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PRESENTATION

Brett Feldman - *Goldman Sachs - Analyst*

All right, if everyone will please take their seat; we are going to go ahead and get started with our next session. We are very happy to welcome back to Communacopia, Lowell McAdam, the Chairman and CEO of Verizon. Thanks for being here.

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

Good morning, Brett. Good morning, everyone.

Brett Feldman - *Goldman Sachs - Analyst*

I think we will just start off talking about wireless. And as I'm sure you've realized, investors have become increasingly worried about the market. It feels like it's becoming a bit more competitive. You've been in this industry almost since its duration. What is your perspective on the health of the wireless market right now and in particular Verizon's health within that market?

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

Okay, so good morning, everyone. Can you all hear in the back? I want to make sure that the microphone is working. Great. So look, I think this is probably the most exciting and dynamic time I've seen in the US market. If you take a look, investment is very strong. This morning, there was an Investor's Business Daily report on the top 10 investors and if you look at who are in the top 10, it's AT&T and Verizon are number one and number two. Right up there is Google and Apple and Comcast and there is a lot of investment. We've got a spectrum auction coming up here in a couple of months, which you'll see some significant commitment to the market as well. So very strong there.

Beyond that, Brett, the product roadmaps are becoming extremely exciting. Just what you saw out of Apple yesterday or the day before with the new iPhones, that's great, but applications on top of that with payments, the wearables are beginning to take off from both Android and iOS. If you look at the different applications, I know the discussion here yesterday about over the top, I know Les Moonves was here and the Sony folks were here. I think over-the-top video is right around the corner. And then just this last Monday -- Tuesday, I was in Detroit for the International Transportation Symposium. The entire Internet of Things is finally I think on the verge of taking off, led by telematics and transportation, but followed very closely by healthcare and education and energy management.

So that I think is a tremendous scene, if I am looking as an investor. And then if you look at how is the growth in the marketplace, I think you've got all four of the big carriers on stage here over the next 48 hours, but Verizon so far in third quarter we are seeing 40% up year over year and a very good healthy balance between handsets and tablets. So if you've got good investment, you've got a good product roadmap, you are seeing good growth rates, I would tell you I think this is the most dynamic and healthiest market in the world right now for wireless.

Brett Feldman - *Goldman Sachs - Analyst*

So just to clarify, what's up 40% year over year in the third quarter?



Lowell McAdam - Verizon Communications Inc - Chairman and CEO

Our postpaid adds are right now, right now, are at over 40% up year over year.

Brett Feldman - Goldman Sachs - Analyst

And what is behind that? Is it still continued adoption of tablets or are you also seeing the phone base firm?

Lowell McAdam - Verizon Communications Inc - Chairman and CEO

Yes, more than firm is how I would say the phone base and I think there is a good example -- while there is a little bit of angst over pricing, things that are coming into the market like the equipment installment plan. That is a good thing for consumers. It's neutral from a shareholder perspective. That is why we've taken the position we have. We had first-quarter results that were in the 18% range. We went up a little bit in second quarter. We are down a little bit in third quarter. I think that all changes as we go based on what's being launched, etc. But I think those sorts of things give options to customers and it's important that the industry continue to do that while they are delivering shareholder value. And at least in the case of Verizon, we are doing both. We've got good growth and we've got good profitability.

Brett Feldman - Goldman Sachs - Analyst

Great. Let's talk a little more about how you can kind of keep the momentum going in the near term and then we will move on to some of the longer-term stuff after that. I think right now about 75% of your phone subs have moved to smartphones and I think nearly 70% of them have moved into LTE devices. For how much longer can you continue to drive LTE, particularly LTE smartphones deeper into the base and sort of get the revenue tailwind that has come with that as people move to higher data buckets?

