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VZ - Verizon at Raymond James Institutional Investors Conference

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PRESENTATION

Frank Louthan - *Raymond James - Analyst*

Good afternoon. Thanks very much for being here. My name is Frank Louthan. I am the senior wireline analyst here at Raymond James. Very pleased to have Verizon back with us again this year at the conference.

Today we have John Doherty, Senior Vice President of Investor Relations, going to make some brief marks, go through a couple slides. Then we will do some Q&A and take some questions from the audience. So I will turn it over to John.

John Doherty - *Verizon Communications Inc. - SVP, IR*

Thanks, Frank. I hope everybody enjoyed their lunch. Hopefully you all stay awake during this. I did want to open with a few brief remarks, going to fly through some slides. I think it's important just to level set.

I know some folks may have been following the story for a period of time, others may not be as up, so I just want to make sure we are all at the same place. It certainly is good to be back in Orlando, as we are every year, in support of what Raymond James is doing.

Let me just show you the Safe Harbor statement. Very important that it's up there to begin with. What I will do is I will move on.

Real quick review of 2011. We are kind of caught between quarters right here being it's March, but I still think again it's very, very important. We finished 2011 very strong. Generated a return of 18.2%. Again, this includes our dividend, which was increased for the fifth consecutive year indicating our Board's confidence in the sustainability of our business model, cash flows, as well as improving earnings profile. I will talk a bit more about this in a second.

We also renewed our focus on delivering solutions to customers in the markets that we serve by better leveraging our capabilities across all parts of the business -- Wireless, FiOS, strategic services, the cloud, digital media, and our global high-speed IP network -- which has helped to improve our overall top-line growth.

On a strategic front, we also made moves that will significantly improve our competitive position. We made key investments for future growth and improved profitability by investing in networks and new technologies, which will be the platforms for accelerated growth going forward, as well as through the acquisitions of Terremark and CloudSwitch in the cloud computing space. Several agreements to purchase additional Spectrum.

Our joint efforts around innovation with a number of partners, including certain cable companies, and of course our continued leadership in the rapid development and deployment of our 4G LTE network and ecosystem. 2011 was indeed an impressive year on a number of fronts giving us tremendous confidence in our long-term growth prospects.

Just to give you a few numbers to support that, our Wireless business -- excuse me, in addition to making the investments in our future, 2011 was a year of solid execution. Again, we posted record revenue growth in the fourth quarter. It was 7.7% for that quarter alone; resulted in adjusted revenue growth of 6.2% for the full year, a significant acceleration from just below 2% growth in 2010.

Moving up to the right on the slide, excluding non-operational items our full-year 2011 adjusted EPS was $2.15. That was up 3.4% from a comparable $2.08 per share in 2010. This result included $0.05 of negative impact from some storm activity that we had in the third quarter of last year. So from our perspective, we look at an adjusted EPS of $2.20 as a good basis for 2011 or an increase of 5.8% over 2010 as a more logical starting point as you look at us going forward throughout 2012 and beyond.

In addition, with growing revenue and heavy investment cycles to transform our business largely behind us, we have been able to steadily improve our capital efficiency over the past few years and we expect this metric to improve as we move out into the future.

Moving along quickly to blaze through Wireless. Once again, our Wireless business had another year of very impressive growth. Total service revenue growth for the full year was 6.3% year over year, moving to above $59 billion for 2011.

Retail service revenue growth, which includes both postpaid and prepaid, in the fourth quarter was 7.8% year over year. This was up 90 basis points over the third quarter providing us strong tailwinds as we head into 2012. This has been driven by strong retail net add activity, up 134% -- look at the bottom left part of the slide right now -- increased smartphone penetration of our retail postpaid base, which was up to 44% or an increase of 1,600 basis points, and solid retail postpaid ARPU growth of 2.3% for the full year, 2.5% in the fourth quarter, and the phone piece of that was 4% in the fourth quarter, also providing us with good confidence as we head into 2012.

