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# EDITED TRANSCRIPT

VZ - Verizon at Goldman Sachs Group Inc Technology and Internet Conference

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## CORPORATE PARTICIPANTS

**Kerry Bailey** *Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions*

## CONFERENCE CALL PARTICIPANTS

**Jason Armstrong** *Goldman Sachs - Analyst*

## PRESENTATION

**Jason Armstrong** - *Goldman Sachs - Analyst*

Okay. Well, thanks, everybody, for joining us. I'm Jason Armstrong. I run the telecom, cable, and satellite research franchise at Goldman.

Joining me on the stage is Scott Goldman, who also covers all those stocks with me, but then also focuses on data centers, cloud, and hosting on our team as well. So it's very appropriate for this audience and for this presentation.

We're really pleased today to have at the Tech and Internet Conference, Verizon Communications, and specifically, Kerry Bailey, who's the Chief Marketing Officer for Verizon Enterprise Solutions. Kerry, welcome.

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**Kerry Bailey** - *Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions*

Good. Thanks, Jason. Glad to be here.

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**Jason Armstrong** - *Goldman Sachs - Analyst*

Maybe if I can just start with sort of your role. And obviously, this has been a little bit of an evolution over the last few years, in sort of looking at your bio.

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**Kerry Bailey** - *Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions*

Yes.

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**Jason Armstrong** - *Goldman Sachs - Analyst*

They're a newly created organization inside of Verizon that integrates solutions for business and government customers; includes enterprise mobility, cloud and IT. Maybe talk about the evolution and what this is -- Verizon messaging to the broader market, in terms of reorganizing around an opportunity?

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**Kerry Bailey** - *Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions*

I'll tell you -- one of the slogans we have within the Company is "Change energizes us." Because change has been constant through our business. But it's really based on the change that's happening in the market. So enterprise is a absolute growth area for us and a big focus for Verizon.

And a lot of that has to do with what's happened in the market. This new IT delivery model that we call cloud really drives so many of the assets that we have together. So, mobility, cloud, our data centers, our 4G networks, LTE, our private IP networks -- all of the solutions that we have really answer this enterprise challenge that's out there.



So what we did recently was, we announced a Verizon Enterprise Solutions group, where we took the former Verizon Business, global business focused on enterprise; we took our enterprise business from wireless, and our wholesale business -- which is really all of the enterprise assets. We put that together for a very focused area to go drive the opportunity in enterprise.

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**Jason Armstrong** - *Goldman Sachs - Analyst*

Great. And as you think about looking forward to 2012, maybe just to sort of level-set for the audience, talk us through the key priorities in your mind.

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**Kerry Bailey** - *Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions*

Yes. I think, when you look at what's happening in the market, it's a pretty big change, okay? It's a change of how enterprises buy their services. And that is driving all of the changes within the business.

So when you look at our priorities, it really mirrors a lot of the acquisitions we've made, the re-organizations that we've done, the internal investments. So we spent \$2 billion on acquisitions around the cloud space -- CloudSwitch, Terremark. Prior to that, we bought a company called Cybertrust that was the leader in security. And we put all of those assets together.

It's now taking those assets and aligning them to vertical industries; aligning them to the solutions for those verticals, and really leveraging the platform of cloud to develop all of our solutions on. So you'll see things like unified communications coming out. You'll see solutions in healthcare, telematics. And really, that's the ability to take our LTE networks, our M2M networks, that's creating this data flow from the vertical markets, get them into a platform, analyze that data, and offer solutions off of that. Right? So our priority is absolutely around LTE, machine-to-machine, verticals, geographic expansions, cloud and security -- that's our big focus for 2012.

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**Jason Armstrong** - *Goldman Sachs - Analyst*

And so as you think about this in the context of Verizon, which is obviously a huge company that hits a number of different end markets, help us think about how this fits into wireline, wireless, sort of the broader context.

