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# EDITED TRANSCRIPT

VZ - Verizon Communications Inc Sharpens Strategic Focus and Returns Value to Investors With Transactions Valued at \$15.54 Billion

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## OVERVIEW:

Co. has reached an agreement with American Tower to monetize towers for a transaction value in excess of \$5b and a definitive agreement with Frontier for wireline assets sales in three states for a transaction value of approx. \$10.5b (less the assumption of about \$600m of debt).



## CORPORATE PARTICIPANTS

**Michael Stefanski** *Verizon Communications Inc. - SVP, IR*

**Lowell McAdam** *Verizon Communications Inc. - Chairman & CEO*

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

## CONFERENCE CALL PARTICIPANTS

**David Barden** *Bank of America - Analyst*

**Simon Flannery** *Morgan Stanley - Analyst*

**Brett Feldman** *Goldman Sachs - Analyst*

**Michael Rollins** *Citi Investment Research - Analyst*

**Mike McCormack** *Jefferies - Analyst*

**Kevin Smithen** *Macquarie - Analyst*

**Amir Rozwadowski** *Barclays - Analyst*

**Colby Syneael** *Cowen & Company - Analyst*

## PRESENTATION

### Operator

Good afternoon and welcome to the Verizon Investor Conference Call. At this time all participants have been placed in a listen-only mode and the floor will be opened for questions following the presentation. (Operator Instructions)

Today's conference is being recorded. If you have any objections, you may disconnect at this time. It is now my pleasure to turn the call over to your host, Mr. Michael Stefanski, Senior Vice President, Investor Relations.

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**Michael Stefanski** - *Verizon Communications Inc. - SVP, IR*

Thanks, David. Good afternoon and thank you for joining us on short notice. This is Mike Stefanski and I'm here with Lowell McAdam, our Chairman and Chief Executive Officer and Fran Shammo, our Chief Financial Officer.

Before we get started, I will point out that the presentation slides for this call are available on our Investor Relations website. Replays and a transcript of this call will also be made available on our website. I would also like to draw your attention to our Safe Harbor statement on slide 2.

Information in this presentation contains statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties. Discussion of factors that may affect future results is contained in Verizon's filings with the SEC which are available on our website. I would like to remind everyone that even though the auction has ended, due to the FCC's rules we still cannot discuss or answer any questions related to the auction or AWS-3 spectrum this evening.

With that, I will now turn the call over to Lowell.

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**Lowell McAdam** - Verizon Communications Inc. - Chairman & CEO

Thank you, Mike. Good afternoon everyone and thank you for joining us. Today is another key milestone in the evolution of our business. I would like to start the discussion by reviewing the strategic context of this afternoon's announcement. I will then turn it over to Fran to take you through the transaction details before we take your questions.

A little less than a year ago, we completed the acquisition of Vodafone's minority interest in Verizon Wireless. Since then we've been pleased with the operating and financial performance of our wireless team. The transaction provided immediate earnings accretion and full access to the cash flows of what we believe is the best wireless asset in the world.

When we closed the transaction, we said that we would continue to look at our asset portfolio and be sure we were in a position to drive the most value with a focus on market leadership and shareholder returns. In some cases, I said we may consider monetizing or selling assets. The transactions we are announcing today align with that commitment to extend our industry leadership position in the markets we serve by being very strategically focused and returning value to shareholders.

Our agreements to monetize our towers and sell wireline assets in Florida, Texas and California are straightforward and create value for all parties. The agreement with American Tower has a value in excess of \$5 billion. It is essentially a prepaid lease for the significant majority of the towers we currently own. We will receive a \$5 billion upfront payment and will have leaseback options on favorable terms and conditions.

The operational aspects of the deal were as important to us is the economics of the transaction. We have an agreement that allows us the flexibility we need to meet our future operating requirements. Obviously, we work with American Tower today and know them well and we look forward to continuing our valued relationship. So we're happy to get this deal done as it allows us to free up capital and allocate it to other growth areas of the business.

The definitive agreement with Frontier for the sale of wireline assets in three non-contiguous states enables us to better focus our efforts on properties on the East Coast. The transaction value is approximately \$10.5 billion less the assumption of about \$600 million of debt.

