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PRESENTATION

Editor

Audio in progress.

Phil Cusick - *JPMorgan - Analyst*

-- Verizon since 2010 and Fran's been with Verizon since the summer of 1989. Fran, thanks for joining us.

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

Sure. Thank you. Good morning.

Phil Cusick - *JPMorgan - Analyst*

You know, I thought it was interesting. We had AT&T here yesterday, and two companies that a few years ago looked relatively similar have diverged in a pretty massive way. You've really focused on domestic wireless; they've gone off and done a variety of other things.

How do you think about the prospect for wireless over the next three to five years, and the growth that remains in that business versus what we've been seeing the last few years?

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

Okay. Before I get to that I just want to make a reference to our website for our Safe Harbor and our legends; and also all of our risks are included in our SEC filings. So get the legalese out of the way.

So, as far as growth, look: if you look at the US and you look at the consumer in the US, the product that the wireless carriers offer, there's not too many products in the world where people want to consume more and more year-over-year and it doesn't seem like they can get enough. So when you look at this industry, the growth of the data on the networks -- if you just look at our network, we had a 54% increase in consumption in data year-over-year from our More Everything customers.

So you think about that compounding and we don't see that slowing, especially with the proliferation of the video product. And most of this consumption is in video.

So if you think about the future of the wireless business here in the States, the future of video consumption, you think about all the Internet of Things that are coming out -- any Consumer Electronics Show you go to has more and more things connected to an LTE network -- there is still a tremendous amount of growth in this industry.



Now having said that, I mean, obviously the smartphone category and phone category are very highly penetrated categories, so the growth that we saw in the past will not be the growth that we see in the future. But when you think about the tablet, still a tremendous amount of growth opportunity there. Our base is only penetrated up to 9%, so we still have a long way to go with tablets.

But we really are looking at -- and I am sure we'll get into why did we buy AOL -- we're really looking at the future is really around the video and Internet of Things. And that's really what is going to stimulate the industry and stimulate Verizon Wireless. We still believe that we can be extremely successful here because of the quality of our network, and we still think that the quality of service is going to matter in the future, if not more in the data world than it did in the voice world.

Phil Cusick - *JPMorgan - Analyst*

So, since you bring up AOL, you want to start with the driver for buying that, and what that means about your future video strategy?

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

Yes. If you think about how I've been talking about our launch of our video platform over-the-top that we are planning to launch this summer, we talked about a bunch of things; so let me just refresh what we've talked about.

What we said is we were going to launch this, this summer, and it was really taking on three flavors. The first flavor being more of on-demand, when you want it, what you want to watch when you want it.

And that's more or less the world we live in today. If you want to queue up something, you queue it up, you watch it; but it goes against your data bundle. That will still happen.

Then you put in the multicast technology, and multicast allows us to deliver a live event to millions of customers extremely efficiently through our network. Now, keep in mind that the chipset of the multicast technology started in the fourth quarter of last year, so it's going to take about two years before you get a large quantity of customers who will have the technology embedded in their phones to enjoy that.

That's going to be more of pay-per-view type thing. So if there is a World Cup game or a Super Bowl or a live concert, those types of events.

Then the third thing we've talked about is where we would monetize video via an advertising model. What we think is this -- and you've seen some of the announcements we made with CBS and ESPN college sports and Awesomeness TV.

We're going to bring a product to market where people can enjoy that product and they won't necessarily pay for it through their data bundle. Some people have called it the sponsored data model, but it's really going to be monetized through the advertising model.

Hence we get to: why did we buy AOL? When you look at the asset set that we have, we developed the Verizon Digital Media Services; we attached upLynk and EdgeCast to that. That gave us the platform to efficiently deliver video and content, digitalize it, format it, and get it out to the end customer. Then we bought OnCue, which is the interface, the front of what the customer is going to see.

So we had all the assets put together. The piece that we were missing was the ability to have an ad tech platform to insert the advertising.

When we looked across the footprint for such a platform, we determined that AOL had probably one of the state-of-the-art, best-in-class platforms. That's what drove us to the AOL acquisition. So it was really around the ad tech platform and ad insertion tool that we needed to be successful with the launch.