All of this, coupled with our industry-leading customer retention and continued focus on cost management, resulted in another strong year of industry leadership in terms of margin performance and cash generation. And we have great momentum for sustained future growth and improved profitability going forward.

Turning now to Wireline, revenue for the full year totaled just over $40 billion, down 1.3% year over year. However, this represents an improvement from a year ago which saw a decline of 2.9%. The Wireline unit continues to demonstrate an improving overall profile driven by our global enterprise unit, which was up 2% year over year, with our strategic service category representing 51% of the total. Within that category includes our global IP services, our cloud solutions, our security solutions as well.

In addition, consumer revenue was up 1.5% year over year, with FiOS representing now 61% of our total consumer revenue stream. With improving contributions from key strategic revenue streams, including FiOS, and our strategic services in the enterprise space, continued focus on improving operating efficiency across the business segment EBITDA improved 1.9% and our margin improved 70 basis points from 22.4% to 23.1% for the full year.

From a strategic perspective and in a very real sense, over the past several years we have rebuilt Verizon around the growth markets of the future based on a foundation of superior global assets that give us a set of platforms for innovation unprecedented in our industry, including our leadership position in 4G LTE, in Wireless, our broad and deep global IP network, our cloud and security capabilities on top of our extensive global data center footprint, and, of course, our best-in-class FiOS network. The upshot of our ability to execute and capture these incremental revenue opportunities and operating efficiencies will be an increase in the cash flow of the business going forward.

We are almost at the back end of this prepared piece.

For 2012, our focus will be in these areas, relatively self-explanatory and I paved the way with what I said previously. We are looking to build off of what is a strong 2011 revenue trajectory, drive efficiencies across the business through automation and consolidation. We recently put in place an operational excellence group where we are continuing to look to drive performance improvement throughout our business -- Wireline, Wireless, as well as in the entities combined as well. And we expect that it's going to result in an improved cash flow profile over time.

When you look at some of our key initiatives, and I know we are going to get into this more when I sit down with Frank, our 4G LTE expansion. We can provide you with a bit of an update on that. Just in case, we have now two-thirds of the country effectively complete, over 200 million POPs, and we are targeting to match the 3G footprint by early 2013. And we are making good progress as we move through 2012 to that end.

Certainly we are going to cover the Spectrum acquisition that you may have heard about that we are in the middle of, under contract for, and expect to close in midyear. Our Wireless technology innovation joint venture with the cable companies, which is obviously a separate and distinct agreement that we have also put in place and are looking to secure a final approval on from the DOJ. Our Redbox joint venture, copper to fiber migration, as well as what we are doing in the cloud and security.

And with that, let's move on to the formal Q&A piece of this with Frank. Thanks.

QUESTIONS AND ANSWERS

Frank Louthan - *Raymond James - Analyst*

All right, John. Well, thanks for the overview. Looking at things from the enterprise standpoint, a lot of changes -- buying Terremark and making that acquisition, adding more capabilities just from pure data network voice and data networking and moving up the stack with managed services. At what point do you see that aspect of the business being more of a lead product for enterprise than just coming in and offering the traditional voice and data networking?

John Doherty - *Verizon Communications Inc. - SVP, IR*

Actually, it's happening today. The beauty of what we have been able to create within our enterprise group -- and we have also recently combined all of our resources into something we call the Verizon Enterprise Solutions Group -- is that we have a deep portfolio of services. So it really depends on the nature of what a customer is looking for certainly with Terremark. And we have backward integrated a lot of our assets that had existed before the Terremark acquisition.

So our position in security, our colocation capabilities that we had, as well as our managed capabilities, we put all of that into Terremark. Really, depending on what a customer is looking for globally, we have an offer -- ideally in terms of our sweet spot is providing a solution for that customer across their business footprint. But also, we are very well-positioned to provide a point solution if they just need something in the cloud, if they need a security solution. We are very well-positioned to do that and, quite frankly, we are doing it every day.

