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PRESENTATION

David Barden - *BofA Merrill Lynch, Research Division - MD*

Thank you. I'm very pleased to have with us to kind of kick off day 2, the keynote sessions, Matt Ellis, who's the EVP and Chief Financial Officer of Verizon. Before we get started, I think Matt has to do a quick safe harbor.

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

Yes. Good morning, David. Great to be here with everyone. The safe harbor statement should be appearing onscreen here in a second. Obviously, we'll be making some forward-looking statements this morning. For those of you listening in, it's also available on our website. So anyway, great to be here. Looking forward to it.

David Barden - *BofA Merrill Lynch, Research Division - MD*

Thank you so much.

QUESTIONS AND ANSWERS

David Barden - *BofA Merrill Lynch, Research Division - MD*

So one of the -- I'd like to start off by just kind of more of a kind of a higher-level question. I asked AT&T this, I asked Sprint this question. It appears to me, I think others as well, that there's these 2 polar philosophical views of what it takes to be a successful distribution company in the U.S. And in the case of Verizon, you've espoused a very long-term consistent view that distribution delivered well, has its own inherent premium value, that it can attract its own customer base. And I think AT&T has kind of adopted a different view, which is that eventually that distribution capability becomes commoditized and you need to augment it with a bundle and content. And I think there's been some conversation about whether T-Mobile, which has been kind of more neutral in this conversation, kind of edged towards the AT&T side of the world by launching a new bundle with Netflix, which says to the market, look, I think, T-Mobile, I think, content is going to be an important part of the decision-making process for customers and, therefore, I want to have some of the best content I can get married to my network so I'm putting them a little bit more into the AT&T camp. Sprint, maybe again kind of espoused a view that they didn't agree with that. Where -- could you kind of give me now, after all the things that Verizon has gone through for the last 6 months strategically and kind of thinking about the world, where are you guys standing now?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

Yes. So we believe that the network performance and network leadership is a -- is incredibly an important part of our strategy. And when you think about the strategy, there's really 3 key things. One is network leadership; second one is how we execute around growth opportunities; and thirdly, we think around the balance sheet and capital allocation and those things. So if I jump into all 3 of those, on the network leadership, I think we've demonstrated time and again that it does matter, and you see it matter not just in terms of the results we get on the network, but the customer numbers that come along with that. So it clearly resonates with customers that having the best network matters to a significant number of them, and we saw that. The move to unlimited helped us have a clear and comparable offer in the marketplace. The network has performed incredibly well since we've gone to unlimited. We're continuing to add capacity, and we have a number of tools that we used to add capacity and we will continue to do so. But we're not just building the network to add capacity for today. I mean, some of the things we're doing as we densify the wireless network with small cells, as we do things like the One Fiber initiative in Boston that we started last year, building a rich fiber network that will deliver multiple use cases in the future off of that one asset and also prepares us for future technologies like 5G as well. So we already have some of the network architecture in place as we go down that path. So the network is in a great place, performing incredibly well, and we think it continues to be a differentiator and it matters to customers. On the execution side, I think you've seen the numbers. The second quarter showed that we can compete effectively, and we will continue to do so. We're continuing to drive those opportunities for growth. And as we talked about on the second quarter earnings call, you've got the -- we saw the second quarter as the turning point for service revenue in wireless, and we see those negative trends getting significantly better in the second half of this year. And as we head into 2018, a clear line of sight to getting back to a year-over-year growth at some point next year. Wireline, we see continuation of recent trends, but then excited about the future on some of the newer businesses we have. Obviously, in the last 90 days, we've closed on the Yahoo! acquisition, so we're deep into the integration of that asset with the rest of the Oath platform and excited about what that will produce as we head into the future. And then within the IoT space, the -- obviously, a number of things going on there, but primarily in telematics, where we've taken those -- the core business we had, we added 2 other businesses late last year, integrating those into a market leadership position and see growth there. But those -- both of those assets are built off of driving more volume across the network and monetizing up the stack as we do that. And then finally, capital allocation is incredibly important. And I think what we've demonstrated again in the first half of the year is that we can fund the continued investment in our networks, we can fund the dividend increase as we did yesterday for the 11th consecutive year out of the cash we generate from our core businesses. And at the same time that we do that, we also can have the opportunity to strengthen the balance sheet. So network leadership matters. It gives us the opportunity to drive new revenue streams in a disciplined fashion and produce good returns for our stakeholders.

