THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

VZ - Q3 2015 Verizon Communications Inc Earnings Call

EVENT DATE/TIME: OCTOBER 20, 2015 / 12:30PM GMT

OVERVIEW:

VZ reported 3Q15 total operating revenues of $33.2b, GAAP EPS of $0.99 and adjusted EPS of $1.04. Expects full-year 2015 revenue growth to be at least 3%.

CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

Simon Flannery *Morgan Stanley - Analyst*

David Barden *Bank of America Merrill Lynch - Analyst*

Phil Cusick *JPMorganChase - Analyst*

John Hodulik *UBS - Analyst*

Mike McCormack *Jefferies & Co. - Analyst*

Michael Rollins *Citi Investment Research - Analyst*

Amir Rozwadowski *Barclays Capital - Analyst*

Brett Feldman *Goldman Sachs - Analyst*

Craig Moffett *MoffettNathanson - Analyst*

Jonathan Atkin *RBC Capital Markets - Analyst*

PRESENTATION

Operator

Good morning and welcome to the Verizon third-quarter 2015 earnings 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.

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

Thanks, Brad. Good morning and welcome to our third-quarter 2015 earnings conference call. This is Mike Stefanski. I'm here with our Chief Financial Officer, Fran Shammo. Thank you for joining us this morning.

As a reminder, our earnings release, financial and operating information, the investor quarterly, and the presentation slides are available on the Investor Relations website. A replay and a transcript of this call will also be made available on our website.

Before we get started, I would 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.

This presentation contains certain non-GAAP financial measures. Reconciliation of these non-GAAP measures to the most directly comparable GAAP measures are included in the financial materials we have posted on the website. The quarterly growth rates disclosed in our presentation slides and during our formal remarks are on a year-over-year basis unless otherwise noted as sequential.

Before Fran goes through our results, I would like to highlight a few items. For the third quarter of 2015, we reported earnings of $0.99 per share on a GAAP basis. These reported results include a non-cash pretax charge of $342 million or $0.05 per share for a pension remeasurement adjustment due to a settlement accounting threshold that was met in the third quarter. Excluding the effect of this non-operational item, adjusted earnings per share was $1.04 for the third quarter compared with $0.89 a year ago or growth of 16.9%. There were no special items of a non-operational nature in the third quarter of 2014.

Through the first nine months, adjusted earnings totaled $3.10 per share compared with $2.65 per share last year. However, as we have consistently pointed out, last year's adjusted EPS would have been higher on a non-GAAP illustrative basis if we assumed 100% Wireless ownership for the entire first quarter. On this more comparable basis, the adjusted EPS growth rate was about 14% for the first nine months of 2015.

As a reminder, our Wireline results include the operations in the three states that we agreed to sell to Frontier. These operations will be included until the transaction closes, which we expect at the end of the first quarter of 2016.

Also, as previously noted, we are no longer recording depreciation expense on these assets as they are classified as held for sale. We continue to estimate that the full-year 2015 earnings benefit of lower depreciation expense will be about $0.13 per share.

In terms of the AOL acquisition, which closed in late June, our third-quarter consolidated results include the operations of AOL, which are reported as part of corporate and other. We have not restated prior history, so periods prior to the third quarter of 2015 will not include AOL results. With that, I will now turn the call over to Fran.

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

Thanks, Mike. Good morning, everyone. Our third-quarter and year-to-date results demonstrate that we continue to execute on the fundamentals of our business and deliver strong financial performance while actively positioning the business for future growth and profitability. We are very committed to building the business for the future and we are doing so through investments in our existing networks, as well as the platforms that will position us to capture incremental profitable growth in new areas like mobile video and the Internet of Things.

We continue to execute a disciplined capital allocation model. In addition to our consistent investment strategy, we are also committed to returning value to shareholders and maintaining a strong balance sheet. We have had a very active year with capital investments and spectrum purchases, which position us for the future growth, the strategic acquisition of AOL, and the return of more than $11 billion in value to shareholders in the form of dividends and share repurchases while remaining on track with our previously stated deleveraging plan.