Frank Louthan - *Raymond James - Analyst*

Great. So talk to us a little bit about the SpectrumCo acquisition, kind of where does that stand? And comment a little bit about your overall spectrum position, how you feel if for some reason this doesn't go through where you -- how are you positioned from a spectrum position given the growth in adoption rates you are seeing with LTE?

John Doherty - *Verizon Communications Inc. - SVP, IR*

Okay, just to frame it out a little bit before I jump right into the spectrum piece. So obviously, we recently announced there are three separate and distinct agreements, activities that are underway. There is the SpectrumCo acquisition, as well as the piece that Cox is involved in as well, because they had recently broken off with the SpectrumCo a couple years back. So there is that acquisition that is separate and distinct.

We are in the process of seeking approval from the FCC. Everything we have seen so far is going relatively well. There has really been no surprises. We get questions about, well, what about T-Mo's filing or this filing. It's all what we expected, and from that perspective, we feel it is going well.

Our goal of securing closure of it, which would obviously include FCC approval, would be middle of 2012. And I will talk about spectrum position in a second. Then we have separately the joint innovation agreement, which again is a separate and distinct agreement, as well as the agency agreement whereby we have just launched on a trial basis in Portland, Seattle, and more recently San Francisco, where Comcast is reselling our wireless services as part of their triple play or quadruple play depending on how they put it into the market. All of those are going relatively well, although obviously in very early stages.

Our spectrum position is sound. We went out and we put together a plan a number of years ago, which obviously included where we saw the market going, and that was moving towards LTE. We pushed the envelope a bit on driving the LTE ecosystem.

To do that we felt we needed to have a really solid, foundational chunk of spectrum. That is what we were able to secure with the auction when we got our piece of the 700 block that we have. However, we felt over time we were going to need an additional depth and AWS is a perfect complimentary piece of spectrum for us in providing depth in certain key markets where we are going to need it.

So recently -- on Friday we had to file some of our retort as part of the approval process with the FCC. We reiterated that before the SpectrumCo acquisition effectively we felt we would reach exhaust around 2014/2015? Not that there wouldn't be things that we would do from an engineering perspective, but we would really start to feel it at that point in time. Successful closure of the SpectrumCo acquisition, we feel, gives us at least another four or five years.

Frank Louthan - *Raymond James - Analyst*

And so you mentioned the separate sort of agreement with Comcast and with the resale. I know that is early on, but at what point can -- you can give some comments or at what point do you think you will be able to give some comments on how that is going, how you are seeing that arrangement going forward ,and is this something you would look to expand to other -- possibly to other carriers?

John Doherty - *Verizon Communications Inc. - SVP, IR*

Well, I mean certainly if you look at the agreement we have in place it does involve more than just Comcast. We started with Comcast. It made logical sense to do that, and, obviously, we do have a plan ultimately to expand it. However, it's too early; it's early days right now.

Again, we started initially in the two markets, Seattle and Portland, with the recent addition of San Francisco. As this plays out, we certainly will provide you, as I am sure our partners will, the updates on how things are going but right now it's too early. But certainly we do expect and, hence, we entered into the arrangement that it will be something that we continue to build off of.

Frank Louthan - *Raymond James - Analyst*

And just as you have kept us all busy this year watching with new announcements with the Redbox deal that you mentioned, maybe comment a little bit on that. What is sort of -- give us an idea of sort of the timetable. What are some of the go-to-market strategy there with the video streaming product and give us some thoughts there?

John Doherty - *Verizon Communications Inc. - SVP, IR*

You really want me to break some news today on that.

Frank Louthan - *Raymond James - Analyst*

I am trying.

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John Doherty - *Verizon Communications Inc. - SVP, IR*

Not necessarily going to happen. But what I will tell you, we are very excited about the relationship that we have with Coinstar/Redbox. As most of you probably know, it's a joint venture where we have a 65% stake, they have 35%. We feel it was a very natural marriage. If you look at where consumption of video content is going, it is moving more towards streaming.