While these three states are currently among our strongest financial performers, it will be increasingly difficult for us to scale them, given their lack of proximity to our contiguous East Coast footprint and the large copper footprints in Texas and California. Therefore the timing was right to sell these assets and create value for both parties. Frontier has a proven track record of managing markets like these. We will work closely with them as we have done in the past to obtain the necessary regulatory approvals and ensure a seamless transition.

Collectively, these transactions provide an alternative way to provide immediate value for our shareholders. Fran will provide more details in a few minutes. The intended use of cash on hand and the expected proceeds from these transactions are consistent with our stated priorities following the Vodafone transaction, invest in our network and spectrum, delever the balance sheet and return value to shareholders.

With these priorities as a guide, we weighed a number of factors to determine the best use of proceeds for our shareholders. An important consideration was the current regulatory uncertainty and the potential impacts on future investments of a reclassification of broadband under Title II.

Last Friday the FCC announced the results of Auction 97 which indicated that Verizon successfully won a total of 181 licenses and markets covering 192 million POPs for a total of \$10.4 billion. Acquiring this spectrum is consistent with our commitment to maintain our networks as a strong foundation for the business and a platform for innovation and growth. We are very pleased with the results of the auction and how it enables us to execute efficiently on our network strategy through a combination of small cell deployments and spectrum acquisition. I will clearly say that we got the markets we felt we needed.

The auction rules limit our ability to further discuss our network strategy at this time. So we are planning to have a separate investor call to discuss the auction results and our network strategy in the next few weeks.

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We have been very active in terms of debt management and we will continue to manage our debt maturities. We remain committed to getting back to our pre-Vodafone transaction credit rating profile in the 2018 to 2019 time frame.

Our cash on hand and the expected proceeds from these transactions put us in a position to announce a \$5 billion accelerated share repurchase program. This share repurchase combined with the dividends we have paid over the last 12 months means that we will have effectively returned about \$13 billion in value to our shareholders. We felt that now was an excellent opportunity to repurchase shares given the current environment. So we think today is a great day for Verizon and our shareholders as we take another step forward in repositioning the Company for the future.

I'll stop here however and have Fran provide more details around today's transactions. Fran?

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

Thanks, Lowell. Good afternoon, everyone. The transaction to monetize our wireless towers is relatively straightforward. We will lease approximately 11,300 towers, a large percentage of the towers which we currently own to American Tower under a master prepaid lease. In addition, we will sell approximately 165 towers outright. We will lease space back on all of the towers under a master lease agreement. The transaction value will provide us with \$5 billion in immediate proceeds at the time of closing. The lease terms in the master prepaid lease range from 19 to 32 years.

American Tower has agreed to prepay 100% of the rent for the term of the lease. At the end of the lease term for each group of sites, American Tower has the option to purchase all sites in that group for a fixed purchase price based on the anticipated fair market value of the towers at the end of the lease terms. This will provide additional value for Verizon.

Other terms are intended to protect each company's respective interests. This includes our right to use the greater of the capacity we currently use on these towers or an amount which gives us room for growth. We will have the opportunity to lease additional space in the future. The transaction is subject to the customary conditions. No regulatory approvals are required, though we will make some notice filings with different parties. We expect to close the transaction within 60 to 90 days.

The transaction to sell our wireline operations in Florida, Texas and California to Frontier concentrates our telecom footprint to the East Coast and generates net cash proceeds which will return value to shareholders. Unlike the spin-off transaction with Frontier that we closed in July of 2010, this is a straight cash deal for approximately \$10.5 billion less the assumption of about \$600 million of debt. After taxes and some costs related to pension benefits and separation activities, we expect the net cash proceeds to be approximately \$6.8 billion.

In terms of approvals, the transaction is subject to a Hart-Scott-Rodino review, FCC approval and certain state and local approvals. We will continue to operate these wireline properties in the ordinary course between now and closing which we are targeting for the first half of 2016. The transaction multiple represents about a 6.2 times 2014 adjusted EBITDA for these properties. For a closer look at the key metrics of the operations we are divesting, let's turn to slide 7.