In early September, our Board of Directors approved a 2.7% dividend increase, which raises our annualized dividend to $2.26 per share. This was the ninth consecutive year that our Board has approved the dividend increase, affirming their confidence in the strength of our future cash flows.

On the operational front, our focus is to provide customers with consistent network reliability and a great customer experience and we are competing very effectively in all parts of the business. We once again delivered strong earnings growth and free cash flows. In Wireless, we posted another quarter of quality connections growth and profitability with sequential improvements in postpaid growth and net adds, as well as net phone additions. Postpaid net adds totaled 1.3 million, which does not include any wholesale or Internet of Things connections. Net phone additions were 430,000.

Customer retention was also a highlight with postpaid churn of 0.93%, down 7 basis points from last year. Total Wireless revenue grew 5.4% and our EBITDA margin expanded. Our Wireline quarterly results were highlighted by fios revenue and customer growth with sequential increases in both Internet and video subscribers. Our segment EBITDA margin of 23.5% was up 50 basis points.

Now let's get into our third-quarter performance in more detail starting with our consolidated results on slide 4. Total operating revenue was $33.2 billion, an increase of 5%, which, as Mike indicated, includes revenues from AOL. Excluding AOL, which was not part of Verizon a year ago, our top-line growth was 3.1%. Our consolidated revenues have been consistently driven by customer and usage growth in both Wireless and fios.

Our overall revenue mix continues to change, driven by the unsubsidized equipment model, increasing video demand in Wireless, and a higher mix of broadband in fios. As these trends evolve over the near term, we expect future revenue growth to result from increased video and Internet of Things traffic, enabling new business models in Wireless and continued broadband demand in Wireline.

In terms of our mobile video strategy, earlier this month, we were the first to market with the commercial launch of go90, a differentiated, mobile-first, social entertainment platform. Go90 includes a broad selection of premium content and social engagement features and the capability for sharing and conversation around the content. The initial feedback has been strong with increasing engagement without significant promotion, and we have received positive industry recognition.

As go90 develops, we will be adding more great content, features, and advertising opportunities. You can expect a flow of product enhancements creating a new ecosystem for digital creators and advertisers, and a video consumption model that we can monetize in multiple ways. AOL is expected to play a key role in the success of our video strategy. The acquisition of AOL significantly improves our digital media and advertising capabilities. These capabilities will be a key component of our video business model, which will be driven by digital mobile advertising in the future. We are taking a strong leadership position in the Internet of Things. With our experience in networks, devices, platforms and applications, we are creating an ecosystem that will foster innovation and expand the entire IoT market.

Here are a few examples of our early initiatives. In August, we announced the commercial availability of hum, an aftermarket vehicle technology and subscription service creating a connected car driving experience that can operate in more than 150 million vehicles in the United States. We are very active in the smart city solutions markets and we have already announced a partnership with the city of Savannah, Georgia. Municipalities like Savannah are looking to take advantage of our intelligent solutions to integrate disparate systems, monitor traffic and safety conditions in real-time to improve efficiency and public safety. These are just a few examples of the many opportunities we are pursuing. We are very well-positioned to capitalize on these new opportunities that require both the ubiquity of mobile service and the capabilities of platforms above the connectivity layer. This will enable us to monetize usage through new commercial models, including data analytics and applications.

New revenue streams from the Internet of Things continue to emerge and grow with revenues of $175 million in the quarter and about $495 million year-to-date. As our revenue mix expands, we're focused on improving the customer experience while reducing our overall cost structure through process improvements and operating efficiencies. The focus on cost structure has enabled us to sustain a strong earnings profile. Consolidated EBITDA totaled $11.9 billion, up 7.5% on an adjusted basis, and our adjusted EBITDA margin expanded by 80 basis points to 35.8%.