Certainly we believe that package program is going to continue to do well but there is absolutely additional need for a high-quality streaming product in the market. What better to have a company like Verizon with the significant assets that we have in place, including our high-speed networks on the edge, our data center assets, our Verizon Digital Media Service, high-speed distribution capability for media, to take that marry it with Redbox, which already has 30 million customers of its hard DVD product, has a very high net promoter relationship with those customers -- about 80% of them would recommend them. So they have a very, very good brand in this space.

We feel it's important from the get-go that we marry a streaming service with a DVD product. I think, if anything, Netflix last year demonstrated the importance of having those two coexist for now. That may change over time.

So we just are very, very excited about the opportunity to work with Redbox. We think the products, ultimately, that come into the market will be fairly compelling and you will see more of that as we move through the second half of this year.

Frank Louthan - *Raymond James - Analyst*

So you mentioned a couple of things. The asset base that you have, the network and storage and data center cloud capabilities, all very important for this kind of a business. What kind of a competitive advantage do you think that gives you over the market leaders in that business or even what Amazon does that has some of that but lack -- both of them lack the network?

John Doherty - *Verizon Communications Inc. - SVP, IR*

You are specifically relating to our position in the cloud versus applying that towards the JV?

Frank Louthan - *Raymond James - Analyst*

Yes, towards the JV. The JV as an entity in itself competing in sort of the streaming market, what kind of competitive advantage do you think you have?

John Doherty - *Verizon Communications Inc. - SVP, IR*

Okay. Let's start with some of what we have in the cloud and digital media distribution space. So obviously we feel very, very -- because you compared it to Amazon as well, we feel extremely well-positioned in what we are doing in the cloud post the Terremark acquisition. Certainly, our quality and level of service is enterprise class, there are things we are doing to make kind of enterprise class like services into the small and medium business market, but we really feel that we are extremely well-positioned.

Now taking that and taking our network distribution capabilities and leveraging on top of that the relationship with Redbox, while we don't want to get too far ahead of ourselves because we don't have a product in the market just yet, we feel the combination is extremely important to us. It's also very consistent with what we are looking to do at Verizon. We have been in a very heavy investment cycle where we have put significant money into FiOS. We have built our LTE capability. We continue to build out coverage and capacity there. We have put in place a comprehensive set of assets with and around the cloud to support our enterprise customers.

Now we are looking at ways in which we can leverage that, so we are talking about hundreds of millions of investments in pockets around, for example, the JV with Redbox, what we are doing with VDMS, and turning it into significant revenue streams over time. So we are doing everything we possibly can to leverage a lot of the investment we have already made to turn it into and to focus it on future areas where we are seeing accelerated growth.

A lot of that is around growth of data generally, fueled by video. What happened in the consumer space will also happen in the enterprise space.

Frank Louthan - *Raymond James - Analyst*

So talk a little bit about LTE adoption, where -- what are sort of your expectations around data growth and some of the long-term wireless margin trends? Launching a new product and getting your network out there, where can we expect the margins to go in a little bit more efficient technology like LTE?

John Doherty - *Verizon Communications Inc. - SVP, IR*

Sure. Also, I know a lot of folks -- I guess folks think we have like the secret sauce here in terms of data growth. Cisco loves putting out their report in terms of what their forecast is for data growth.

We don't comment a lot, but what we will say obviously is it continues to grow. And what is important for us is that we have the right pricing structures to be able to monetize that and that we have the right pricing. Not only to monetize it in terms of what we are getting and some of the drive behind our move towards more of a tiered usage-based pricing as opposed to unlimited pricing, but also that we have plans that are friendly for our customers that help promote that usage in and of itself.

The beauty of LTE is it is a network that is between five to eight times cheaper for us to run a megabit across. So we feel we are positioning ourselves right in the sweet spot to benefit from moving up the curve -- cheaper network, faster, lower latency, so much more fitted for usage of data across it, including video.