You can see the key 2014 financial and operating metrics for these properties listed on the slide; total operating revenue of approximately \$5.8 billion, adjusted EBITDA of approximately \$1.6 billion, about 3.7 million voice connections, about 1.6 million FiOS data customers, about 1.2 million FiOS video customers and approximately 11,000 employees.

The properties we have agreed to sell will remain part of continuing operations in our wireline segment until the close of the transaction which we are targeting in 2016. Post closing, the remaining landline footprint will include approximately 23 million households. We expect to ultimately pass more than 17 million of these homes with FiOS and have more than 75% FiOS coverage.

Again, we view this transaction as an opportunity to better focus on driving the scale of the FiOS business across the contiguous footprint in the eastern states. While we expect that wireline margin will be reduced after the close of this transaction, we will continue to work on our cost structure between now and then to mitigate the impact. We are optimistic about the opportunity to further improve our productivity and operating efficiency in the remaining landline properties which are geographically more concentrated.



Let's turn to slide 8, and I will explain our funding plan. Let me take you through how we intend to fund the accelerated share repurchase or ASR, pay for the acquired spectrum and continue to execute on our deleveraging plan. Collectively the transactions enable us to execute this share repurchase at an opportune time. We ended 2014 with \$10.6 billion of cash on hand, a significant portion of which is available for investing and return of value. We will use this cash on hand to fund the \$5 billion ASR. The spectrum purchase will be funded with cash on hand and a term loan.

The tower proceeds which we expect to receive within 60 to 90 days will then be used to pay down the majority of the term loan. The proceeds from the wireline transaction, which we expect to receive in 2016 will be utilized to pay debt down consistent with our deleveraging plan.

Next, let me take you through the mechanics of the ASR on slide 9. Our Board of Directors authorized us to enter an ASR for \$5 billion of our common stock. We have a signed agreement in place. Under the terms of the ASR, we will provide an upfront payment of \$5 billion to the counterparty financial institution. They will initially deliver shares having a value of approximately \$4.25 billion. This reduction in outstanding shares will be immediately accretive to earnings per share and will reduce our overall dividend payment.

The total number of shares that we will purchase under the ASR agreement will be generally based upon the volume weighted average share prices of our common stock during the repurchase period less a discount. Final settlement of the transaction, including delivery of the remaining shares that we expect to receive is scheduled to occur during the second quarter of 2015. We chose the ASR over an open market share repurchase because of its certainty and the benefit of an immediate reduction in shares outstanding.

To summarize our funding plan, we will use cash on hand to fund the ASR. We will then use a combination of cash on hand and a term loan to fund our spectrum purchase. Proceeds from the tower transaction will pay down a majority of the term loan. Proceeds from the wireline property sale in 2016 will be used to strengthen the balance sheet.

So as you think about our utilization of cash and use of proceeds, all in, we have essentially allocated about half to the ASR and the rest to paying down debt. In this manner, we return value to our equity shareholders and also keep on track to return to our pre-transaction credit rating in 2018 to 2019 time frame, which we have consistently stated and remain committed to.

With that, I am now going to hand the call back to Lowell.

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**Lowell McAdam** - Verizon Communications Inc. - Chairman & CEO

Right. Thank you, Fran. So as you can see the benefits of these transactions and how it puts us in a good position to return value to shareholders. As Fran outlined, it also keeps us on track to getting back to our pre-Vodafone transaction credit rating over the next three to four years. I'm very pleased with the outcome of these transactions for all parties and our progress in optimizing our assets.

Our 2014 operating and financial performance shows that we have a strong market position with a proven ability to compete and effectively execute our strategy. At the same time we're developing new products and services in the areas of video delivery and the Internet of things for future growth and profitability. We are strong financially and well positioned to successfully pursue new growth opportunities. We will continue to be vigilant in looking at all aspects of our cost structure and repositioning the business for opportunities to drive earnings growth and value in the future.

With that, I will turn the call back to Mike so that we can get to your questions.

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**Michael Stefanski** - Verizon Communications Inc. - SVP, IR

Thank you, Lowell . David, we're now ready to take questions.



## QUESTIONS AND ANSWERS

### Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions) David Barden, Bank of America.