Lowell McAdam - Verizon Communications Inc - Chairman and CEO

Yes, so if you look at our base, round numbers, we have about 20 million customers roughly still on basic phones, a huge opportunity. When we move them into smartphones, their ARPUs go up, their ARPAs go up. If you look at the smartphone base in general, roughly half of those are on 3G versus 4G, so we can move them up. Even if we only got the cost improvement of 4G over 3G, that would be a very positive, but we see their ARPAs go up as well.

Tablets for us, Brett, though are a very positive thing and I know there is a little bit of uncertainty out there about it, but we see, when a customer takes a tablet onto a smartphone account, they actually end up adding more devices. Their churn is lower and their ARPA is higher. So the tablets are a great thing. Now I think the next wave is the wearables, the Internet of Things. Are they huge ARPAs or ARPUs on their own? Not necessarily, but even at \$0.50, if it's a 60% margin business, that's a very good thing. So the model will continue to change, but from what I see the profitability of that growth will remain strong. So that is why we are bullish on the market.

Brett Feldman - Goldman Sachs - Analyst

What is the timeline you think for some of those longer-term items kicking in because if you think about it, that migration from feature to smart and 3G to 4G, that probably plays out over the next two years? Tablets are ramping, so that might have a little more legs to it. Do you feel like by the time you get to the end of that type of product cycle, you are going to be in a position to start seeing a little more material revenue out of Internet of Things or connected car or anything else along those lines?

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

Yes, absolutely. I was at the International Trade Symposium Tuesday. All of the major OEMs were there. We talked with the folks from GM and Mercedes and Ford and Audi. All are bringing more telematics and eventually autonomous cars. Also on Sunday or Monday, we announced sort of an ecosystem of partners, 13 of us that are putting in a pilot project, 120 miles in Michigan anchored out of the University of Michigan campus where we will put a fully automated highway system in place with sensors, cameras, communicating with the cars so that we can show that that is a viable and will impact things like energy and safety and things like that.

The other one is on the 16th of this month, so I think it is next Tuesday in Washington, the group of 35 CEOs that have been working on healthcare initiatives will issue our first report. We show that best practices, including a bunch of technology applications, can literally improve outcomes and lower cost for large companies. And the next step that we are going to announce is that we will go out and do pilots in the marketplace to show that this actually works. So this has all moved from spreadsheets, to the lab, to now to pilots. And right behind those two very strong applications are things like energy and education.

So I think it will be significant and it will be real and it will impact the economy. There is a Cisco report here just recently that said that we can see \$14 trillion of economic impact to the countries that deploy these Internet of Things over the next 10 years. That is significant. So that will generate a lot of investment. So another reason why I am bullish on the US market and wireless in particular.

Brett Feldman - *Goldman Sachs - Analyst*

Are you set up to sell those products? I mean in your channels. Do you have to make a bigger investment in that or change the way you go to market to sell these types of product?

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

No, I don't think you have to change the way you go to market. Every one of those will have different applications. So healthcare applications will often be sold through the insurance companies because they are the ones or the hospitals, they are the ones that are trying to drive down their costs. The transportation will go through the OEMs. There is also lots of opportunity for indirect stores like Best Buy and certainly our direct stores to sell those and you are beginning to see things like wearables and smart watches show up in our stores today. So we will use different channels for sure, but I think those channels are in place and hopefully there will be a few more.

Brett Feldman - *Goldman Sachs - Analyst*

One of the potential products that we think about in terms of what wireless carriers can do to layer new revenues on their networks is getting more involved in delivering content and not just being an active network, but maybe having some branding behind the content. And when I've heard you talk about this in the past, you've said we have the right networks, you've got a content delivery network, you are integrating OnCue, you almost have all the assets that you need. You just don't have the relationship yet with the content vendors and in the past, they have sort of looked at your businesses and said we see 5 million TV subs, but we don't really see 105 million mobile subs. Has anything changed? Do you feel like they are beginning to see the entirety of your customer base and willing to talk to you about doing interesting things with content?