We were down here in Florida last week and we put another bogey out there where we feel -- we did 47.8% margin in third quarter of 2011 and certainly we don't think we have seen the last of that number as we move forward throughout the year. Not saying it's going to jump right back there in the first quarter, but certainly we feel we are going to see margin recovery in the first and as we move into the second quarter this year.

Frank Louthan - *Raymond James - Analyst*

Great. One of the more mundane questions that gets asked this time of year around pension contributions. Can you give us some thoughts there and how you are positioned over the next couple of years? Is that a major expense you have got coming up? How should we think about that?

John Doherty - *Verizon Communications Inc. - SVP, IR*

Well, I guess it depends on major. When you are a company of our size that generates the type of cash that we generate, while it's not insignificant, I wouldn't necessarily classify it as major. This year alone it will be $1.3 billion. We have already funded $400 million in the first quarter. We will fund a similar level in the third quarter and then between the second and the fourth quarter we will make up the difference.

Frank Louthan - *Raymond James - Analyst*

Okay. And just one more question and maybe we will see if some folks in the audience have questions. But looking at your cloud capabilities, Terremark was top shelf with cloud capabilities and security on the large government side, but how do you see that playing -- more having that cloud capability playing out in your wireless and residential customers over time? How important having those capabilities are and what kind of advantages it gives you over other residential and consumer providers that may not have that deep of a cloud infrastructure?

John Doherty - *Verizon Communications Inc. - SVP, IR*

It's very, very important. I mean one example, the capability we are building with Verizon Digital Media Services, and again something we affectionately call VDMS internally, part of that is leveraging that cloud infrastructure. So we are putting in place a series of data centers behind peering points and we are leveraging the data center infrastructure we have in place through the Terremark acquisition as well as the comprehensive data infrastructure footprint that we had prior to Terremark.

If you look at our views on the growth -- again, of usage overall fueled by video going forward -- having the cloud capability that we have, whether it be through products and services that we play more in from a value chain perspective in the consumer space directly by some of what we retail, as well as if you look at our ability to sell to help enable other customers to benefit from that in the small and medium enterprise space, additionally very, very important to us. Obviously, that is why we were -- we went out and we did the acquisition; we saw ahead of it.

We did a security acquisition in Cybertrust in that space. One of the main concerns that corporates had was around security. As things become more mobile, as the workforce becomes more mobile, being able to provide a solid layer of security was extremely important. In addition, the Terremark acquisition; as things move to the cloud that security component is very, very important as is the flexibility that cloud computing brings.

It's going to touch us in -- it's touching us already. It's going to touch us in every single way, whether it's into the consumer space which is our residential and wireless company primarily, or if it's in the enterprise space which is VES, Verizon Enterprise Solutions, which now represents all that we do across Verizon in terms of Wireless and Wireline capabilities.

Frank Louthan - *Raymond James - Analyst*

Great. All right, see if we have any questions in the audience from anybody? Yes?

Unidentified Audience Member

Yes, with regard to your Redbox JV, seems like you guys have a really good access point and you also have pretty intimate customer details around your subscribers, whether they are land-based or FiOS or whether they are wireless. So it seems like you got all the pieces; I guess I am just confused as to why you need Redbox.

John Doherty - *Verizon Communications Inc. - SVP, IR*

And we have gotten that question on a number of occasions. If you think about, in terms of a starting point, having 30 million customers to market to, customers that have a very, very strong relationship with Redbox, the brand is known. The folks that use the service are very, very happy with the service. It's a really good jump-off point for us collectively as opposed to just starting from scratch.

They also bring other capabilities to it as well in terms of what they can do in the back office side of things, so it's a very solid marriage. And it's a bit of a managed risk, entry point for us into this market.

Frank Louthan - *Raymond James - Analyst*

Any other questions?

Unidentified Audience Member

Just on the Redbox, do you have enough content that you can put through?

John Doherty - *Verizon Communications Inc. - SVP, IR*

That is the goal.