Now, there are some added benefits to bringing AOL in. First of all, they have some unique content around Huffington Post and TechCrunch; and that goes along with some of the other content that we have that can be put into this model.



Then of course you have the subscription business, which obviously is not why we bought them; but it also generates all the cash flow of AOL. Then the fourth thing is we acquired a lot of talent. If you take the talent of our existing EdgeCast, upLynk, OnCue, VDMS people and put them in with AOL people, you now have a class set of human assets, if you will, who really understand this ecosystem.

Having Tim Armstrong come on board to run this unit is really something that we look forward to, because he's obviously well known in the ecosystem. He's proven himself in this ecosystem, so we are really excited that he is going to come on board and run this unit.

So we are extremely excited about this acquisition, and we think that this is something that we've been talking about, we said we were going after this big, and we're going after it big.

Phil Cusick - *JPMorgan - Analyst*

I think a lot of investors are often skeptical of a big telco buying growthier assets. Is there an analogy for AOL in terms of how that's going to be run and the level of independence?

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

Well, I think if -- I would like to say that -- think about how we established Verizon Wireless back in its day. It was a growth-type business; it was run very independently from the telco business. And that's the way you should think about this.

Tim is going to be really running the entire portfolio, reporting into Marni Walden, who is running our incubation-type growth companies. And he is going to have an autonomous approach to how we run this.

So I would look at it as almost how we ran Verizon Wireless. Verizon Wireless was a very independent, siloed company, and that's the way you should think about this.

Phil Cusick - *JPMorgan - Analyst*

If you think three, five years down the road, what's the revenue mix from the video over the asset? Is there more advertising? Less advertising?

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

You know me, Phil, I don't intend necessarily to get into guidance here. But I would tell you that the way we look at this, this is a multibillion-dollar business for us from an advertising model standpoint.

How the mix goes over time, we will have to wait to see. But this is just the beginning of this product development that we are coming out with, and you will hear more about some other things that we are going to do around over-the-top mobile as we launch; and I will wait for Marni to take the victory lap on that when we launch.

So more to come around this product set, but it's not just about putting content over-the-top in an advertising model. There is going to be a much more bigger umbrella over this as we go. So more to come on that.

Phil Cusick - *JPMorgan - Analyst*

This content isn't -- this isn't sort of episodic TV being piped over wireless? This is new content?



Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, it's not necessarily new content, but it is different content. The way to think about this is, the way the industry is going today is everybody is focused in on content in the home, and taking that content in the home outside the home, and getting the rights to take that content mobile.

But most of it goes back to an authentication of your house. So you have to have a linear TV subscription or a satellite subscription to get that content outside the home.

We're taking an approach of: we're going for rights of content outside the home that has nothing to do with inside the home. So we're actually going in reverse: we're taking content, delivering it mobile, and if you want to take it to your home you can. But you don't have to. And you don't need to own anything in your home to enjoy this content externally.

But it is different type of content. It's more around live events. It's sports, it's news, it's Millennial-type content around Awesomeness TV and Huffington Post and those types of things that you don't necessarily get anywhere on a linear TV subscription.

So it is not episodes. You're not going to sit down and watch an episode of CSI with this content. This is unique, live, real-time type content.

Phil Cusick - JPMorgan - Analyst

Who is the target audience here? Is this cord-cutters and nevers? Or is this just everybody across the base?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, it's everybody across the base, anybody who wants to enjoy it. I mean, if you look at our NFL app during the season, I mean, we have a number of people who subscribe of all different demographics who subscribe to that app.

So it's not -- it depends what the content is, depending upon who is going to enjoy that content. But obviously this is more focused toward the Millennial, more focused toward people who do not have linear TV content in their home. So it is more focused to that, but obviously it's going to be targeted to a lot more.

Phil Cusick - JPMorgan - Analyst

Okay. Thinking about video makes me think about the capacity of the network to handle all of this. Some of it's going to be multicast, you said. But it sounds like that is the minority. Is that fair?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Yes, I think initially that's fair, because obviously you don't have the number of devices out there yet for that to be a big win. But I think over time that that will become more and more prevalent, especially around a real-type live event.