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**Kerry Bailey** - *Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions*

Yes. I'll give you an example. And I think one of the things that's happening in the IT industry is that enterprises are demanding their solutions to be more simple. Right? They don't like the idea of -- you know, the old world is I'm going to buy hardware; I'm going to buy software; I'm going to get a systems integrator; I'm going to buy a network to put all of that together. What the enterprise is, they really wants simplicity.

So what we've been able to do with these platforms is, it drives standardization in our business, where we can put those solutions on, offer it to the enterprise. You offer it to them how they want to pay -- pay-as-you-go type solutions. So this whole movement to these platforms and putting the applications on those platforms, and connecting it either with our 4G or our wireline networks, and offering that in a very, very simple, simple acquisition move for the customer is really the driving focus.

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**Jason Armstrong** - *Goldman Sachs - Analyst*

If you can talk about maybe the footprint directly -- whether you want to talk about it in IDC terms, square footage, geographies -- maybe just help us understand the breadth of this.

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**Kerry Bailey** - Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions

Yes. And this is an interesting one. So I'm going to talk footprint in a couple of different ways. We used to think about footprint was the area in which we would sell our networks in the legacy world. But now footprint is -- we have our global networks everywhere. Right? We've got 50 data centers around the world. And in those 50 data centers, we have our cloud platforms. We have our security solutions in those areas.

So our -- what this has done for us to open up new markets and new lines to -- in the IT world has been able to take, of those 50 data centers around the world, put our cloud platforms in, offer solutions. And we believe those solutions are always going to be better with our network. But it also allows us areas where maybe we don't have the network presence to offer those solutions out as well. So that's a pretty big footprint with all of our solutions in those data centers around the world.

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**Jason Armstrong** - Goldman Sachs - Analyst

And if you think about the evolution and moving towards services and solutions, a lot of traditional lines are breaking down, in terms of who you would compete with.

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**Kerry Bailey** - Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions

Right.

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**Jason Armstrong** - Goldman Sachs - Analyst

Help us think through that. And does that result in a more competitive landscape versus the traditional landscape? How do we think about that?

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**Kerry Bailey** - Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions

Yes. I think this is the exciting part. And we get this question a lot -- are you competing with X or Y? I think you first have to say, let's all address the fact that the new IT delivery model will be the model of which enterprises buy from here on out. We will begin to stop talking about basically the term cloud.

But because everyone is rushing to offer their services, their products as a service, it has now created some collision points in the market. So we used to think of, as I said earlier, telecom, hardware, software, integrators; well, everybody is rushing to their point of strength where they are -- if they were a hardware company or a network company -- to build a platform or a service around that, and then offer that out. But you can tell everyone is doing it from their point of strength. Okay?

We happen to believe building around the network and the point of strength, cloud means network, and we think that that's a real big piece for us. What it allows us to do is that if you think about the IT market being \$2.5 trillion, we could play in this part. But because now IT Solutions means the servers, the operating systems, the networks, the applications that can be served up, we now can play in a much bigger piece of that pie in the \$3.5 trillion market.

So there's a lot of confusion out there of who you're competing with, who's your friend, who your foe, as you're in the market. But it's a big market. And, ultimately, we believe the companies that are going to win in the cloud space are going to be the ones that do it with scale, and we think there's going to be probably five of those that will be the material players as this all works out.



**Jason Armstrong** - Goldman Sachs - Analyst

Just on that, Kerry, I mean, you established the size of the total IT market, sizing portions of it, whether it's managed hosting, whether it's cloud-specific, probably a little bit more challenging. But where do you see the greatest opportunities in the next one to three years? Is that going to be on the cloud side of the house or where do you see it?

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**Kerry Bailey** - Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions

We're seeing -- and here's the interesting piece when we look at our business. We see significant growth in everything that enables this move to cloud. So, we see significant growth in ethernet, as an example. We see significant growth in LTE. Those are ways to access that particular platform or that cloud or that solution, right?

Then when you get into the data center, absolutely. What we were calling IT Solutions, all the services sit in the data center, security, and then offering them to vertical markets, those will be big, big growth areas for us. And we expect to exceed the market CAGR in those areas.