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### David Barden - Bank of America - Analyst

Congrats on the transactions. Lowell, I know maybe this is something you want to kind of wait to talk about a little bit, but I think that people are going to look at the allocation of capital here and say that Verizon bought a certain amount of spectrum in the AWS-3 auction but it could have bought more. And instead of buying more spectrum which historically has been a huge priority for the Company, what it chooses to do instead is buy back stock, pay down debt and it's a pretty significant change, not just in positioning the Company but in terms of strategy overall. If you could kind of just address at least some part of that to kind of unravel that mystery a little bit it will be hugely helpful for us.

And then I guess, Fran, I think the call that just ended with Frontier they were speaking about a lot of allocated costs that presumably are going to stay with Verizon post transaction. So we'd be thinking then about as we kind think about 2016 a lower starting point for the wireline margin for the business, but then as you kind of split the cost that kind of returns to the historical trajectory? Thanks.

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### Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Okay, David, let me take the first piece of that. I would tell you this isn't a change in our allocation of funds. We said from the very beginning when we did the Vodafone transaction that we would continue to invest in the network, that we would pay down the debt and that we would look to invest in new opportunities going forward.

So what we've done here today is to sell some assets that we didn't feel we could scale or be in the number one or number two position in the market. We're going to take some of those funds and invest in spectrum and as we said, we can't say a lot about that. I think in the next two weeks, we will have a detailed call.

But as I said in my remarks there was a balance between building with the small cell technology and buying more spectrum. And I think after we go through our more detailed discussion on that, you'll see, as I indicated that we got the properties that we felt we needed.

So if I look going forward being able to pay down some debt and to buy back shares given the environment that's out there right now is a real value creation for the shareholders and I feel very good about the balance we've created.

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

And, David, on the allocated cost that's exactly right. So as I said in the beginning of my script here these properties are more profitable from just a wireline perspective than the rest of the portfolio. So, yes, there is an allocated cost, but keep in mind we've done this allocated cost before when we have divested of properties and obviously we have a year to work through this. But you've already saw the start of some of what we were doing back when I talked on the fourth quarter where we reduced the workforce by about 2,100 employees already in the wireline segment, a large piece of that being some of the representing workforce on an ISP offer. So we are well on our way to this. We have plans already in place as to how we're going to execute on additional cost reductions over the next 12 months while this is being planned. So we have very good confidence right now.

At the time of close we will be in a position to fully offset any, if you will, allocated cost or stranded costs as we refer to them. So I think we're in a very good position to hit the ground running here.

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**Michael Stefanski** - Verizon Communications Inc. - SVP, IR

David, next question please.

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**Operator**

Simon Flannery, Morgan Stanley.

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**Simon Flannery** - Morgan Stanley - Analyst

So, Lowell, you've talked before about other -- and Fran about other asset sales, maybe even looking at some -- breaking up some states, looking at maybe the more rural parts of the states that has real estate assets and other things. Are you pretty much done now apart from a little bit here or there, are you going to keep that portfolio or do you think there might be other opportunities down the road?

And, Fran, I don't know if you can give us some sense of once you've done all the deals, done the ASR, what's the net impact to earnings per share, free cash flow per share. Thanks.

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**Lowell McAdam** - Verizon Communications Inc. - Chairman & CEO

Simon, let me take the first part of that. As I look back on our discussions on selling the three properties that we're announcing today that's been going on for probably a three-year period with various properties. So I think with any asset sales that we've done in the past, anything we might do in the future, we're going to keep our options open. So I can't tell you that we've got anything in the hopper right now. But that doesn't mean that there won't be opportunities to trim the portfolio further, but also I think there is opportunities for us to add to the portfolio in the growth areas of the business where we see opportunities coming forward.

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

And Simon on the second piece, on earnings per share, so if we go back to the fourth quarter call and the guidance that I gave, the guidance did not include the benefit of any share buybacks. So this would be additive to that guidance and if you look at it and if you do the calculation based on the number of shares that come in, it could be anywhere from \$0.07 to \$0.09 at this point of additional accretion to the earnings per share metric, and obviously this would also be accretive to free cash flow per share based on what we were at when business as usual and now with the share buyback. So both are accretive and that should give you some sense of what we're expecting for a full year on EPS.