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

Yes, so let's deal with the network piece of that first and then come back to the demand side. So we do feel we've got the assets in place and I don't feel we need an awful lot more, but we will see how the market deploys. So obviously, deployed a lot of AWS spectrum. We've got great capacity in place. We are densifying the network, that is the term that they are using now, with either small cells or LTE unlicensed, which we can come back and talk about. So the network has the capacity. The backroom infrastructure is just as important. So we have been investing in our Verizon Digital Media Service, which is that content delivery network, gives you the ability to insert ads and deliver to any kind of device. That is up and running very strongly for us and then I think there is going to be some integration between the FiOS offering and the mobile offering.

Now the long pole in the tent has been content and two years ago, I think it was, well, no, we are not really interested in this; we really like the linear model. A year ago, it moved to, well, we do see great opportunity in mobile here, but we probably think it needs to be authenticated off of your home service. Now I see the change coming that says over the top is great; we do see that the millennials really want to look at this content over the iPads and the other tablet devices and their smartphones. So it's moved from almost a stiff arm to much more of an embrace. And I can tell you a month doesn't go by that we are not sitting down at my level having discussions about how do we make that model a win-win and there is no doubt in my mind that we can make it a win-win and we can address this market very effectively as we go forward.

Brett Feldman - *Goldman Sachs - Analyst*

And just to be clear, you are saying these are the Tier 1 content providers who are now coming around and having a more engaging discussion with you about how to expand content across your network?

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

Absolutely, yes. It's the big four for sure. And I would tell you that the very exciting part of this is some of the digital media out of -- especially you see it out on the West Coast where a lot of this is more home-grown content. You are familiar, the people in the audience are familiar with many of these, but it's the DreamWorks, the AwesomenessTV that really goes after the millennials and it's very targeted content that they view this as the natural place to play.

So if you look at an over-the-top, I think you could end up with a bundle that will have the major broadcast content providers and we would use our network around multicast to handle that very efficiently. And then you'd have a lot of these sort of custom channels that people can do the video demand, the IPTV much more interactive that you could have on these individual channels. And those would be the Unicast offering that we have and we can handle that efficiently as well. So that whole ecosystem, Brett, I think is coming together; it has been primed for a while. But as I say, over the last six months to a year, that dialogue is changing dramatically.

Brett Feldman - *Goldman Sachs - Analyst*

And just to be clear, it sounds like what you are describing here would be an over-the-top service provided by Verizon Wireless as opposed to say taking FiOS and simply putting it on mobile networks. This would be a new service?

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

Yes, I think it has to be. No one wants to have 300 channels on your wireless device. I think everyone understands that it will go to a la carte. The question is what does that transition look like. And as I said, we are dedicated to making this a win-win for the mobile carriers, as well as the content providers. We understand there needs to be some smooth transition here, but I don't think there's anyone that would stand up here and say the only way it is going to be offered five years from now is linear and it's going to be tied to your TV set because frankly they will miss the market and they will be the ones left behind.

Brett Feldman - *Goldman Sachs - Analyst*

And just a last question on this since you noted you have so many pieces in place. What do you think would be a rough timeline for maybe putting something actually into the market?

Lowell McAdam - Verizon Communications Inc - Chairman and CEO

Well, we bought the Intel OnCue asset and we have all the other pieces together. We are very focused on probably late first half of 2015 having products like this in the marketplace.

Brett Feldman - Goldman Sachs - Analyst

Great. There is one pretty strong content relationship between Verizon Wireless right now, something that is unique, which is the NFL, you have a big sponsorship. You've launched NFL Mobile. You made a big commitment there. I have two questions. One is maybe just get an update on how NFL Mobile is going, if it's working the way you had hoped and then candidly, the NFL has been in the news recently for some not so wonderful reasons. As a major sponsor, are you worried at all that reflects on Verizon?