Let's turn now to cash flows and the balance sheet on slide 5. Cash flows from operations were $9.5 billion in the third quarter and totaled $28.4 billion year-to-date. The nine-month total included just under $2.4 billion of proceeds related to the tower monetization transaction, which is non-recurring. In the third quarter, we continued to securitize Wireless equipment installment receivables and received about $2 billion in cash proceeds.

Free cash flow for the first nine months, excluding the tower proceeds, totaled $13.5 billion. Capital expenditures were $4.4 billion in the quarter and $12.5 billion year-to-date. We expect capital expenditures for 2015 to be within our stated range of $17.5 billion to $18 billion. Our balance sheet remains strong and enables the financial flexibility to grow the business. We ended the quarter with $112.3 billion of gross debt, net debt of $108.4 billion, and a ratio of net debt to adjusted EBITDA of 2.4 times.

Now let's move into a review of the segments starting with Wireless on slide 6. In the Wireless business, revenue growth, profitability and cash flows are driven by our high-quality retail postpaid customer base. Total Wireless operating revenues grew 5.4% in the quarter to $23 billion. Service revenue of $17.6 billion declined 4.1% while equipment revenue increased to $4.3 billion, up 73%.

Service revenue plus installment billings increased 1.2%. Service revenue growth will continue to be pressured and equipment revenues will grow as the activation rate for device installment plans increase and more of the customer base moves to unsubsidized service pricing. In early August, we simplified our pricing structure centered on the device installment model. The pricing change simplified the customer experience at the point-of-sale and provided a cleaner structure for managing their accounts. Existing customers can still choose to sign a two-year service contract and remain on subsidized pricing when updating to a new device. Additionally, business customers do not generally select device installment plans.

Consistent with our expectations, the percentage of phone activations on installment plans grew at about 58% in the third quarter compared with 49% in the second quarter and 12% in the third quarter of last year. In the fourth quarter, we expect the percentage of phone activations on device installment plans to increase to around 70%. During the quarter, 5.6 million phones were activated on device installment plans. We have about 19 million device payment phone connections in total, representing approximately 22% of our postpaid phone base. Overall, more than 30% of our postpaid phone customers are on unsubsidized service pricing.

In terms of profitability, we generated $9.9 billion of EBITDA in the quarter, an increase of 9.2%. Our EBITDA service margin increased to 56.4%, up from 49.5%. As we have said before, we believe a more relevant measure of profitability is EBITDA as a percentage of total Wireless revenue, which expanded to 43.2%, up 160 basis points. On a year-to-date basis, our EBITDA margin was 43.9%, up 100 basis points from a year ago.

Now let's turn to slide 7 and take a closer look at Wireless connections growth. We ended the quarter with 110.8 million total retail connections. This total does not include any wholesale or Internet of Things connections. Our industry-leading postpaid connections base grew 4.9% to 105 million and our prepaid connections totaled 5.7 million. Postpaid gross additions improved sequentially to 4.2 million. Our disciplined focus on customer retention resulted in improved postpaid churn of 0.93% in the quarter compared with 1% a year ago.

Each quarter this year, we have improved our year-over-year postpaid churn rate between 4 and 7 basis points. We are very focused on improving the customer experience through simplified pricing and better execution in our distribution channels. We are seeing lower customer service call-in rates, which is an indication of improved customer satisfaction. Our retail postpaid net additions of 1.3 million were high quality with the sequential improvement in the number of 4G smartphones and total phone net adds. We added 889,000 new 4G smartphones in the quarter, which were partially offset by a net decline in 3G smartphones resulting in 694,000 net new smartphones. Total postpaid phone net adds totaled 430,000, which included a net decline of basic phones. Tablet net adds totaled 818,000. Net prepaid devices declined by 80,000.

Let's now take a look at 4G device activations and upgrades on slide 8. Total postpaid device activations totaled 11.6 million in the quarter, down about 1.2%. Similar to prior quarters, about 84% of these activations were phones, with tablets accounting for the majority of the other device activations. We ended the quarter with 71.5 million smartphones in total and our smartphone penetration increased to more than 82% of total phones. 4G devices now comprise more than 76% of our retail postpaid connections base.