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**Jason Armstrong** - Goldman Sachs - Analyst

Can you talk a little bit about maybe the barriers to entry in this field? You mentioned earlier you did a couple of acquisitions in the past year, which maybe moved you a little bit further along into the cloud than maybe Verizon was on a standalone basis. What are the challenges that Verizon faced before deciding to build versus buy? And what led to that decision to maybe go through Terremark as opposed to internally?

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**Kerry Bailey** - Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions

Yes. What we did was we looked at all of the assets that we had and what you needed to be successful in the cloud space. And our heritage, if you go -- you can go all the way back, there's a company called Digex that was really one of the founding companies of the hosting market. And we had those centers. And we had the former MCI centers. We bought Cybertrust.

So we started looking at all of the things we have. And what Terremark gave us is it filled in a gap on our cloud platform; it filled in a very strong presence in the federal market here in the US; and it opened up the Latin America markets for us. So, we looked at all of those things you need. If you think of the barriers to cloud right now, it's security, it's performance, and it's the ability to move an app from your, say, legacy environment to the cloud.

Well, we did those acquisitions. CloudSwitch provided the ability to move applications from your -- easily move those applications in a secure way to the cloud and move them back, if you want. Right? We've done a lot of investments in our networks around how do you manage the performance of running an SAP app globally across the networks? And then, as I said, we did security.

So I think those barriers are what maybe some companies may be struggling with if they wanted to get into this business. And you also -- think about it -- the networks, they're not easily to repeat by ruling out a global network. And more and more access is going to come from LTE. So that's interesting -- 50 data centers around the world. All of those things are key to being successful in this. And then having a global sales force. So, I think those are the tough things to enter the market for new companies.

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**Jason Armstrong** - Goldman Sachs - Analyst

I think just staying on Terremark for a couple of minutes if we could, and then maybe transition more into the cloud -- but one of the things that I think may have been interesting about the Terremark acquisition was that Terremark was a carrier-neutral data center facility. Most people tend to view AT&T and Verizon and others as being obviously carrier-centric data centers, where there's only one network provider in there.



So can you talk about how important it is for you to maintain the carrier-neutral aspect of Terremark? And what has been the feedback or concerns from customers who may view a change in that regard?

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**Kerry Bailey** - Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions

And I'm going to start with kind of a Verizon philosophy about how we work with our customers and how we think about them moving to these new worlds. We, one, think that it's about choice. So, customers should have the choice.

There's advantages to go into our data centers that have multiple carriers. You're close to the peering points; it opens up, say, for instance, Latin America and the Caribbean to be sitting in Miami. There's advantages to have a carrier neutrality around that center. Okay?

We also ensure that we don't lock our customers into our cloud. That's one of the biggest fears out there is, once you move to a cloud, you're there forever. And we just think that the customer should have choice. We give them choice on the network. We give them choice on the cloud platforms. And that's our philosophy. But look, it's critical to us we're going to maintain that position going forward. So that's where we'll be.

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**Jason Armstrong** - Goldman Sachs - Analyst

Okay. Can we talk a little bit on the cloud side, in terms of maybe where do you see the current level of adoption today? And I think most people would probably agree that this is something that -- and you mentioned earlier -- is really sort of a paradigm shift in terms of how enterprises consume IT.

Over what period of time do you think this transition -- is this something that's a 10-year transition? Something that's going to take longer? How do you guys think about that internally?

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**Kerry Bailey** - Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions

Well, let me start off and tell you how we see enterprises moving into cloud today. And I think it's very important.

First of all, cloud just by its nature has either forced or suggested to CIOs to look at their applications and rationalize them -- which ones should be in the cloud; which ones should be public versus private cloud; which ones shouldn't be. Right? And we don't believe every application should move to the cloud.

And if you look at our continuum of offerings for enterprises making this journey, we offer co-location in our campus of centers. We offer hosting in private cloud and we offer our public cloud offering. Because when the CIO starts to look across the applications, you begin to fit them into what is the right choice for them, based on how the application is written, what the application does, and all of those pieces.