Lowell McAdam - Verizon Communications Inc - Chairman and CEO

So let's deal with both of those. First, the NFL Mobile we watch very carefully and what we saw very quickly after the Thursday night kickoff and through the weekend is a significant spike in the network usage. We feel obviously great about that. We put the capacity in place for it. We are using NFL Mobile right now as a promotion to bring customers onto the network. They are responding to that. That is part of that 40% year-over-year growth in postpay is driven by that. And so seeing the ripple effects of that around moving people up in their buckets, upgrading their devices to devices that can have greater clarity, that is all going very well.

So let me deal with the issue of the Ray Rice thing just head on because we are probably one of their top sponsors. Verizon has a long track record of taking a very strong stand on domestic violence. We donate handsets, we donate service, we support shelters. We have education, which by the way we have used many of the broadcasters and the players to go into high schools and universities and educate people about this sort of issue. So we've got a strong track record. I don't have any inside information other than what you see in the press, but clearly what we see, the spitting and the physical violence, is deplorable. It's a cowardly act in my view.

But I will also say that I know Roger Goodell quite well and he is a man of very high integrity and I will not believe that there is some conspiracy to cover this up. And I will say this maybe a little bit of inside baseball here, but when this first broke, Roger came to Verizon and said would you help educate us and create a program to combat domestic violence because you are one of the bellwethers in this area and our teams have been meeting and helping them create their own internal programs here. And so we are very supportive of Roger and very supportive of the NFL and we are going to wait and see how the facts play out here, but I'm at this point satisfied with the actions that they've taken.

Brett Feldman - Goldman Sachs - Analyst

Great. Well, thank you for that. I want to come back to something you referenced earlier, which was the equipment installation plans and how you are taking a much more moderate approach to this, almost an agnostic approach to this when your peers have been far more aggressive. What do you think customers want and why have you decided to handle it a bit differently?

Lowell McAdam - Verizon Communications Inc - Chairman and CEO

Well, I think, Brett, what I say to my team is the beauty is we don't have to care which one of these offers customers take. We don't need to do it from a financial -- we don't need to force them one direction or the other from a financial perspective. So it ought to be up to the customer. So we are laying out the option for them and whatever they decide they decide. As I said, first quarter, we were relatively low. Second quarter, we went up a little bit higher, I think to around 20%. Third quarter, we're back down. I think when the iPhone rolls out, it's going to be very interesting to see whether customers want to pay for it on installments or want to pay for it under a subsidy model, but I don't think the carriers should care and I don't think the carriers should force the customer in one direction or the other. So we are agnostic. I like being agnostic, letting customers make their choices and that's where we will continue to stand.

Brett Feldman - *Goldman Sachs - Analyst*

Got it. Your guidance this year for wireless EBITDA margins is that they'll improve. You've been in the 50% ZIP Code for a while now. What is your long-term margin goal? Are you looking to continue to expand margins or are you looking to grow EBITDA as you expand the business?

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

Well, you are very good, Brett, at how you couched that question, so let me be clear. What we said was our consolidated margins would continue to expand, so wireline and wireless. And we do see opportunities on both sides. Let me deal with wireline. We had some good expansion in second quarter. We have said it's going to be a little bit lumpy as things happen and as we buy things and divest things, but wireline is on a good track. Wireless had a very, very strong second quarter and we are hitting on all cylinders. It had good growth and good profitability. We see opportunities to continue to expand and take advantage of our scale. We already talked about getting people from 3G to 4G and from basic phones to smartphones. We have instituted, and Dan Mead and his leadership team in wireless are very focused on process improvement. Simplifying things for the customer also simplifies things for us from a billing and from a customer service perspective and also from a sales perspective.

So last year, we generated for the whole corporation \$5.7 billion of savings from process improvement. This year, we are going to hit a similar number and next year, our target is for another similar number and we get those synergies through systems improvements working with the handset manufacturers to make the devices more reliable and you see that reflected in customer satisfaction. So lots of areas, lots of focus on that and I expect to continue to do both, growth and profitability.