As you would expect, growth in 4G device adoption continues to drive increased data and video usage. Approximately 89% of our total data traffic is on the LTE network and overall traffic on LTE has increased by about 75% in the past year. About 7% of our retail postpaid base upgraded to a new device in the third quarter. The quality of our overall postpaid phone base continues to improve. Through gross adds and upgrades, our 4G smartphone base has increased by roughly 34% in the past 12 months to 64.6 million. We still have a sizable 4G upgrade opportunity with roughly 15 million basic phones and nearly 7 million 3G smartphones remaining in our postpaid connections base. Tablets are also underpenetrated in our postpaid base at only 10%.

Wireless capital spending totaled $2.9 billion in the quarter and $8.5 billion year-to-date, up 8.4% from a year ago. We continue to invest in our 4G LTE network to provide the industry's best reliability and to position ourselves to capture the efficiencies and capabilities of new technologies. We are focused on improving our network capacity through a number of optimization techniques, effective management of our spectrum inventory, and further densification in urban markets.

Our densification program is progressing well and is achieving the capacity gains that we expected on the spectrum that is in service. For example, in Chicago, we are on our plan for small cell deployments, covering key locations with distributed antenna systems and expanding our in-building coverage. This has helped support approximately 75% data growth on the network while maintaining our number one ranking in network quality according to both internal and external competitive benchmark studies.

National studies continue to consistently rate Verizon as the overall 4G LTE network performance leader. We lead in what matters most to customers -- coverage and consistent reliable performance. Densification is just one aspect of our network evolution strategy. We are working on centralizing network radio control to enhance capacity and provide operational efficiencies while beginning to implement a software-defined network architecture, laying the groundwork for new innovative services and applications.

We are extending our network leadership into 5G with our announcement several weeks ago that we are leading a technology forum with key partners to ensure the aggressive pace of innovation, standard development and appropriate requirements for the next generation of wireless technology.

Let's move next to our Wireline segment, starting with a review of our consumer and mass markets revenue performance on slide 9. In the consumer business, fios continues to be the driver of revenue growth and now represents 79% of consumer revenue. In the third quarter, consumer revenue grew 2.8% and mass markets, which includes small business, grew 1.8%. As we expected, there was a change in the consumer revenue growth trajectory. The primary reason for the decline is driven by lower pay-TV subscriber growth and an increase in customers rightsizing their existing bundles.

While fios broadband continues to grow, we are seeing a decline in the percentage of triple play customers. In addition, we continue to see interest in our Custom TV offering, which offers more choice and control at a lower price point. We expect the continued adoption of Custom TV will pressure revenue growth, but result in a higher contribution margin. In the third quarter, fios consumer revenue grew 7.1%, driven primarily by broadband subscriber growth and increased penetration of Quantum. Our Quantum broadband service continues to scale and, because there are no content costs, has a higher profitability contribution.

At the end of the quarter, roughly 2/3 of our consumer fios Internet customers subscribed to data speeds of 50 megabits per second or higher. We are seeing the highest rate of growth in the 75 megabit speed tier, where one-fourth of our Quantum customers currently subscribe.

As I highlighted earlier, fios subscriber growth improved sequentially in the third quarter. In broadband, we added 114,000 net fios customers and now have a total of 6.9 million fios Internet subscribers, representing 41.7% penetration. Overall, net broadband subscribers increased by 2000 in the quarter. In video, we added 42,000 net customers in the quarter and now have a total of 5.8 million fios video subscribers, which represents 35.6% penetration.

We are working closely with Frontier to finalize the sale of our Wireline properties in Florida, Texas and California, and to obtain the necessary regulatory approvals and ensure a seamless transition. We're making good progress and have secured approvals from the DOJ, FCC and the state of Texas. We expect to close the deal at the end of the first quarter of 2016.