Because, quite honestly, I mean, if it's a real-type live event like the Super Bowl we'd want to multicast that. We don't want that to be an on-demand, because that soaks up a lot of the network capacity. So if I can do that through a multicast, that is extremely efficient for us to do it that way.

But from a capacity standpoint, that is why I have been saying consistently you will not see the Verizon Wireless capital program decrease anytime soon. We believe because of the consumption model, and we believe of the growth of data in the network, which is what we want for monetization reasons, we are going to need to continue to increase our CapEx around the Wireless asset.



Now overall Verizon, again, Wireline will come down; Wireless will go up; overall Company will stay about flat. But I don't see us decreasing capital anytime soon because of the way we believe that video will be consumed.

Phil Cusick - JPMorgan - Analyst

You've said at the beginning of our conversation I think 54% growth in Wireless traffic in the last year. Do you expect video to actually accelerate that?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, I mean most of that 54% today is all around video. I would say the majority of it is video growth today.

What we're looking at, though, is if you look at overall consumer spend in communications, the percentage of consumer spend on communications really hasn't changed in a long time. Now, they have shifted within that bucket between a wireline telephone to a television versus wireless, and there are shifts happening.

Now we see the shift to moving away from linear TV into a more mobile-centric world. So we believe that more will be spent on wireless and less will be spent on fixed. More around broadband and wireless is really where the world is going.

So from an overall perspective, we know there is a ceiling. And with bringing in over-the-top video with advertising model, we can allow people to consume even more without having to worry to pay for it, because we're going to monetize it via an advertising model. So we believe that we can stimulate even more usage because we'll be able to monetize it in a different fashion.

Phil Cusick - JPMorgan - Analyst

Okay. You bought a good chunk of spectrum. How do you think about your spectrum, both availability and needs over the next few years?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Yes, well, I mean it's an equal equation, and I can't stress this enough, is that -- there is this theory out here that says: Well, you're going to run out of spectrum, therefore the network won't work.

I mean, they run in tandem. The greatest example I can give you is I can built capacity in two ways: I can either buy spectrum to get capacity, or I can buy hardware to get capacity.

And up to the AWS-3 auction, capacity buying power in spectrum was a lot cheaper than buying hardware, so you saw a lot of carriers buy spectrum for capacity purposes. That is what we have done over the last 20 years of our history.

This auction kind of imbalanced that equation. Certain markets got too expensive, and we found that densifying through small-cell was a much more efficient financial way to densify and create capacity than it was to buy spectrum. So there is a balance here.

As far as our spectrum holdings, we did spend \$10.4 billion in the AWS-3. We still have a lot of PCS that we can allocate. We have LTE-U that we are trialing now in our labs, which will give us additional capacity, which is much better than Wi-Fi because LTE unlicensed works very efficiently with the LTE network, and it's an all managed network. And you can bring LTE-U in and out depending upon what the capacity needs of that cell site is.



And then, of course, we have our 850 that we'll start to -- five-by-five slivers can be reallocated to LTE over time. So our spectrum position is extremely strong.

But I don't want to leave an impression that I am spectrum starved, because depending upon where that balanced equation is I will just continue to buy hardware to create capacity. It's a cheaper environment right now based on where the AWS-3 priced out. So we are in an excellent position from a capacity standpoint.

Phil Cusick - *JPMorgan - Analyst*

A couple things there. First, on the unlicensed side, I always -- people ask me about Verizon partnering or leasing; and I always think that Verizon likes to control its own assets. I hear you talking about LTE unlicensed, and it just sounds like not the Company that I know.

What's different about this that you don't have to own and control that asset?

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

Well, LTE unlicensed, it works just like WiFi. I mean, it's not necessarily you own it, but you can utilize it.

But the benefit that it brings to us is LTE-U fits very nicely into the LTE network, and it's managed together. So it's still a very secure network; it's managed by our network operations center.

It's not like WiFi. WiFi is an unmanaged network. There is no one managing that, so if you get 100 people on that network, the service degrades.