Brett Feldman - *Goldman Sachs - Analyst*

And just based on how you answered the question, is it wrong for us to be asking about wireless margins and wireline margins now that you've integrated all the companies -- you are one company now? Are you thinking about your margins a little differently for that reason?

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

Well, it depends. Inside the business or outside? So each individual business unit has their margin and their profitability targets that they have to deal with, but more and more you're seeing services go across the different business units. So many of the things that we are doing in enterprise, while they work on the desktop primarily, are mobilized through wireless. Security services. We happen to have that, which is a huge growth area for us. It happens to be within our enterprise group, but you want to have security overall of your wireless services as well. So I think over time that will blend and it will become less meaningful similar to going from ARPU to ARPA. It becomes less meaningful as you go forward talking about individual business units.

Brett Feldman - *Goldman Sachs - Analyst*

So thinking about the network, which is always what you guys begin with, you did have a small hiccup a year ago with LTE capacity. You got back out in front of it by accelerating the AWS-1 spectrum deployment. How has that gone? Do you feel like you are back ahead of it at this point?

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

No question. Networks are very funny things to manage. We have a tendency to think they are sort of static when we make statements like, well, we are catching up. When you move, for example, from voice to text, that was a very different change and usage on the network when you went from 2G to 3G to 4G. Now I'd say we are on the doorstep of moving from data being mostly Web and email to data services being mostly video. And video is a very different animal than any of the predecessors.

So I would say through the deployment of AWS, we've made up some of the capacity shortfalls we had and that didn't really take that long. We were marginally below where we wanted to be. So now the network is back the way we want it. If you look at RootMetrics studies or JD Power studies, Verizon kind of sweeps the table on that and you are hearing a lot less about our network is equal to Verizon and we knew it wasn't.

So I think as you go along now the challenge for us is as we become even -- I wouldn't be surprised if you get to 70%, 80% is video and video will not just be downlink; there will be an awful lot of uplink now as people begin to do their own content and put it up on these different websites and different things like AwesomenessTV, etc. So it's an animal you need to continue to tame, but I feel very good about our assets and the capabilities of our teams to do that.

Brett Feldman - *Goldman Sachs - Analyst*

Well, you said it. There's going to be probably even more video coming to your network, especially if you are successful putting your own product into the market. So it seems that there are two ways to think about improving capacity.. You can continue to invest CapEx and you can continue to invest in spectrum. So on the spectrum side, there is a deadline for an auction tomorrow. Does Verizon intend to participate?

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

Yes.

Brett Feldman - *Goldman Sachs - Analyst*

Okay.

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

Just to be very clear, yes, we plan to participate, but it goes a long way, as you know, Brett, beyond just getting the spectrum. Right now, we meet with our folks, our partners at Ericsson and Alcatel-Lucent, a lot on how do we make the use of that spectrum more efficient. All of the small cell technology that is being deployed gives us a lot of additional capacity. I know when Vittorio was up here in the previous session, they talked about WiFi. WiFi is a critical element of the overall ecosystem of managing the network. Using unlicensed spectrum is going to be important for us as we go forward and we plan to deploy LTE-U with the small cell technology integrated within the wider macro network as we go forward. So there are many dynamics that are involved in being more efficient and carrying a gigabyte of video and deploying spectrum and even working with content providers to make sure you have the right formats to put less load on the network.

Brett Feldman - *Goldman Sachs - Analyst*

So then how do we think about the capital intensity of the business going forward? It sounds like you have a lot of investments you want to make. Can you make those within the scope of your existing capital investment run rates?

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

Yes, we were very careful and go back to this is the one-year anniversary of the Vodafone purchase, but we were very careful to say that we had the money to cover the spectrum that we had to do. We had the money to build out capacity, as well as coverage and to pay our dividend and to make the kinds of tuck-in acquisitions that we needed. So we are still in a strong position there.