David Barden - *BofA Merrill Lynch, Research Division - MD*

So let's start with the kind of post unlimited service revenue evolution. I think at the inauguration of unlimited, it was received badly and it had a pretty negative sequential impact on ARPU of about $1.50, all of which was back-end loaded into the first quarter. All things being equal, second quarter ARPU should've declined another $1.50, but it didn't. It was only down about $0.80 or so, and that meant to me that there was some other force at work. And my guess is that force at work was people upselling themselves to this unlimited plan from lower, so there's a positive mix shift. So as we look in the third quarter, assuming that we've got stable subscriber phone growth, which I think you guys would agree with, and assuming that you've got a relatively stable industry pricing structure for the third quarter, which it appears we have, and that mix shift continues to occur, that ARPU should start to go positive sequentially, if not stable. And so positive phone subscriber growth, stable to positive ARPU growth, even if it's not year-over-year positive service revenue performance, we should see, I think, sequentially positive service revenue performance. Is that fair?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

Yes. I think what you saw in the first quarter is obviously, the part of your base that has the opportunity to move to unlimited and also step down in total price, those customers move immediately. And we fully expected that when we launched unlimited. We saw that from the customer base, the significant appetite for that new offering. And so you got that impact in the first quarter, those customers who were paying for a very large data bucket at a higher price, stepping down. At the same time, those customers who wanted to get to unlimited, but it was an increase in price, that happens over a much -- a steady progress but over a longer time period. And so we saw that. We saw some of that in the first quarter, but we saw it continue in the second quarter and we're seeing it continue in the third quarter, too. But that during the quarter, they're not offset by the people stepping down as much because those people move very quickly. So we do see improvement there. We talked about overage and the impact there. We said in the second quarter overage was down about 34% year-over-year. But in terms of if you think about that impact on service revenue as a whole, we're now down to overage revenue being kind of low single digits of the total number and not all of the base is moving over to unlimited either. So we'll work through that headwind fairly quickly. So yes, I think you're -- it's not unreasonable to expect sequentially to see very similar numbers at the service revenue line, and therefore, up and down the income statement.

David Barden - *BofA Merrill Lynch, Research Division - MD*

All right. That's good. So but -- so if one of the effects that's been helpful to the aftermath of the introduction of unlimited, which is this positive mix shift up the revenue curve, your recent bifurcation of the price plans, you have now a little bit more expensive plan for the HD and a little bit less expensive plan for the throttle video. Is that going to have a positive, negative or neutral effect on the mix shift tailwind? Are more people going to choose the cheaper option now rather than (inaudible) option means that, that tailwind kind of goes away? Or how does that work?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

Yes, so historically, we'd like to give customers options in the product they purchase that they can look at. Not everyone is a high video streamer, and so we have an option for people who may not do a lot of video streaming. But then we also have an option for people that's important to. And we like creating those differentiated offerings. When we launched unlimited, we described it as an introductory offer because we knew we wanted to get back to a place where you had those different offerings. Obviously, over the past few years, it's primarily been around the data bucket size. When you move to unlimited, that kind of goes away. So the question we work through is, okay, how do we create a differentiated product in an unlimited world? And that's what you've seen us launch. And certainly, when we talked about our view of service revenue in the second half of the year and into '18 on the earnings call in late July, we had a pretty good idea of the specifics of what the new price plans we'd be coming up with. So that view that we gave around service revenue in the second half of the year and into '18 was based off of bringing these new plans on. And we think we'll see a good mix of customers, and it's not materially going to overall impact the ARPA numbers.

David Barden - *BofA Merrill Lynch, Research Division - MD*

So looking at then the landscape generally. In the quarter, I would argue we had maybe 4 different kinds of events happen. We had Sprint kind of experimenting with the trade-off of phone subsidies and retail distribution in exchange for like a year of free unlimited service. Second, you had T-Mobile raise prices for their -- the One Plus by about $5 from $5 to $10. At the same time, you had T-Mobile kind of introduced this Netflix plan. You had new guys kind of bifurcate your plan. Is -- a big question that people have been asking over the last couple of days has been where are we on the price deflation curve? Like, are the actions we're seeing happen representative of stability, incremental deflation, reflation? Where do you think we are in that curve?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

Yes, it's a constant evolution. And what was key for us this year was getting back to having an offer that was comparable. And so went unlimited, and we did that. Because prior to that, customers had to make a choice between a good networking experience or being on unlimited and not having to worry about data usage. We took that away. And I think what you've seen from a number of the other folks in the industry, since then, is they're trying to find ways to make their offer different against the leadership position we have. I would tell you, we continue to focus on protecting our base in a disciplined fashion. And so we look at all these different offers that are out there. We believe that our core offering continues to operate very competitively despite all those moves that you talked about. So we'll continue to monitor it. I don't think you'll see it change significantly, but we will continue to do what we need to do to protect the base in a very disciplined fashion.