The unlicensed piece of LTE is very different. So there is going to be a definite benefit for us to deploy the LTE-U in our network. That is not to say that it's dangerous because we don't own it: we will manage it, it will be there, and it's just like WiFi network today.

Phil Cusick - *JPMorgan - Analyst*

The 5-gigahertz band where you are doing that is relatively unused today, especially versus the 2.4. If that gets as crowded as 2.4 over the next five or 10 years, does that start to create a problem for you?

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

No, not really. Again, LTE-U is just an ancillary benefit to adding capacity. You're still going to need to densify the network.

So the densification -- and again I go back to our CapEx, which is why I keep saying the CapEx won't decrease. You are still going to need to buy that hardware to densify this network. When you talk about in-building, small cells, densified antenna systems, you're still going to need to do all of that hardware purchase in order to make this network run efficiently.

Phil Cusick - *JPMorgan - Analyst*

You've talked about small cells a few times. How do you think about building those? Do you want to build and manage your own small-cell networks? Do you want to own the fiber in that territory? Or you're just as happy to have somebody else do it?



Fran Shammo - Verizon Communications Inc. - EVP, CFO

Yes, we lease a lot of fiber today. There are a lot of -- there is a lot of competition actually in the fiber world. So we actually don't own a lot of the fiber that we have; we lease it.

We own the electronics on both ends of it. But these are long-term leases, and we've done this for years, so this is nothing new to us.

We don't need to own all of the small cells. We just entered into an agreement up in Boston for a 400-site densified antenna system that someone else built out, got all the zoning, has all the fiber. So we are leasing that from them.

So there's a lot of alternatives out there today to create capacity, and it doesn't mean that I have to own and build and control everything. I can do that through third parties.

I mean, it's similar to towers. I don't own my towers, but I still run my network off those towers. As long as I get the protections in the agreements that I need for the longevity, then it's a perfect solution for us.

Phil Cusick - JPMorgan - Analyst

How do you think about the extent of the small-cell effort over time to densify your network? Is this something that is three, five cities today, becomes 100 cities over time? Is there a high number that you probably don't go beyond?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Yes, we are really focused on the top 50 right now. Obviously there's probably the top 10 that are more important.

If you look at the results of the AWS auction, we walked away from Chicago and New York. So obviously those two we've already started to densify.

If you think about the densification that we are doing, if you bought the AWS-3 license, those licenses won't be deployed for two to three years. We are densifying now, so that at the same point in time if we had bought Chicago, at the same time we would have launched Chicago AWS-3, I will have already densified that city over the next three years.

So I will be in the same position as if I had bought the license. But the fact is I'm going to densify at a lot cheaper rate than if I had bought the license.

So it is a continuous program because you do need to secure the leases, you do need to secure the fiber. So it's a little bit of harder work, but this is what we do.

Phil Cusick - JPMorgan - Analyst

My understanding also is that the benefit of densifying the network, small cell or macro, is that it sets you up better for Voice-over-LTE. What is the status of that? I thought you guys were going to launch it maybe a year ago; it has taken a little while, a little longer than we expected.

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, the launch did happen last year. If you go to your phone today, you can activate; it's called Advanced Calling on an iPhone and on a Samsung phone or an LG. You can flip it on and you will be on the LTE voice network.

We haven't really driven it because we want to make sure that the experience of the LTE voice is very similar to CDMA, because there is no backwards compatibility here. So we've taken our time.

We have several million customers on that network today, riding over Voice-over-LTE. But as we densify, more and more people will move, which will allow us then to reallocate the spectrum.

So eventually you're going to see us get to just a VoLTE-only phone, and I think that will come either end of this year or very early 2016. So we will get to a point where the CDMA chip will come out of the phone.

Phil Cusick - JPMorgan - Analyst

How long do you anticipate the CDMA network being up and running?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Oh, it'd probably be better for an engineer to answer, but I think that that is still a very long-term network for us. I mean, you have to remember we have a lot of Internet of Things is still riding on that network. It's an extremely efficient network when you get to just small bursts of data through the network, so I think that network is going to be here for a long time.