To the specifics of your question, CapEx as a percent of revenue we expect to see fall, but I'll tell you my view is I hope we continue to spend \$17 billion, \$18 billion, \$19 billion a year because that means that it is a very robust market and all of the things that we've talked about from a product perspective are coming to fruition and we need to make the investment and get the returns. So I hope it continues at at least that absolute level.

Brett Feldman - *Goldman Sachs - Analyst*

All right, let's talk about the other side of the business, the wireline side, for a little bit. FiOS has been a good story in terms of bringing new revenues into the business. You are nearly complete with the buildout. How do you think about growing FiOS as the buildout slows? Should we expect to see net adds taper off and more of a focus on ARPU?

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

Well, you're right. We are at about 19 million homes passed now. We want to get to -- 21 million was roughly the target all along. So right now, our deployment and our growth areas of FiOS are to go into the urban areas and run the short stubs of fiber off of the main tracks to get into things like condos. And we have I think been very successful in that. If we are criticized in New York at all, it is that we don't have the service in the building as an example. And when we go in, we are very quickly now getting 50% and up of penetration into those buildings.

So our focus on FiOS is that, but also getting off of the copper plant and migrating onto the FiOS even if it is only a voice service so that we can retire that copper. That lowers our cost overall. Expansion into other areas, Brett, I wouldn't rule out, but it will have a very high bar for us to do that. If you look at some of the things that Google is doing around fiber, I think that has opened up a bit of a new model for us. Broadband is actually a bit more profitable for us than the full linear TV package and going in and offering broadband is another alternative for us. But as I said, the bar will be fairly high on that, but if I see an opportunity to generate shareholder value, I wouldn't rule it out.

Brett Feldman - *Goldman Sachs - Analyst*

And just to follow up on that point you just made, when you were talking earlier about over-the-top with regards to wireless, it's really nothing but pure upside. How do you think about over-the-top in the home because you are a big provider of pay-TV services? Is this a threat to pay-TV?

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

Well, I don't view it as a threat to our pay-TV; let me put it that way. Nobody at this point makes much money if any on content, distributing content. Where you make your money is in the transport. So if the model went to, for example, a 20-channel customized package, that a customer could figure out what it is they want and do that over the top, over a FiOS broadband service, that is terrific. The exciting thing about FiOS now is that we are not only raising the bar on speeds, which customers love, but we are giving the symmetrical speeds. So you get the same speed up as you do down. Nobody else can do that in the marketplace. And when you get more and more of the user-generated content, that's a competitive advantage out there. So the model, the financial model around FiOS even is changing and I think it will give us some opportunity if we see the value to exploit it.

Brett Feldman - *Goldman Sachs - Analyst*

Last week, Tom Wheeler, the Chairman of the FCC, gave a speech and he implied that he doesn't think there is enough competition. He blatantly said he doesn't think there is enough competition in broadband. What do you read into his remarks?



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

Well, I think -- I know Tom quite well. I saw him at the Wireless Hall of Fame event Tuesday night. As I read Tom's speech, he was specifically referring to rural markets when he said there is a not enough competition in broadband and look, that is probably true. You are lucky if you have a broadband provider and more often than not, it is DSL. I would counter that to say, with the wireless players all going onto LTE, you've probably got the four carriers out there and a rural carrier out there as well. So is it wired competition that we are looking for or is it overall availability of 10 megabits let's say service in the rural areas?

So I think there could be some work done there. I am not against that, but I would also say that there is -- there are certainly services available. What we probably need to do is get technologies such as fixed mobile in order to lower the cost of those sorts of services going forward. I think part of what Charlie Ergen is trying to do with DISH in his spectrum would be, because he is a very rural linear TV provider, is to get in and do some of those broadband services with TV. So the market is still to be defined there.

Brett Feldman - *Goldman Sachs - Analyst*

There is another big regulatory issue that is still out there, which is net neutrality in part because you sued and won and so the commission has to go back and think about this again. What is your current expectation with regards to how the net neutrality rules play out?