David Barden - *BofA Merrill Lynch, Research Division - MD*

And so I think that the cornerstone of the value proposition that helps you defend that base is network. And I think that maybe one of the most definitive things that I saw Verizon do over the years was when you guys so many years ago launched prestandard LTE. And you went several years before the competition and you had a national LTE, and that created the whole map game and you guys were able to take a lot of market share. I think those were the halcyon days for Verizon in the market. And you guys have described how there's an inevitability that you reach a plateau on network deployment. Eventually, everybody kind of gets LTE deployed a lot of places, lesser-filled networks are going to have more capacity and be able to market higher speeds. And I think that there's an angst about how Verizon in this next 1 year, maybe 2 years before the 5G evolution creates an opportunity to create distance how you maintain a measurable amount of distance that can support a 20% price premium in the market within the largest customer base with the highest margins in the U.S. How do you convincingly talk about that? What are your bogeys? What do we expect to see?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

I'll just look at the second quarter. I mean, so we had a price premium that we continue to believe reflects the quality of the network, and we had a 0.70 churn number in the second quarter. Now as we head into the third quarter, seasonally, you typically see a little bit of an uptick around that. But we can -- if that price premium was too high or the product was coming too close together in terms of our offering and other people's, we wouldn't be able to have that price premium and have the gross ad, the net add numbers we saw in the second quarter, the churn number from the base we saw in the second quarter, so I understand the question. We hear it a lot. But when I look at the performance, there's a lot of noise in the marketing about the networks and getting very similar. But I think customers understand there is still a significant difference out there. And I think there is -- there continues to be the opportunity for us to have to price premium and to continue to have the largest and most valuable base of customers in the industry. And we continue to push some of the LTE advanced tools so we can drive more network efficiency, better network performance, and we'll be on the front end as we move into next generation of wireless technologies.

David Barden - *BofA Merrill Lynch, Research Division - MD*

And so within the network itself, under the hood, what is the secret sauce that's going on? Is it the brute force macro cell sites splitting? Is it adding spectrum by market? Is it the densification initiatives that you've been doing in markets like Chicago and New York? Is it the mix? Is there one thing or is there a long pole in the tent? What is the driving force?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

Yes. I mean, we continue to add capacity. You mentioned we have a number of tools that we can use and depending on where we need to add capacity, how we need to add it, we can do it through additional spectrum. Remember, we only have a little over 50% of our current spectrum holding that's deployed in the LTE network today. So we still got AWS-3 spectrum to be deployed as handsets come out with that band in them. And then as we move more customers off of the 3G network, we refarm that spectrum. So spectrum is one of the things we can deploy. Certainly, densification is something we've been doing for a few years now, and believe it's very effective. And then the additional tools in LTE advanced and some of the other technologies out there also provide tremendous opportunities, not just to add capacity, but to improve the efficiency of the network, too. And so we've been doing this for a lot of years, and we will continue to do it. And I think we've demonstrated that we know how to add the capacity and stay ahead of the demand from the customer base and produce a good product that consumers are willing to pay a premium price for.

David Barden - *BofA Merrill Lynch, Research Division - MD*

So just a related topic. So obviously, AT&T won the FirstNet program, and I'm going to ask 2 questions about this. One, on network. So as part of that, AT&T is going to deploy not just the first responders 700 megahertz which they will have access to in ordinary days, but at the same time they'll be deploying the -- all their reserve capacity. They're going to put up all their AWS-3, they're going to put up all their WCS. So in another 24 to 36 months, AT&T will have every conceivable unit of capacity plus more available to it to kind of create the network experience that I think every operator would love to have. If you're using half of your spectrum today and you really haven't deployed a lot of AWS-3, you're kind of waiting, is there a risk that AT&T gets a jump on Verizon? What are you doing to play offense with respect to this massive amount of capacity that AT&T is going to put up in the next 2 years?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