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**Michael Stefanski** - Verizon Communications Inc. - SVP, IR

David, next question please.

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**Operator**

Brett Feldman, Goldman Sachs.

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**Brett Feldman** - Goldman Sachs - Analyst

Thanks. And just to kind of extend upon that because there were a lot of numbers that you gave on the call which was very helpful, just to kind of get to a bottom line, because these are profitable properties on a recurring basis will there be some net reduction in cash flows just at an absolute level? I know that you get some of that back on the buyback program. Any help you can give us there that would be greatly appreciated.

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

Yes, sure Brett. So initially if you just did the math obviously these properties do in fact have free cash flow positive. So there would be a reduction if you just look at the pure numbers, but like we said we will offset both the profitability and the cash flow by cost reduction. So the way I am looking at the whole model right now is that we're putting plans in place to offset that. So I would expect that our jump-off point would be pretty much equal where we're at today. So I would not expect at this point in time that we would have any detriment to our financials.

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**Brett Feldman** - Goldman Sachs - Analyst

So you're basically saying that roughly in the year that it's going to take to close you should be able to get all your cost savings in place that on day one you are truly breakeven?

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

That's exactly correct.

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**Brett Feldman** - Goldman Sachs - Analyst

Okay. And just one quick follow-up. I know you talked about the net cash on the deal. I didn't get the details. Is it a combination of taxes and other fees, how do we think about getting from gross cash to net cash?

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

It's exactly what you said, it's fees, it's severance, it's like a little bit of integration but most of that is also tax because these properties did have a low tax bases.

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**Michael Stefanski** - Verizon Communications Inc. - SVP, IR

David, next question please.

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**Operator**

Michael Rollins, Citi.

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**Michael Rollins** - Citi Investment Research - Analyst

Hi, thanks. Two questions. First, how do you think about going forward from here, the continuity of trying to return more capital to shareholders above and beyond what the current dividend is set at? And then, secondly if I could just ask the question about the numbers, so if I hold these two presentations, Frontier's and yours side by side, you agree, it seems, roughly on the 2014 revenue. You're highlighting 2014 OIBDA for these wireline properties of \$1.6 billion and Frontier is highlighting day one EBITDA at \$2.31 billion. Why do you think they can run the same business so differently from a margin perspective and does that provide maybe some future opportunities for things that you could do in your business to try to raise the wireline margin profile over time? Thanks.

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

I'll leave -- I will let Lowell answer the continuity of the shareholder return but let me take the first piece of this. And it's kind of comical because obviously the buyer is going to try to make you look at a high number to get a low multiple and the seller is going to look at a low number to get a high multiple. So, look, at the end of the day Frontier can walk you through how they get to their number. I'm not going to answer that question. But the actual number for us is \$1.6 billion. I'm not including any synergies. I'm not including a tax basis write-up in this which is how they're getting to their number and that's for them to decide how they get there.

But look at it on a pure basis we generate \$1.6 billion worth of profit on these properties. So it's a 6.2 multiple and that's really all I can say on it, Michael.

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**Lowell McAdam** - Verizon Communications Inc. - Chairman & CEO

So Mike, this is Lowell. I always enjoy your questions because there is always questions within the question. So I think what you're asking on that capital return is are we going to commit to more share buybacks. And the answer is, we just have to see how things go going forward.

I am going to be very consistent, call it boring, but we're going to continue to invest in the network. We've said we're going to pay down debt and by the 2018 time frame we really hope to get that one notch downgrade back. The Board has shown a great history under a bunch of different Chairmen and CEOs about dividend and dividend growth and then we'll just evaluate it if we've got opportunities to invest further in growth areas. And we see a ton of them in our market here, we're going to invest in those and if we see opportunities to buy back shares or use other ways of returning capital to shareholders we will do that. So we just can't really give you any more guidance on that at this point.

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**Michael Rollins** - Citi Investment Research - Analyst

Thanks very much.

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**Michael Stefanski** - Verizon Communications Inc. - SVP, IR

David, next question please?

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**Operator**

Mike McCormack, Jefferies.