Phil Cusick - JPMorgan - Analyst

Okay, okay. Back to spectrum real quick, there is another auction maybe coming next year. How do you think about that? One, just in general, in terms of your ability to pay for it, given the leverage levels today; and two, how do you think about that versus the AWS-3 in terms of usability and your reserve price versus building CapEx instead?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, I mean the incentive auction, just to level-set, is a low-band spectrum; and low-band spectrum is very good for coverage. For Verizon Wireless, we've bought 700 megahertz across the nation, which is what we launched LTE on. So low-band spectrum, coverage spectrum is not as important to us as density spectrum, which is higher band.

That is not to say that we are not going to participate in the incentive auction. But I will say that I think that the AWS-3 auction has given the FCC a little bit of a challenge around unintended consequences. When you bid up spectrum so high and now you have broadcasters sitting on the sidelines that believe their spectrum is worth a certain amount of money, and then you have -- where the FCC is trying to draft the rules around giving other carriers more, if you will, favorability to get the license than, say, some others -- I think you've created a problem for yourself.

So we'll have to see how the rules come out. We'll have to see what the rules are before we can really make a determination whether we play, we don't play, and how hard we play.

Phil Cusick - JPMorgan - Analyst

Okay. Let's switch gears over to the Wireline side a little bit. You introduced new programming bundles -- notice I didn't say tiers -- not long ago, and you have been sued by ESPN as part of that. How do you think that that is going to evolve?

One, why did you launch those? Is it because the consumer demanded it? Do you want to differentiate in the marketplace?

And, two, how do you expect that Disney lawsuit to go over the next -- however long?



Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, I mean, look, this was a different way to package up a TV product that customers want. I mean, customers are tired of paying for 300 channels when the average customer only watches 17.

We've done this in the past where we've done what we will call a very small bundle, and it didn't have any sports in it, which didn't create many problems. And now we've come out with this package deal, if you will, where you get a basic package and then you can pick two other packages out of eight; or you can add all of them for \$10 additional.

It's really a way to give the consumer more choice. And we believe we are well within our legal rights in our contracts to offer this product, and we will continue to offer it, and we will see how it settles out in court.

Phil Cusick - JPMorgan - Analyst

Has this spun the doors and rang the phones the way you expected? It's early.

Fran Shammo - Verizon Communications Inc. - EVP, CFO

It's very early. I mean, we just launched it like -- I can't even remember now -- three weeks ago. So it's very early on.

As time goes on, I might give more information. We are not sure yet. Generally don't give a lot of competitive information around packages.

But look, I mean, the bulk of our base is still on our premium package, and that's the way most of the linear TV packages are sold. So this is just a new concept. It was a concept to go after maybe some of the nevers or some of the cord-shavers, if you will, to try to keep them in the product line.

So we will see how successful it is, we will report out once we get some stats behind it.

Phil Cusick - JPMorgan - Analyst

So it brings me to a bigger question and I've been asking a few people this. But do you really feel like, on a fully allocated basis, you make money in video? How does that compare to the broadband profitability?

Over time can you make more money in video? It seems like it is eroding with programming.

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, I mean, it all comes down to cost of content and price, right? So if you can get the right cost of content and charge the right price, obviously we make money in video today. I mean, we wouldn't be doing it if we didn't make money.

But the margins are slimmer in video than they are in broadband. In broadband, margins are much higher.

But again, you bundled these packages and it's still a pretty profitable business. I mean, if you look at FiOS today, FiOS is what is driving the increase in our Wireline margins. So it's driving the profitability that we had expected, and it's a much higher-margin product than access lines are today.

So it's a very good business, but it does come down to content costs. Obviously, if you are paying for content of 300 channels and the customer is paying you for 300 channels and you're only watching 17, it's probably not a good model.



So that's really what we are trying to test in the marketplace, is: can we rebundle things to get a better price for the consumer, a better price for us from a content perspective, and actually create some stimulation in the marketplace that hasn't been there before? So we will see how it goes. But it is a profitable product.