Well, capacity doesn't necessarily mean a better product to the consumer. It's how you use it, and I think that's what we've demonstrated over the years. We do a very good job of deploying the spectrum we have, the how we deploy it, and I think the results speak for themselves there. So we continue to monitor what our customers are doing and we'll do what we need to in response. But very confident that our network performance will continue to be very, very strong. You mentioned FirstNet. Look, we have a significant amount of low-band spectrum and it just wasn't as important for us to get -- to bid on that as it was for others. But let me be very clear, we view the relationships we have with the public safety community incredibly important. They are great customers, and we work very closely with them. The reason they're great customers is we have great coverage, we have great reliability, and obviously, the people that work in that field, coverage and reliability is very important. And so they have been long-standing relationships with us, and we look forward to continuing to have relationships with that community. It's -- what they do is incredibly important, and we're proud to serve them.

David Barden - *BofA Merrill Lynch, Research Division - MD*

Obviously, you've expressed that view that you have a large incumbent position in the public safety market. Can you size it in terms of opportunity or threat for Verizon?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

Yes, we haven't quantified that and...

David Barden - *BofA Merrill Lynch, Research Division - MD*

I wouldn't ask if you had already quantified them now. So that's a no? Okay. So I guess then I wanted to then talk a little bit more about, again, it relates to both the network and the strategic side. Could you talk us through this WOW! transaction that you've announced? It feels to me, at least, my story arc was that Verizon was early to the 5G story, saw that wireline was going to be a big part of it. There was maybe a moment in time where maybe a cable company would've -- and a wireless company getting together might've made sense, but there was a limited in terms of the cost-benefit trade-off and that kind of went away. And now Verizon is kind of trying to fulfill this idea of becoming the best next-generation network, but it kind of has to do it in a more brute force organic way. And this WOW! transaction kind of came out of left field, and I'm wondering how it did and what incremental opportunities could be out there to kind of keep doing that sort of thing?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

Yes. I think if you think about that transaction, it fits in with what we've been talking about for the last 6, 9 months now around the -- our view of how the networks will evolve. And as you kind of mentioned, this integration as you go forward of the wireline networks and the wireless networks, as you get deep fiber and you need deep fiber for densification in 4G and certainly as you think about getting into 5G, that fiber asset is important. And what we've looked at and said is, well, if you're going to have that fiber there, how do you make sure you do it as an asset that can serve multiple uses and not just single use cases, whether that be wireless backhaul or whether it be a consumer offering or whatever. And so it's really an extension of what we started in Boston last year. We said we were going to go in and you're going to build a fiber network that serves multiple needs, whether that's consumer needs, whether that's enterprise buildings, whether it's small business, whether it's wireless backhaul, smart city applications, whatever. And so as we look at the future, we believe there is a need for fiber -- significant fiber build. And this -- you can look out there and say, well, there's a good amount of fiber out there today, but when you talk about managing the network the way I described for multiple use cases, you need significant amounts of strands of fiber in that network. And a lot of the existing networks didn't have that, so we said, okay, you have -- there's different ways you can go about getting from where you are today to ultimately where you're going to want to be at some point in the future. And so we've taken a look at different options. WOW! was a good asset that actually has a lot of the type of fiber that we're looking for. So...

David Barden - *BofA Merrill Lynch, Research Division - MD*

What kind of strand density is the minimum, which is -- what is ideal?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

Well, in terms of the core and -- you can get into some more detail with the engineers. But in terms of the core part of that network in the city, you're not talking about 4 to 6 strands, you're talking about something much more significant, and we've talked about obviously building 1,700 strand fiber cables with Corning, for example. So you're talking about very significant amounts of strands in some of those -- some parts of those networks.

David Barden - *BofA Merrill Lynch, Research Division - MD*

So are you -- so again, this WOW! deal, are you on the hunt for these deals? And if so, have you been in the mix on, say, the deals like Wilcon in L.A. or the Lightower deal that Crown Castle got involved in. Are you in the hunt on these deals? And should we be trying to find companies that might fit this mix and see where they might be a fit?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

No, I think if you look at it, we take a close look at what's already out there. I think we're very familiar with all of the different options that are out there. And most of them don't necessarily come -- we look at and say, they don't necessarily bring the asset mix that you would like. You'd have to go do significant more items on them. Now there's trade-offs. It may still make sense to do that and then you go upscale what's there or you might look at it and say, I'm actually better off not doing that and going and doing some different path. So look, as we add fiber, and I think we've been pretty consistent in this, we can buy existing fiber, we can build fiber or we can lease existing fiber. And I think it's going to be geography by geography will determine what the best and most cost-effective approach will be to add the capacity that we can then generate revenue and returns off of.