So, what we have seen is -- there's always been this big question is, when will enterprises adopt? Will they only move their variable workloads over, like, development or test in those kind of pieces? I will tell you, based on our growth numbers and numbers you see in the industry, that growth of enterprise adoption is accelerating. And I personally believe beyond what the forecast is right now.

I believe, this year, we'll see as high as into the teens of overall IT will be cloud. Okay. And before, we were down into the single digits. I think it's going to be much bigger. Because we're seeing workloads like SAP coming over, any other applications that are back-office. We're beginning to see them move at a very rapid pace globally. A lot of the systems integrators are bringing those to us. We're putting them on the cloud, doing all of the work to make them run.

So I think the adoption is going to accelerate. And I think we're all going to be surprised when we get to the end of 2012 to see how much of the market is actually in this space around enterprise cloud.

**Jason Armstrong** - *Goldman Sachs - Analyst*

Do you see these as applications being built for the cloud? Or these are people that are taking their existing applications and trying to transport them on the cloud? And how easy is it to do something like that?

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**Kerry Bailey** - *Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions*

It's a great question. I think the first thing that we've seen in the market is that CIOs or businesses said, look, I don't want to refresh the hardware. I love this idea of having an elastic infrastructure that can grow with my app. But basically, those apps were written a long time ago. They were written for an IT stack that was not very distributed in all of those pieces.

So, CIOs have begun to move those applications that make sense to a Infrastructure-as-a-Service platform. And what it does, it saves them a lot of capital; it saves them OpEx; it can grow. We saw so many of the retailers -- perfect use case, as we ended the year last year, significant online business. Well, that thing grew and it shrunk as they needed it through those periods. Right?

So I think that that's one element of the current applications. Then you have a series of companies and the next-generation companies, they're building to cloud operating systems. They're building to that today. Right? So, although that's small right now, it's growing rapidly. Very distributed applications, distributed databases. And they're building on that world right now. So although it's small, you're going to see it take over these applications over the next six to 10 years, as it goes on.

So very -- two different use cases for the cloud. You have to make sure that your platform is built for the ability to handle this distributed applications and the databases, and the storage, and everything that it needs. At the same time, you need to be able to take these legacy apps and gain benefit for the customers today.

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**Jason Armstrong** - *Goldman Sachs - Analyst*

One of the things you talked about earlier was about choice, right? When we were talking about carrier neutrality. And as I look at Terremark's cloud, it's really built on the VMware architecture, which I think we all know is very well embedded within the enterprise community.

How do you think about, from an architectural standpoint, what the right approach is to the cloud? And is there concern about walk-in versus maybe having multiple types of cloud architectures to be able to meet the needs of a lot of different customer bases?

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**Kerry Bailey** - *Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions*

Yes. Listen, our engineers in our labs debate this question every day. I'll go back to what we're seeing from the traditional applications and the new applications being written.

This is perfect. As you said, VMware, it's enterprise-class. That's what the enterprise expect today. And when you move these applications into, say, for instance, our enterprise cloud, there's an expectation that every component can deliver that enterprise-class SLA and the performance, and all of those pieces. So, you're going to see that.

The big question on the market is that as these new applications are being written for the distributed world, they want everything to be relatively open. They do want commoditization at the hardware level. They expect all of that to be a choice for them, but they expect it to be distributed.

So we're going to see where that goes. But I think that's where the question will come up for so many of the ecosystem partners in IT today is, what will that platform look like next gen?

**Jason Armstrong** - *Goldman Sachs - Analyst*

And as we talked about the change in IT ecosystems and how IT is being consumed, one of the concerns people have had around cloud is that it could potentially cannibalize some of your existing services. So, how do you balance doing -- going down a path where the customer may want, versus -- and maybe this is even somewhat akin to you add ATM and frame relay out there, and then IP comes along. And it's sort of that transition to something that's a better product with lower price points, but may open up a whole world of new services down the road. How do you guys think about that?