Phil Cusick - JPMorgan - Analyst

There's a lot of over-the-top products that have both been announced and rumored out there. A lot of it seems to be addressing customer pain points more around the price of the product rather than the functionality of full-fledged TV. Do you feel like you can go down and segment your base enough to start to hit those pain points as well and start to offer skinnier packages?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, I mean, custom TV, as we call it, is really trying to do that, right? I mean, we are trying to attract a different customer. We are trying to give the consumer a different choice of how to buy their TV entertainment.

So we will have to see how that competes against over-the-top. It is different than a true over-the-top, like a Netflix. So that's kind of -- it's kind of a little different than that.

But it is a skinnier TV bundle. If you look at -- I mean, we did a trial a number of years ago where we did a broadband test where we gave apartment goers -- you could get much more speed and less TV, or a lot of TV and less speed. And the majority of the people took as much speed as they could get with less TV.

So people want the speed of broadband to be able to consume their content through over-the-top or through the Web or through wireless. But they still enjoy watching certain programs; but they don't want to pay for all the channels if they are only watching 17 on average.

And sometimes they are only willing -- people only want sports. That's all they want. So we are trying to bundle something that is more appealing to the consumer.

Phil Cusick - JPMorgan - Analyst

Okay. Let's switch back to where maybe the biggest part of the business and where most Q&As start is wireless competition. Where are we in terms of the competitive market? If you think about the different levels of competition over the last, say, three years, it seems a little more normal out there today.

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Yes, well it's -- the fourth quarter was a very high promotional period; and every fourth quarter is. Of course, last year was a really dynamic change in the industry where the carriers all shifted to an installment sale model, or EIP, as people call it. We were a little bit less flexible in moving in that direction.

But look, at this point we have no choice but to go in that direction because that is what the consumers want. Everybody's advertising just service pricing.

So if you looked at us, we came out of the fourth quarter 25% installment take rate; we are now at 40%. That will probably go to 50% in the second quarter. So I think that this is where the model has shifted, and we are perfectly fine with that.

If you look at the competition around this, the first quarter was pretty mundane. There really wasn't much going on.



I figure the second quarter would be a little bit more competitive because of Mother's Day and Father's Day. We've launched some promotional pricing around this.

And part of it is, it's not to be a competition of trying to take everybody else's customers. It's also a protection of base strategy.

So if you think about the cycles of wireless, Mother's Day and Father's Day are normally large holidays, which means in two years those large holidays turn into large churn days because customers are coming up at the end of their contract. So coming into this year I said: look, we are going to be very, very focused on the protection of our base, and we are going to do things to protect our base. And that's what we've done.

You saw our churn come down in the first quarter. I would anticipate that the normal trends for the second quarter will continue; we'll be positive net phone adds in the second quarter, we'll be better in churn. So I think the trends are going to be similar to prior years.

So I think that competition is pretty leveled out. People are -- as I've said before, there's not much more price moves that can be made, because at the end of the day you have to generate cash flow in this business to continue to build out the capacity your customers are going to require.

So I think we're seeing what we're seeing right now. It has slowed a little bit. I don't anticipate much until we get to the fourth quarter again, which is normally a high promotional quarter.

Phil Cusick - JPMorgan - Analyst

That's a lot better than where we were a year ago.

Fran Shammo - Verizon Communications Inc. - EVP, CFO

I think it is.

Phil Cusick - JPMorgan - Analyst

And given the struggles of some of the players in the market, do you think that the four-player market is sustainable?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, I think the government has made a statement that the four-player market right now is sustainable. I mean, if you have seen, T-Mobile has done what they needed to do; and we always said that they needed to get stronger, and they have. Sprint is doing what they are going to need to do.

And we will have to see how this plays out over time. I mean, there is a lot of things that can happen in a year. So we will wait and see.

Phil Cusick - JPMorgan - Analyst

That would be nice. Okay, okay. Let me open it up to the audience. We've got a few minutes left if anybody wants to ask a question, please come on up.

Otherwise, I am going to ask about the potential for future competition in wireless. We've seen some MVNOs coming through. You have a partnership with Comcast where they could create a wireless opportunity.

Do you see things like Google and other MVNOs as a threat to the industry, or just more noise like we've heard over a long period of time?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, I mean look, we watch a lot of things. Every -- if you look at this industry, everybody is trying to figure out how to get a piece of wireless, right? Everything is mobile, so everybody is trying to figure out how do they get into this growth engine that consumers want and how can they monetize it.