Unidentified Audience Member

Okay, so you don't have it in place? You don't have it yet, or --? How far along are you in negotiating?

John Doherty - *Verizon Communications Inc. - SVP, IR*

We are very confident that we will have the necessary content to launch a competitor service in the second half of this year.

If you think about it, we already have a number of relationships, we're the fifth-largest MSO with FiOS. They have relationships with what they are doing with their fixed product in the DVD space. And we also have developing relationships in what we are doing on the Wireless side of our business.

Now, again, the partnership with Coinstar/Redbox is on the Wireline side of our business, but certainly we get closer and closer to content providers each and every passing day. We are very confident that we will have a competitive product to launch in the second half of this year.

Unidentified Audience Member

But do you need to renegotiate those -- all of those relationships that you have?

John Doherty - *Verizon Communications Inc. - SVP, IR*

I don't want to give you the impression that we are kind of starting from scratch. We are not. But that said, and it's very well-known, if you look at contracts today there is differences between kind of in-home or linear versus Internet as well as what happens when you want to take that content with you. But it's not as if we are starting from a standing start here, we have been working on this for some time.

Frank Louthan - *Raymond James - Analyst*

When you think about usage on the (multiple speakers)

John Doherty - *Verizon Communications Inc. - SVP, IR*

I didn't think you had a chance to ask questions, you know. Taking it away from your clients.

Frank Louthan - *Raymond James - Analyst*

When you think about usage on the Wireless networks, 3G and 4G, where is the average usage today on your 3G networks per customer? And still early, but any indications on 4G or what you think it might become?

John Doherty - *Verizon Communications Inc. - SVP, IR*

Yes, that is the question that we get and a question that we don't answer. What we have said, just to give you a little bit more than that, when -- prior to the launch of the iPhone, we were seeing usage levels across our Droid customer base consistent, if not stronger, than what we had heard -- it's not like we had any extra information, but that we had heard the iPhone was consuming in any given month.

So we would get the question are you going to be ready, what is going to happen with your network when the iPhone fell down. We felt very confident because obviously we do have all of that information and we use it in terms of how we architect and put capacity in place to stay ahead of the curve. It's just there is some sensitivity to that information so we don't put it out there.

Unidentified Audience Member

There is a lot of fuss about these all-you-can-eat plans of the US carriers coming from the iPhone. Do you have specific plans to limit that in a way, let's say, let's give them time when the network is not so used to use that for their heavy downloads like some utilities are doing, giving out energy a bit cheaper in the night?

John Doherty - *Verizon Communications Inc. - SVP, IR*

Yes, the way -- we have already moved to a tiered pricing structure. We did that just ahead of the launch of the iPhone in February of last year. We thought that was very, very important to have a vehicle in place that allowed us to monetize the significant investment we had already made. And more and more, obviously, as we roll different devices out -- just today we announced the launch of our HomeFusion product, which is a product that you fix within your home but it works over a wireless network to provide broadband services to kind of rural -- into rural suburban markets. That is also a tiered pricing structure. So more and more that is what we are doing.

One of the things that we have about Verizon that is a little bit different than some of the others is we do have a very strong Internet device category. So formally called MiFi; we have renamed it, called Jetpack going forward. Our dongles, our LTE devices that are on two-year contracts with the chipset inside of it, also consumes a higher level of usage generally across our network but they also carry virtually no subsidies.

Machine to machine; we are positioning ourselves very, very well in the machine-to-machine space. We have been talking more and more about it in terms of what we can do in the automotive industry and what we can do in transportation. So a lot of other ways.

So in terms of what ultimately will be coming on -- what is on our network and what is coming onto our network, we are well-positioned that it will help us maintain a high level of margin because different devices will basically work across the network in different ways.

Frank Louthan - *Raymond James - Analyst*

Okay, great. Thank you very much, John. We have a breakout session after here. If anyone has more questions, feel free to join us. Thanks.

John Doherty - *Verizon Communications Inc. - SVP, IR*

Thanks.