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**Kerry Bailey** - *Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions*

I think you have -- although I think it's one of the -- what appears to be one of the biggest secrets in the IT industry ecosystem, is there are more companies that are at risk of the cannibalization than others. Okay?

And I think that's the tough part. You've got enterprises wanting to move very fast. You've got companies that have these businesses that will be cannibalized, right? Cheaper hardware, cheaper software, delivered different ways -- yet, they're public companies and they've got to protect that base.

So do they really incent the sales force to move to this? I think you've seen some companies in the space say, look, this is where it's going. We've got to move. And they're in there, jumping on the train. Others -- digging their heels in, doing a little bit of cloud washing, saying, oh, no, no, all that stuff I have is really cloud. And they're trying to preserve what they have. Okay?

For us, look, we have very little of the disruption. Okay? I can tell you one area when we look at voice, as an example. Voice, we see the moving into application. So it's moving into unified communications. Right? So we were moving a lot of our customers into unified communications. Well, that opens up a whole suite to them, right? And to us. Right? It's not just voice any more; it's video. It's IM, it's conferencing. It's everything built into that. So we don't feel too bad on the cannibalization of any part of our business, but it is definitely in the ecosystem.

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**Jason Armstrong** - *Goldman Sachs - Analyst*

Just want to shift -- you touched on it earlier about competition. But maybe give us a sense for who are the companies that you're running into most often, whether it's on a hosting bid, or whether it's on a cloud bid? Do you see the big players? Is it more some of these smaller guys who are out there trying to compete? And then, I guess, bigger picture, I mean, to me, I sort of view cloud as a rapidly expanding pie. And so it's like (multiple speakers) --

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**Kerry Bailey** - *Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions*

It is, yes.

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**Jason Armstrong** - *Goldman Sachs - Analyst*

You know, you have a number of people who are all going to be able to take share and coexist. But at some point in time, maybe that turns into a market share battle. How do you guys see that playing out over time?

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**Kerry Bailey** - Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions

I think right now, we see more of hardware, traditional software companies, and certainly the telecom companies -- you see us going after -- when you see a bid and we have all of those companies involved, it's typically private cloud. Okay. So say a hardware company has built their hardware around some software and they're selling that in a kind of a traditional way, but they're calling it private cloud.

We're seeing that across all of the ecosystem. Okay. Because think about it -- the software companies have that capability now because they bought hardware companies; hardware companies bought software companies. So that exists. In the private cloud market, we'll compete head-to-head. And sometimes we're using some of the hardware that we're competing with the other companies on. Right?

On the more public cloud space, not so much. We're not -- there's a lot of companies that have put out the marketing message that they're in there, but not so much in that space of seeing the hardware and the software companies in our space. So we're going to come across the emerging companies and we're going to come across, certainly, some of the telecom companies across the world. But that one, we're not running into a whole lot bumping heads outside of the normal group that would offer those services.

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**Jason Armstrong** - Goldman Sachs - Analyst

And how important is the footprint in these discussions? I mean, one of the benefits you talked about with Terremark was bringing Latin America in. Where does Latin America fit into the cloud adoption? And does that give you a leg up on multinationals who may have a presence down there versus some of the others?

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**Kerry Bailey** - Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions

Yes, and that's the interesting piece is, that's the beauty of the platform concept is, that we have so many M&Cs that are expanding their business into Latin America. As you know, Brazil is an example -- GDP is at 9%. It's on fire, growing, preparing for the Olympics -- all of those kinds of things. Right? And those M&Cs need a presence there.

It's very easy to move an application from your enterprise data center to our cloud in Sao Paulo, is very, very simple. So it opens up that market for us and allows us to put these cloud pods around the world, and take on that. And then offer the M&Cs the ability of putting that, distributing that application to where their customers or their employees are. And gives us an easy way to do global expansion for them and offer them the service they need.

There's not many cloud providers today that put out that much of their infrastructure around the world. So we're focused heavy on this year making sure that we can support their workloads in various centers.