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**Mike McCormack** - Jefferies - Analyst

Fran, just commenting on the FiOS areas that you sold, it looks like the penetration was quite high. Is it fair to say that those properties are probably some of the slower growing consumer properties? And then secondly, I guess for Lowell, the quick comment on Title II, just trying to get a better sense for what the message was there and how you thought about that throughout this process and this transaction?

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

So Mike on the FiOS penetration, so yes, the penetration of these markets is actually generally higher than the rest of our portfolio, but you would expect that because keep in mind, Dallas was the first market that we launched FiOS in. So it absolutely has the highest penetration, it's actually at 58% on data, which is by far our highest in the market and then Florida and Texas are right behind that. So -- I'm sorry, Florida and California are right behind that. And also they are higher in TV as well.



So, look, these are higher penetrated markets, but then go to the flip side, as I've said on calls before New York is our highest growing market. It has the most opportunity because of what's sitting in New York from a multi-divisional unit and some -- all the apartment complexes and so forth. So we kind of view this as -- these three markets probably are at or near the peak of their growth trajectory. But the rest of our portfolio we believe has a much longer runway in it. So that's how we kind of view this one.

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**Lowell McAdam** - Verizon Communications Inc. - Chairman & CEO

And Mike, my alluding to Title II, look it's been no secret that we think that Title II is completely the wrong way to go in trying to regulate something as dynamic as the Internet in 2015. I mean, using 1934 regulation is just completely inappropriate. I use the term, "it's like trying to use a buggy whip to steer a Ferrari". So it was a factor in our decision as I said. The uncertainty of the regulatory environment made it such that we thought returning those dollars to the shareholders is the appropriate method until this becomes a little bit clearer. You see this in other companies. I'm not here to speak for anybody, but you see an awful lot of capital going outside of the US into places like Mexico, and I think Washington should be very, very thoughtful how they go forward here because this uncertainty is not good for investment and it's not good for jobs in America.

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**Michael Stefanski** - Verizon Communications Inc. - SVP, IR

David, next question please.

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**Operator**

Kevin Smithen, Macquarie.

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**Kevin Smithen** - Macquarie - Analyst

Thanks. I wondered if you're concerned about any financing risk on Frontier. They announced on their call that they'd be looking for based on their numbers \$3 billion of equity in second and third quarter. Based in your numbers, it's probably more like \$4 billion. Did you get offered equity in Frontier, how come you chose not to finance and take their stock and help them out?

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

This was plain and simple, this was an all-cash deal. That's what we required and that's all I can say about it.

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**Kevin Smithen** - Macquarie - Analyst

And the question sort of strategically going forward, you've talked a long time about convergence and we see Vodafone, your former partner, buying up cable assets in Europe. You're becoming much more of a pure play wireless company now pro forma. I guess how do you think about convergence and it has become more of a wireless player, it seems like the strategy has shifted a little bit off that convergence strategy?

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**Lowell McAdam** - Verizon Communications Inc. - Chairman & CEO

Kevin, I am not sure I'd agree with that. We could have a good discussion about it. I think the issue with these properties, they are, as we said, very strong financially. Frontier has a great track record, but there is a lot of very dispersed geography there that's going to be copper plant, that is not a candidate for conversion to FiOS and to put the fiber in in my view.

I think we've got tremendous assets in the corridor from Washington to Boston and by concentrating our investments we think we can do greater conversions there and deliver that convergence. But I'd also tell you that if you look at the growth opportunities, whether it's the Internet of Things,



whether it's over-the-top TV that can ride on anybody's broadband. And so, the place where we're going to play in a mobile first is we've got a national play and where we want to see convergence with the landline, we've got a strong footprint in heavily populated areas. There's nothing that says we can't ride over somebody else's broadband. So similar to our discussions when we bought the Vodafone assets, we didn't feel we needed to own the underlying asset in other parts of the world and we felt we can concentrate here in the US. So I would say it's consistent.

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**Kevin Smithen** - *Macquarie - Analyst*

We should expect some more color on sort of Wi-Fi type agreements going forward and wholesaling others networks?

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**Lowell McAdam** - *Verizon Communications Inc. - Chairman & CEO*

When it's time to talk about it, we'll talk about it for sure.

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**Michael Stefanski** - *Verizon Communications Inc. - SVP, IR*

David, next question.