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

Well, there's a couple of background issues that we probably ought to deal with here too, Brett. So the issue of, quote, fast lanes on the Internet, what I refer to as peering relationships, have really been around for 10 years at least. Very large enterprise companies, Google, Netflix, etc. have these sort of fast lanes, if you will. How I -- the analogy I use for that is if you think about FedEx, they have multiple transfer points around the US and they use airlines to get off of the highways, deliver their products more quickly, get them into the local area and then get onto the local infrastructure. Think about if FedEx only had one distribution point in Memphis and every package had to be trucked over the highways to Memphis, turned around and trucked back out. What would that do to our transportation system?

So they have an alternative method just like we do for companies like Netflix. Netflix has said that, on a Saturday night, 80% of the Internet traffic is their videos. Okay, think about the FedEx example. If 80% -- if that volume was driven into the public network, what would that do to every individual person's experience on the Internet? It would be terrible. So these things, and by their own admission, these are not a financial impact on their overall model for a company like Netflix or Google. My view is if you did away with those peering relationships, everyone would have a terrible experience on the Internet and two years from now, we'd trying to be figuring out how did we screw this up.

Now let's go back and deal with net neutrality in and of itself. We have been very clear on our website. We don't manipulate content. People can go anywhere they want. It's wide open; do what you want. We stand by those principles. Tom Wheeler has said that probably some of those principles should apply to wireless. I don't have any problem with that. We have already made that statement. We have lived that out every day in network management. So what we want to be able to do is make sure the network is secure, all of our customers want that. Give them access wherever they want. We make money when people use the network, so manipulating that is not in our best interest.

Title II does not solve that. Title II would not prohibit peering relationships. Title II would put people under the or companies under the regime of Europe. I don't think it is appropriate for it. I don't think it would solve the problem and the risk that we run is all that capital investment that we talked about upfront would be in jeopardy. So I think what the Chairman has put out so far in his proposals is very reasonable and very measured and I think we have to be careful if we try to go too much farther than that.

Brett Feldman - *Goldman Sachs - Analyst*

And you think it's a decent template for what's actually going to get enacted?

Lowell McAdam - Verizon Communications Inc - Chairman and CEO

I'm hopeful that it is. We are obviously involved with others. I've had personal conversations with what I call the big four out of Silicon Valley. Nobody feels that static regulation in such a dynamic industry will serve us well in the long run. Even if everybody got it perfect on day one, as fast as this market is moving, you will have it wrong on day five and that would be a disaster for consumers.

Brett Feldman - Goldman Sachs - Analyst

I want to go back and ask you another question about your wireline business. And the real question is do you still think of it as a strategic asset? You obviously view wireless as a strategic asset. You've borrowed a lot of money, issued a lot of shares to take full ownership of it, but you don't have a national wireline footprint. So how do you think about the importance of wireline to the business going forward?

Lowell McAdam - Verizon Communications Inc - Chairman and CEO

Well, we clearly have, Brett, made that declaration a year ago when we paid \$130 billion for the 45% of Verizon Wireless we didn't own. What I have said, and that hasn't changed at all, is we will continue to look at opportunities to generate shareholder value by trimming the tree limbs is what I said. And the fact that we haven't sold anything in the last year just means that we are not under pressure financially to do that and we are not going to have any fire sales out there, but there has been rumors about potential tower sales. Two years ago, the deals that were offered, it was very easy to say no way, not interested. I think those deals are coming to us a little bit more now. Still not where we would want them. There are some very key terms that we won't compromise on, but if an opportunity presented itself to generate shareholder value around towers, I would do that.

There's also speculation on some of the more rural markets on the wireline side. Under the right terms, I would absolutely consider that. But I think the corridor that we have that is sort of Washington to Boston where FiOS is heavily deployed, those are generating good cash flows for us. As we've talked about, the market is moving in the way of broadband. FiOS with those symmetrical speeds is really the premier asset in broadband to the home. So I am going to be very, very thoughtful about expanding or shrinking that asset.