David Barden - *BofA Merrill Lynch, Research Division - MD*

So kind of building off of that plan to have these fiber deployments. The beginning of the year, you guys are talking about the 11 fixed wireless broadband trials that you're going to have deployed and you were talking about maybe talking in the second half about kind of results, metrics, expectations, timetables. I think the plan was to have a commercial launch available in 2018. Now that we've officially ticked into the second half, I have to ask, how did it go?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

Well, the trials are still ongoing, so we're up and running in 8 of those 11 markets. We've got customers on those trials experiencing that product and that technology, and we're getting the results in from that. We picked those 11 markets to have different topographies, density, population densities and different factors because if we're using the millimeter wave spectrum, it's a very different spectrum than what we've worked with previously. And the results we're seeing so far, I think, are very interesting to us. We're still working through some things in those trials, so we'll have more to share later in the quarter -- or later in the year, sorry. But we do still expect to have commercial-scale launch during the course of 2018.

David Barden - *BofA Merrill Lynch, Research Division - MD*

Can you share anything about the trials in general, like the chief challenges, for instance? Is it propagation? Is it building type in terms of brick or wood? Or is it those types of things that you're kind of ironing out?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

That's exactly it, and that's why you're trialing in different locations and so on. It's propagation. It's line of sight versus not line-of-sight different materials. And as you think about being in cities, what the MDU opportunity is. And so we're getting the results from those things. And we'll -- as we say, we'll have more to share later in the year.

David Barden - *BofA Merrill Lynch, Research Division - MD*

So just kind of wrapping up on that topic. So as you kind of, I think, have articulated a view that from a content perspective, you've kind of got that as a separate business, and from a wireless perspective, you don't really need it. So if we rule that out and if we kind of say we're moving along this path of more of an organic, more brute force kind of fiber deployment in pursuit of 5G kind of architectures and goals, it feels like in a world where people are expecting the megadeal, Verizon might be more now on the sidelines. As you kind of see the strategic landscape unfolding, are there deals that you root for? Are there deals that you are concerned about? Are there deals that could happen that could draw you in and maybe kind of pull you off the sidelines to get involved?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

No. Look, I'll say if other people are going to do the things we observe, but we're confident in the strategy we have and the way we go forward. And I don't think any of the things that have occurred so far in terms of different deals over the past 2 to 3 years have shaken our view in the -- that our strategy is the right thing to do. And Lowell and I have been fairly consistent that there's different things that we get invited to look at. But if it doesn't allow us to execute our strategy in a way that produces a return, then we don't go do them. So we're very confident executing the core strategy, and we watch with as much interest as you do at all the different things that may go on, but we'll play our own game.

David Barden - *BofA Merrill Lynch, Research Division - MD*

So let me ask -- so I'll just ask, you can -- lightning round. What's better, Sprint, T-Mobile separate; Sprint, T-Mobile together?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

There's a lot of speculation on that. I feel very confident that we'll be very competitive however that turns out.

David Barden - *BofA Merrill Lynch, Research Division - MD*

What's better, Sprint, T-Mobile together or Sprint, cable company together?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

I think my last answer applies there as well.

David Barden - *BofA Merrill Lynch, Research Division - MD*

Okay. I tried, guys. I really did. All right. So maybe shifting gears a little bit to the wireline side. So Comcast made some news yesterday kind of suggesting that third quarter, the video subscribers were probably going to be a little weaker, not dramatically, but just weaker than I think people expected. And I think -- and they attributed that, I think, to a fairly aggressive promotion that AT&T has been running, although I haven't heard of that promotion. But the -- at the same time, AT&T I think articulated a view that, irrespective of whatever was going on in the market, they felt like they were going to perform in line with the market. And it's always really hard in the moment to know whether what you're feeling is a competitive force or a secular force. But then when you look in the rearview mirror, you add it all up and then you can tell what the answer was.

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

Right.