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**Operator**

Amir Rozwadowski, Barclays.

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**Amir Rozwadowski** - *Barclays - Analyst*

Sort of tying into the prior question on sort of the longer-term strategy here, certainly one of your competitors has made the comment that expanding their video presence provides an opportunity over the long term to reduce content costs as we're strategically looking towards mobile video as sort of the next leg of adoption and growth here. Conversely, you folks are refining your portfolio in terms of videos subscribers. Do you think that inherently could impact some of those costs over the longer term or do you feel pretty comfortable given the breadth of your portfolio, particularly taking into account your wireless subscribers?

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**Lowell McAdam** - *Verizon Communications Inc. - Chairman & CEO*

Well I think that said, Amir, with the 108 million subscribers on the wireless side and the best wireless broadband network, we think we've got tremendous leverage there. And without announcing anything the dialog that we're having with the content providers are very encouraging. So the fact that we'll have a strong and I expect getting stronger fiber footprint from Washington to Boston plays into our hands, but I very much like the position of having the mobile broadband be the nationwide asset for us at this point.

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**Amir Rozwadowski** - *Barclays - Analyst*

Thank you very much. That's very helpful.

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**Michael Stefanski** - *Verizon Communications Inc. - SVP, IR*

Okay, so it's time for one last question.



**Operator**

Colby Synesael, Cowen & Company.

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**Colby Synesael** - *Cowen & Company - Analyst*

Two if I may. First off, just as it relates to VES, how strategic is that business to you when you look out over the long term? And then the second question is as it relates to the leverage, what's your comfort in terms of flexing that up in terms of potential for more buybacks? You mentioned the potential maybe to do some acquisitions, future spectrum acquisitions or even private deals. Where would you feel comfortable going recognizing I know you want to get down to that one notch improvement if you will in 2018, 2019? Thanks.

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**Lowell McAdam** - *Verizon Communications Inc. - Chairman & CEO*

Colby, I will let Fran handle the leverage question. VES, we're very pleased with that asset and where you see some improvement, especially in the area of cloud services and security as you can't go any day without seeing something in the news about security. And the space that we're the strongest in around cloud are the very complicated services that involve global networks and security. We're seeing reasonable growth there and I think as taxes get cleared and as the economy continues to improve we see a reasonable growth profile. So we are very satisfied with that asset at this point.

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

I think, Colby, on the leverage side of the house, look, I mean, this is a lot of what-if scenarios and I don't really play into what-if scenarios perspective. But just to put it plainly as Lowell has said, look our priorities are we invest in our networks and platforms. We said we would buy spectrum, we did. We said that we were going to possibly diversify some assets, we did. We're going to continue to get back to that A- rating in the commitment that we made when we did the Vodafone deal. Behind that if there is something else that comes down the pike, that's worth talking about as far as leverage or debt or whatever then we'll do that at the appropriate time.

But at this point in time, we are extremely focused on strengthening the balance sheet and returning value to the shareholder.

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**Colby Synesael** - *Cowen & Company - Analyst*

Thank you, gentlemen.

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**Michael Stefanski** - *Verizon Communications Inc. - SVP, IR*

Right. That's all the time we have for questions today. But before we end the call, I'd like to turn the call back to Lowell.

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**Lowell McAdam** - *Verizon Communications Inc. - Chairman & CEO*

Well, first of all, I'd like to thank all of you on short notice, I know today is a busy earnings day, for being on the call. We feel very, very good about the announcements that we've made today. It gives us a continued milestone in repositioning the business. We've been able to monetize some assets with some win-win relationship with some partners that we've worked with in the past and we will now be able to redeploy that capital to return value to shareholders, pay down some debt and invest in some growth opportunities as we go forward. We feel very good about the bases of assets that we have. As we move forward, we see lots of opportunity to generate great profitability and cash flows and value for our shareholders.

So with that, I'll again remind you we are going to have a separate session on our spectrum purchases in a couple of weeks and we'll look forward to talking to some of you there. So thank you again for your time and good evening.

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**Operator**

Ladies and gentlemen, this does conclude the conference call for today. Thank you for your participation and for using Verizon Conference services. You may now disconnect.

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