity out of the federal government especially around things like security, healthcare, these types of things. So I think there are some bright lights there that that will help us maybe a year out. So I am positive there.

David Barden - BofA Merrill Lynch - Analyst

So, there is a few minutes left and I will invite, if there is anyone in the audience that wants to raise their hand and ask a question we will do that. Otherwise I will ask a quick question on FiOS, which really has been one of the highlights in the Wireline -- the highlight in the Wireline business.

I think a lot of that or a portion of that unit's growth has been footprint expansion as you've both passed more homes than opened up more homes for sale. And I think right now you are in the 18 million homes passed and kind of 14 million to 15 million homes open for sale.

How much more footprint expansion, tailwind to growth is there for that unit? And then once you are fully marketing the entire footprint how do you -- what is the next strategy?

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

Well, with the footprint we still have LFAs that we have to abide by. And that is about another two to three years of build and that is mostly in the major cities of New York, Philadelphia and DC. So we will complete that build. Once we complete that build obviously we are very focused on penetrating what we have.

So if you look at this, we have over 5 million TV subscribers, we have something like 15 million open for sale. So there is still a lot of market share that we can go after without having to build more. And our penetration rates in some of our markets, I mean we have some markets over 50% penetrated. New York is still our lowest but it is still our fastest-growing.

So we believe that we still have a lot of runway just in what we already have built. But if you're asking me are we going to expand beyond those LFAs at this point, my comment would be no. We have to complete the build of what we have committed to. And then post that, if the Wireline is generating the cash flow to reinvest in more say the Google model, then maybe that is something we look at. But right now we have to complete what we have in front of us.

David Barden - *BofA Merrill Lynch - Analyst*

We have got a question in the middle in the center back.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Hi, my question is about your multicast technology. I know it is still early days, but how many simultaneous multicast channels can the technology do as currently contemplated?

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

Well, the way that multicast technology works is you have to dedicate one cell -- one channel in a cell. And that will give you in essence 24 hours of programming streaming. And that one cell could cover this entire room if we were all running off of it, whereas today, if each of us were to watch a video we would be consuming, each one of us, one channel in that cell site. So the efficiency is there.

But if I wanted to designate four channels, then I could have four simultaneous multicasts. But again, you have to measure that with the cell can only hold so many channels, so you still need to have quality of service for your all your other services. But you can expand that over time. But that is how the technology works.

David Barden - *BofA Merrill Lynch - Analyst*

Denny?



Unidentified Audience Member

Wonder if you could talk about your plans for the over-the-top service from the acquisition of OnCue. There seems to be a momentum in that area by several players.

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

Well, I mean, look, when you step back, when we bought OnCue we originally said that that was our pivotal point to developing IPTV within our FiOS footprint. And that was the main purpose of the acquisition. It does have an excellent interface that could be used over the top.

And if you look at the assets that we have between Verizon digital media services, which actually takes content from the content providers, digests it, ad insert, delivers that to EdgeCast, which is our delivery unit which we acquired, and then with the over-the-top with OnCue.

So it is in very, very early stages. Again, you have to get content in order to deliver over-the-top. We are currently talking to a lot of content providers. Again though, I think that that -- there is still a lot of work to be done in that ecosystem.

David Barden - *BofA Merrill Lynch - Analyst*

So, Fran, just kind of thinking then more about the video and entertainment side of it. With the kind of conclusion of the Vodafone deal, now that you have the wireless subs kind of completely under the house and married to the Wireline side of the business and you've had these systems together for now about six months.

Has there been anything about the conversation that you're having with the content guys that's different now that you are able to bring the two houses together? Or is there anything different period about how the business is working now that we are six months into this combination?

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

Yes, I think there is two questions there. From a content perspective the answer is no, really no change from a content perspective. Because again, you have content discussions on linear TV, you have content discussions around what can be taken mobile.

A lot of the conversations to date have always been around well I want to take the in-home experience outside and therefore I want rights to take that content out. And the only way you can view that content mobility is to authenticate back to a wireless subscriber -- or a linear TV subscription.

And of course with content what we are trying to do is say, forget the linear TV model, just give us content to go over mobile regardless of what you have in the home. So it is a very different conversation there.

As far as putting these two companies together, I think we have made progress. I wouldn't say that this is a huge thing internally because we have tried to give an incentive if you had wireless and you wanted FiOS we gave you a discount there and vice versa. I mean it was okay, it wasn't like hit the ball out of the park type things.

I mean it is very difficult for some reason in the US to sell a quad play. People -- consumers buy TV TV and they buy wireless wireless and they don't think about really combining the two services. So it is a very different perspective from a consumer perspective. I mean we have some where we do the one bill in the quad play but it is not that big.

The biggest success we've actually had, quite honestly, which is the first time we've ever been able to do it, is we are offering our FiOS subscribers, if you come in and subscribe for FiOS we are giving you a free tablet from Verizon Wireless. And that seems to be like the hot promotion now for the FiOS subscribers.



And we were never allowed to do that before because of the law that we had up with Vodafone that we couldn't use anything from wireless to promote a Wireline product. So that is the first thing that I see is kind of attractive. But again this is not a hit the ball out of the park type issue.

David Barden - *BofA Merrill Lynch - Analyst*

Assuming that those free tablets aren't driving wireless sub growth this quarter.

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

Assuming that, yes.

David Barden - *BofA Merrill Lynch - Analyst*

All right. I think that we have run out of time and questions. Fran, thank you so much for joining us. We really appreciate you being here.

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

Thank you, everyone.

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