David Barden - *BofA Merrill Lynch, Research Division - MD*

And for the last 2 quarters, what's been happening is that the secular forces in the linear video business have been getting harder and we're wondering if that's accelerating in the third quarter. And so if AT&T is doing no better than it's been doing and cables -- Comcast is doing a little worse, how is Verizon doing in the video business? Is it -- seasonally, it should be a little better than it would've been, I think, in the second quarter. But I don't know, can you kind of comment on whether it's -- what's going on in the secular versus competitive market for video?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

Yes. Look, obviously, there is this trend going on and you've seen it in our numbers and other people's numbers over the past few quarters that the trends on the broadband offering and the trends on the TV offering have started to diverge some. And we certainly believe those trends will continue. Look, I would say that we would see our -- where we are right now in the third quarter, we'll say sequentially, we'll be in a similar type of ballpark as we were in the second quarter. So it's a competitive market and -- but we think our offer competes very well. The other thing that's important, as people choose to get more of their content over-the-top rather than the linear TV bundle, the quality of that broadband connection becomes more important. And the -- obviously, the fiber to the home that we have with Fios therefore becomes a, we think, a point of competitive advantage against other options people have in the footprint where we have Fios. So that continues to be -- the other thing that's interesting with this pay-TV piece, while there's certainly been pressure on the linear TV numbers, the total amount of content that consumers are watching isn't declining. So you're in this shift of how they consume their content. And so there is some disruption in that pay-TV bundle, but we've not seen a change in the general trajectory of that trend in the last 90 days or so.

David Barden - *BofA Merrill Lynch, Research Division - MD*

Is there any part of Verizon that wants to try to add to the monetization stack of content? As you say, you're getting the broadband piece for what people are consuming. Guys like AT&T are trying to -- and even other companies like CenturyLink are trying to get in the OTT game and try to participate in another part of the consumer content consumption game. Is there any part of Verizon, either Oath or the Wireless business or the wireline business that's looking at other ways to monetize consumption?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

Well, we still got significant integration going on. I think you've seen us say we do think those businesses are valuable. It allows us to monetize above just the network layer some of the usage that's taking place on the network, so that's why we've done some of the things we've done over the past couple of years. There's a couple of acquisitions in telematics last year and some other things we've done more broadly in the IoT space. And then certainly adding Yahoo! to the Oath platform as well means that we absolutely see opportunities to monetize. And so those teams are heavily in the integration activity right now to make sure we execute on those plans.

David Barden - *BofA Merrill Lynch, Research Division - MD*

So I think you've relatively -- you've gotten relatively louder with the gigabit speed tier on Fios and you're saying, though, that you're seeing kind of the similar trends in the broadband as we saw last quarters. Why is that gigabit product not causing an improvement?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

Well, I think as we think about the way we grow our base, we're going to do it in a disciplined fashion. And so we're happy with the trends that we're seeing, and there certainly continues to be strong demand for that broadband product. But we're going to go after growth in a disciplined fashion at the same time.

David Barden - *BofA Merrill Lynch, Research Division - MD*

Okay. And then shifting maybe to enterprise, obviously, the focus of my little talk there earlier. But the enterprise business, I think, for a long time was this GDP growth business and kind of subsequent to the financial crash, it seems like it went from a place of investment and optimism about the returns on business investment in IT to it's now just a cost center and let's just try to keep it as cheap as possible, and so it's kind of constantly getting ground down. So what is the -- as you sit here, what's the outlook for enterprise and why?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

Yes, I think you're going to see in the near term the similar trends that we've seen recently. There'll continue to be price compression. But as you talked about in your talk, there's new products coming out there and so we're at the front end of that with our customers. I think we're doing -- we actually had some good wins with our larger customers and so we think we compete effectively there. But I wouldn't expect a significant change in the overall revenue trajectory of that business anytime soon.

David Barden - *BofA Merrill Lynch, Research Division - MD*

Do you -- based on what I was saying about SD-WAN and kind of it being a big topic and having -- taking a lot of oxygen out of the room but not having a real substantive effect on the business, do you -- did we say anything or is there something you disagree with in particular about where we stand on that development?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

I didn't capture all of the comments, so I can't say if there was -- all of them we agree with or not. But look, it's an important evolution of the communication stack that we provide to our enterprise customers. And just like anytime there's an evolution in the technology of the offering, your customer base is understanding how quickly they want to move to it and the benefits it brings, et cetera, et cetera. So our team has done a very nice job of bringing those products to our customer base, and I think we'll be -- it'll continue to be an important part of the offering going forward.