Brett Feldman - Goldman Sachs - Analyst

In the past, we've thought of the practical difficulties of separating a wireline asset, these unions and pensions and local regulation, but Windstream has found an interesting way of sort of separating their asset and getting tax advantages, which is they discovered a portion of their business is real estate. So I am curious. To what extent has Verizon evaluated and looked at it as maybe a viable route for the Company to go?

Lowell McAdam - Verizon Communications Inc - Chairman and CEO

Yes, well, on the real estate side, we have been monetizing that over the last five years. We are just across the street from our old headquarters at 140 West Street by the World Trade Center. We just sold that a few weeks ago. So we've been monetizing the real estate asset. We looked at the REIT structure that Windstream put in. Obviously, it made a lot of sense for them and their shareholders, but the Verizon set of assets is far more complicated than that and when you do put those assets into a REIT, it sort of freezes them and as we've talked about in this dynamic market, I want to have control of those assets, I want to move them. So financially, it doesn't look like it would have the same impact for us and strategically it's probably not the right thing for us to do here.

Brett Feldman - Goldman Sachs - Analyst

So if you got an offer that was compelling for some of those assets, you may sell them, but it doesn't seem like spinning them into a REIT structure makes any sense for the Company?

Lowell McAdam - Verizon Communications Inc - Chairman and CEO

Right, right.

Brett Feldman - Goldman Sachs - Analyst

And one more question here around just cash and the balance sheet. You obviously levered up a bit in order to do the deal with Verizon Wireless.

Lowell McAdam - Verizon Communications Inc - Chairman and CEO

A bit.

Brett Feldman - Goldman Sachs - Analyst

How are you prioritizing your cash flows as we move towards getting back into that single A credit rating?

Lowell McAdam - Verizon Communications Inc - Chairman and CEO

Yes, Brett, that really hasn't changed much over the last 12 months. We always said we wanted to have money to continue to expand the network and that included things like the spectrum auction. And we are well-positioned going in there. I don't have to do anything financially to be ready for that. We are ready for that to start right now. We said that we were going to repay our debt. Our treasurer is in the back here, Matt Ellis and we have -- you see us actively in the market managing that debt and where we have opportunities to pay down we are. We are on exactly the track we wanted to be going forward.

And then we said dividends were important for us and just last week, our Board of Directors approved a 3.8% dividend, a significant improvement year over year for us. So I think the Board is sending the message to our shareholders that they are bullish on the Company and want to have the shareholders see the kind of returns that we are seeing from an earnings-per-share perspective in our overall results.

Brett Feldman - Goldman Sachs - Analyst

Before we finish up, I want to make sure we touch on the enterprise segment of the business. This has historically been your most economically sensitive segment.

Lowell McAdam - Verizon Communications Inc - Chairman and CEO

That was well put.

Brett Feldman - Goldman Sachs - Analyst

What are you seeing right now in terms of the way the economy is affecting your business? The macro indicators are feeling a little better. Is your business feeling a little better or is there still a lag?

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

Yes, so boy, we could spend a lot of time on this one, Brett. So overall, we see small, but steady improvement, so that is a positive. That is reflected in some of our sales growth. We see lots of demand for our services, especially the security piece and the cloud piece continues to grow for us. I would say that there is a lot of things in the press around taxes at this point. Are we offshoring, are we inverting, etc.? All that is driven because the US tax model is out of whack and if that was fixed, if it was even shown in Washington that they could get some alignment and move even some simple things forward like bonus depreciation and things like that, that would be a dramatic -- the light switch would be turned on and you'd see businesses react very quickly. But we are all in this malaise frankly because we haven't seen any kind of policy shifts out of Washington.

Brett Feldman - *Goldman Sachs - Analyst*

All right. Well, we are just about out of time. So Lowell, thank you very much. I appreciate it.

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

Okay, Brett, I enjoyed it. Thank you all for your interest.

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