So our partners are our competitors, as I like to say, and we watch everybody. I think that you are going to see a lot of different models come about.

You've got the Google with the MVNO. I think that Google does what Google does pretty much around their fiber play and now this; they are going to play a little bit. We will see how that goes.

But as far as cable going into an MVNO, Comcast has had the right to do that since we did the SpectrumCo deal, and they still have the right today, and we watch to see what they will do. They may or may not, so we will have to wait and see.

But look, I think that an industry that is full of growth and people are going to try to figure out how to become a player in that industry. And that's something that we watch every day and we will react accordingly.

Phil Cusick - JPMorgan - Analyst

And the value you got for that 20 megahertz of spectrum looks better every year.

Fran Shammo - Verizon Communications Inc. - EVP, CFO

It was a good deal.

Phil Cusick - JPMorgan - Analyst

It was a good deal. Okay. Then tablets, you've been supporting the top-line -- the headline number for growth, anyway, with tablets. Is that something where you really think can drive much further into the base and we'll continue to see this happening? Or do you feel like the customer basis starting to peak out a little bit here?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

I think there is still room for growth in tablets. I think -- and as I said, we're only at 9% penetrated in our base. That should absolutely go into the high percentages. I think 50% to 60% penetration is something that will easily happen over time.

I think, though, that you are going to see ebbs and flows in this depending, upon what the promotions are around that. Last year we were running a free tablet because of the way we were promoting equipment. That has died a little bit because of the installment sale method. So some of those promos aren't out there as much.

But you are going to still see a steady growth in tablets in the industry, I believe. I don't think it's going to slow.

There is still a lot of room for tablet. I think that is going to be -- as I said before, that is going to continue to be a growth engine for the industry for the next two to three years.

Phil Cusick - JPMorgan - Analyst

Do those add value for you on a standalone basis? Or is a big part of it bringing down the churn from the existing base?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, it's an added device on the network that uses consumption. So although it is only \$10 a month to add the tablet, it does promote more usage. Obviously, it is a bigger screen, so people use it more for video consumption.

Now they do offload to WiFi, but we do see increased usage in tablets over time. So as they bring them on, their usage goes up.

They're consuming more video on the LTE network, so it drives usage, which is exactly what we want. And then we see people buy up in tiers because the usage is going up.

So it is not immediate, but there is some accretion that happens from an addition of a tablet. And then the other factor that you just mentioned, Phil, is it does actually reduce churn. A customer who has a tablet on their account is less likely to churn than someone who does not.

Phil Cusick - JPMorgan - Analyst

Okay. You mentioned people trading up. Last year we created much bigger buckets than the trend line had been. Are you seeing people today trading down as they walk into bigger buckets, or are you see more people trading up as they use more data?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, I mean, because of the pricing of EIP a person can buy a 10-gig bucket today where yesterday they could have bought a 6-gig bucket for about the same price. So they are all buying -- they are paying the same amount, but they are just getting more, bigger allowance, if you will.

What we find is as they do that they are not breaking the bundle, but they are starting to increase their usage, which eventually they will break it. And if you go back to the voice world, it was a very similar trend, where everybody had very small bundles and then all of a sudden we opened up the minutes of use. And what happened was you saw everybody buy up in minutes of use, and revenue flattened out a little bit in service, and actually diluted. And then it took off again, because then people started to use it even more and started to break the bundle.

So we are in that similar cycle right now. I think that again we are trying to push consumption as the model. But we do know that at some point they will hit a ceiling, which is why we want to go to an advertising-type model, because we do want people to use the service.

Phil Cusick - JPMorgan - Analyst

You think we're a couple years away from that revenue starting to pick up again, as people start breaking through those bundles?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, because of EIP, I think it is an 18-month to 24-month lag before it starts to recover.

Phil Cusick - JPMorgan - Analyst

That's a good place to stop. Thanks, Fran.



Fran Shammo - Verizon Communications Inc. - EVP, CFO

Thanks, Phil. Thank you, everyone.

Editor

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