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**Jason Armstrong** - Goldman Sachs - Analyst

And are there other geographies which could be of interest for expansion? And I guess, just along the same lines, I mean, how do you think about now the breadth of your product portfolio? Are there any areas you feel you need to beef up to be more competitive in?

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**Kerry Bailey** - Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions

Yes. So on the additional expansion area, we are, of course, looking at all the high-growth geographies and segments that are out there. So we feel pretty good about Latin America and the expansion that we've made down there this year -- or last year. We'll continue to focus heavy into the Asia-Pacific region as well; very targeted approaches in that region.

As far as the portfolio goes, we had a targeted approach to the acquisitions to fill those gaps we had. We feel pretty good where we are right now. There's a lot of focus right now on incorporating LTE and machine-to-machine, and analytics into the cloud, because that's very, very important,



especially for vertical solutions like healthcare. But ultimately, we feel pretty good. We'll continue to look opportunistically out in the market if there's something that we need that would help us differentiate or help move us forward.

But we feel pretty good where we are. We feel good with the portfolio. It's more about expanding the geographies and getting more applications and services on top of it.

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**Jason Armstrong** - *Goldman Sachs - Analyst*

Are the acquisitions fully integrated at this point in time? Or there's still some more work to be done on that front?

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**Kerry Bailey** - *Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions*

Yes, they're pretty much -- as we did with Terremark, we did what we called a reverse integration. We took all of the like services, people, processes, and our entire security business, and moved that into Terremark. And we run Terremark as really a -- we're treating it like an insurgent company. Right? It's very focused. It's driven around these next generation services.

So we did that reverse integration. We feel pretty good about that. There's certainly little systems issues that we'll continue to fix through this year, but we pretty much call the integration done and we're now focused on execution.

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**Jason Armstrong** - *Goldman Sachs - Analyst*

Just maybe shifting gears just a little bit, when you think about customers moving into hosting or moving into cloud, I think there's always sort of a question around churn, and how easy it is for a customer who may now be hosted inside of a Verizon facility, or sitting on a Verizon cloud, to maybe move to another platform for whatever reason, whether it's price or features, or something like that.

I mean, can you talk to us a little bit about the stickiness of the customer within these applications? And then how practical is it to be able to switch providers for these types of -- you know, when we're talking about cloud-type services?

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**Kerry Bailey** - *Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions*

Yes. Let me tell you a little bit about what we've seen over the last couple of years in this space. And that is that most of the enterprises have come in with a -- hey, I've got this one app. I want to try it. They'll will put it in. Maybe it's \$50,000 worth of monthly recurring revenue, starts out as. And we'll turn around, and six months later, we'll look back, and that customer is now running 15 and the revenue on it is 10x now.

So they continue to adopt. 70% of our sales comes from the base, okay? Which says, once a customer is on the platform, they realize the benefits, they continue to add more and more applications and -- basically, applications to that platform.

So I think the stickiness is it's added great business value to them. Right? It's helped them with agility. It's helped them with speed to market. It's helped them with a lot of things they need to do to enter into new business models. So I think that's ultimately the stickiness. As long as they're getting the service and the performance, and everything they need, they're going to be here. Now as I said, we have CloudSwitch. We can move you back to your enterprise if that's where you want to go or -- and we'll continue to offer that.

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**Jason Armstrong** - *Goldman Sachs - Analyst*

Let me ask one more and then we'll open it up for audience questions. But a lot of the discussion has been multinationals enterprise, expand the footprint. And clearly, the cloud is associated with offensive at this point.



You have a huge SMB franchise in the legacy Verizon territory that's under a lot of competitive pressure. And if you think about one of the things that really could differentiate what you bring to the table over time versus cable companies, and some of the CLECs that are causing the pressure would be pushing a lot of these solutions and services down market to SMB. Can you talk to us about that and what type of opportunity that is?