David Barden - *BofA Merrill Lynch, Research Division - MD*

And from the part of the strategy that is centered on the new businesses, there hasn't been a lot of breaking out of the revenue and the cost structure and kind of some of the drivers of that business. Could you -- right now with Yahoo! kind of and IoT and all the things, I guess, maybe underneath the Marni umbrella, could you kind of give us a scoping? Like, what percentage of Verizon's revenue now is all those businesses today?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

Yes. Well, I don't think we've given the exact percentage, but certainly when you bring -- Tim's talked about the fact that when you look at the combined revenue of the former AOL business and the Yahoo! assets that we acquired on a pro forma basis, around $7 billion, and he's talked about the challenge of growing that to $10 billion-plus in the 2020 time frame. And then we've talked about the telematics business being on track to be approximately $1 billion revenue business on an annual basis here as we go through '17 into '18; and then there's other IoT businesses around there, too. So they certainly are starting to move the needle some, and we expect them to contribute in a meaningful fashion as we go forward.

David Barden - *BofA Merrill Lynch, Research Division - MD*

Are they, as a group, profitable businesses? As they grow revenue, do they contribute to EBITDA and earnings growth?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

It would certainly be my expectation, David, that they would produce a return.

David Barden - *BofA Merrill Lynch, Research Division - MD*

I hope soon?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

It depends what your time frame is. But look, no, we -- look, they will have -- we have business cases for each of them. As we go into investments like those, we create -- we know what the return expectation is. Some of them have different time lines than others, and we'll keep a very close track on how they're doing with those. And obviously, as they get bigger, you should expect to see a little more information around them.

David Barden - *BofA Merrill Lynch, Research Division - MD*

And so as kind of we move into the last part of the conversation, just kind of thinking about free cash flow and the moving parts there. So round numbers, we're expecting Verizon to generate, call it, $14 billion of free cash flow, I guess with the new dividend, the dividend's running probably $10.5 billion or so. That dividend, as it continues to creep up each year, it's going to potentially tax the operating and free cash flow number. Presumably, the capex is not going to go anywhere. So can you talk about some of the targets and goals on free cash flow and the big moving parts to that? Because like I said, enterprise trends aren't going anywhere and consumer trends aren't going anywhere and wireless is kind of flattish, where is free cash flow going?

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

Yes, so I think your dividend number is slightly higher, the $10.5 billion. Assuming we keep increasing, it will get there and look forward to that day. But look, when you look at the business, as you go through the cash flow coming from each segment. You're right about the kind of the enterprise piece and so on, you're not going to see massive growth coming from there. But wireless, you've had the service revenue decline as we've transitioned the business model from subsidy to device payment and we're essentially through with that. And so as I say, we should get back to service revenue being positive on a year-over-year basis during the course of 2018. That will certainly be significant. As you think about wireless, the other thing to remember, too, is although we do the securitization with the handset receivable, we don't securitize 100% of the balance. And so as you've been moving the base over, there's been a buildup of that receivable, the nonsecuritized piece on the balance sheet. Well, by the end of this year, we're essentially through that transition. So that plateaus. So that working capital headwind that we've had over the last 2, 3 years in the cash flow statement should reach a steady-state as we get into '18 and beyond. So in addition to the revenue trajectory being better, you also have working capital trajectory improve, too. And then the other businesses will grow and become cash flow positive and get there. So look, our confidence in being able to continue to grow the dividend each year is based off the confidence that we will continue to grow cash flow from the business each year so that we can continue to invest in the networks. One of the things we've done is we consistently do that, and you see the results. It's not a (inaudible) type program. It's much more predictable, and you see the results of that. We continue to do that. We understand that dividend's important to shareholders. We continue to fund that and we continue to strengthen the balance sheet. And there's nothing, as I look into the future, that makes me think that that's not going to continue to be something that we deliver on.

David Barden - *BofA Merrill Lynch, Research Division - MD*

Sounds like a great place to end it. Thank you so much, Matt. Appreciate it. Cheers.

Matt Ellis - *Verizon Communications Inc. - EVP and CFO*

David, thank you.

David Barden - *BofA Merrill Lynch, Research Division - MD*

That was wonderful.