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**Kerry Bailey** - Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions

Yes. And so it is. I mean, when we look at how to penetrate the SMB business and what they're really looking for, it is implicitly. Right? It's to be able to go in and say, I want email; I want conferencing; or UC. I want all of the compute resources I need. I want this -- click, click, click, click, click. And it opens the door. We can bring them wireless, we can bring them everything kind of from one solution.

So the big focus for us to take -- it's actually a solution that we had within Terremark that was really focused in that area, and it's called our vCloud Express platform, to expand that into our SMB market by putting more and more solutions on that. So we're going to be announcing a unified communication platform and applications that are absolutely key to SMB. Absolutely target on SMB. So we think it will open the door and it provides a really easy solution for these businesses.

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**Jason Armstrong** - Goldman Sachs - Analyst

Do we have any questions from the audience? Just raise your hand and there's someone walking around with a mic.

Let me ask another one. In terms of partnerships -- which, obviously, we've talked about M&A; talked about footprint expansion. How do we think about the Vodafone relationship? Does that play into what you're doing and provide you opportunities?

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**Kerry Bailey** - Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions

You know, Lowell talked about how we've really moved the Vodafone relationship from just a financial partnership to more a business partnership. So we've been focused on that from a global standpoint of how can we work better together outside of the US? Where can we partner? And those discussions have really turned into some true benefits for a lot of the M&Cs that needed consistent service between the two worlds, wherever they are.

So that has really began to work -- there's more work to do there, right, it's early. But we're pretty encouraged by the ability to have a business relationship with Vodafone now. And you'll see more and more this year as we penetrate different segments outside the US.

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**Jason Armstrong** - Goldman Sachs - Analyst

Retention of talent would be a question I'd have, especially when last night we had Rackspace report. The stock is doing very well today. They're reporting sort of 30% growth rates in cloud. You guys don't give us the numbers. My guess is if we peeled it back, you'd probably have something similar going on. But how do you attract and retain talent, when this is a part of Verizon Corp., as opposed to a pure play?

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**Kerry Bailey** - Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions

Yes. So, one is, I think if you look across the market, it absolutely is a scarce resource. Right? The number of people that understand distributed computing, distributed data bases, and ultimately, cloud infrastructures -- very limited. Right?

We've done well with the acquisitions to pick up great talent. We had some talent certainly within the business that we've all put together in one group that works together. They make decisions together. And we try to keep that almost as a startup business in itself. And what we have found is that as long as people see you are serious about the business, you're investing in the business, and your vision and strategy to be a dominant



player in a market that they want to be in, they'll come to us. And they'll stay with us. So we've had pretty good luck so far, and I think -- but it is absolutely a competitive issue out there.

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**Jason Armstrong** - Goldman Sachs - Analyst

One of the things we haven't really touched on too much has been on pricing within the services. I mean, being that it's still so early on in the adoption cycle, how do you get comfortable with the pricing models? You have some guys out there who are obviously very low price providers; you can get all their pricing right there on the websites, type of thing.

I mean, how do you get comfortable with the pricing models that are there? And with the discussions that you have with enterprise customers who may see what's out there separately, and want to understand what your price includes that theirs doesn't?

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**Kerry Bailey** - Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions

We really do price on breadth. We price on the solution itself. Right? If you -- we're not going to go out there and compete in the commodity cloud space. We're just not going to. Where we will -- where we add value to a customer is around the enterprise SLAs; around basically getting that commodity performance and pricing like a commodity, but then adding value of our breadth around the ability to offer those higher level SLAs and those pieces with it.

Equally, we're going to continue to tie more and more things into it, like our mobility services, access LTE. If a customer wanted to access their cloud over a private LTE network, that could change their business. Right? We can show them how we'll save them money across the rest of their enterprise by moving to a solution like that, although it was based on cloud. Right? So it's going to be the breadth of services of how we price.

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**Jason Armstrong** - Goldman Sachs - Analyst

Okay. I think we're just about out of time. Kerry, thank you for joining us today. Appreciate it.

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**Kerry Bailey** - Verizon Communications Inc. - Chief Marketing Officer of Verizon Enterprise Solutions

All right. Good. Thank you.

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