As we prepare to divest of these properties, we are focused on reducing our shared cost structure post-transaction. In addition, we will also take this opportunity to significantly reduce the broader cost structure of the entire Wireline business.

Let's turn to slide 10 and cover enterprise and wholesale, as well as the Wireline segment in total. In the enterprise space, we continue to work through secular and economic challenges. In the third quarter, global enterprise revenue declined 4.9% and on a constant currency basis was down about 3%. In our global wholesale business, revenues declined 5.1% in the third quarter. In both businesses, we continue to see similar trends impacting growth with secular declines in legacy transport revenue and competitive price compression in other services.

Total operating revenues for the entire Wireline segment were down 2.3% in the quarter. The segment EBITDA margin was 23.5%, up 50 basis points and on a year-to-date basis expanded 20 basis points to 23.2%. As we have consistently stated, we are very focused on expanding margins and improving the profitability of the Wireline segment. We are committed to reducing our cost structure while maintaining strong customer satisfaction. We have achieved savings from restructuring our network and service provisioning and are seeing improvements in productivity. We will continue to reengineer our work processes to improve efficiency and reduce costs, with some of the future savings depending on timing and the outcome of our current labor negotiations. Capital spending in Wireline was $1.2 billion in the third quarter and totaled $3.4 billion year-to-date, down 18.6%.

Let's move next to our summary slide. Throughout 2015, we have executed on the fundamentals of the business, growing high-value customers and delivering strong financial and operating results and generating free cash flows. We have also continued to consistently invest in our networks and platforms to position us for the future growth. Our year-to-date consolidated revenue growth was 3.3% after adjusting for the inclusion of AOL this quarter and the sale of the public sector business in 2014. On this same basis, we continue to expect revenue growth of at least 3% for the full-year 2015.

Our adjusted EBITDA was up 6.4%, with margin expansion of 80 basis points to 36.6%. Excluding the tower proceeds, cash flows from operations were up about 13% year-to-date and free cash flow totaled $13.5 billion. We have added 3 million net postpaid wireless subscribers, including total phone net adds of 613,000. Our new customer growth is high quality with 2.4 million new 4G smartphone customers and 2.5 million new 4G tablets.

We have also improved the quality of our postpaid base through upgrades and effective customer retention and have approximately 10 million more 4G smartphone customers than we did at the beginning of this year.

In fios broadband, we have added 319,000 new subscribers and 158,000 in fios video. We are very focused on developing new products and services in mobile video and the Internet of Things to monetize usage on our networks and expand our revenue mix. In time, these incremental revenues will become more meaningful to our overall top-line growth. The launch of new products like go90 and hum are examples of where we can monetize usage of the network and platform layers, providing more diversity to future revenue streams. With that, I will turn the call back to Mike so we can get to your questions.

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

Thank you, Fran. Brad, we're now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Simon Flannery, Morgan Stanley.

Simon Flannery - *Morgan Stanley - Analyst*

Good morning, Fran. I think Lowell had talked recently about earnings plateauing in 2016. Could you just give us a little bit more color about the puts and takes with the Frontier divestiture during the quarter, during the end of the first quarter, and all the cost-cutting? Then any updates on the 600 MHz auction given that the application rules came out last week? Thank you.

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

Sure. Good morning, Simon. So on the comment about the plateau of earnings, I guess -- first off, let's start with the simple piece, which is some of it is just pure math. So when you look at this Wireless model and converting from a subsidized phone model to an installment plan model, as we've been pretty transparent with all of you, there was a GAAP accounting that falsely increased the earnings of any company who adopted this model. We have tried to be as transparent as possible giving you the baseline in the beginning, but that became more complicated.

What we have said going forward is, look, the better measurement here is not service margin EBITDA but regular EBITDA percent on total revenue because that kind of normalizes out the fact that we are now recording 100% of the revenue upfront for the sale of the equipment rather than a subsidy and then recouping that through service pricing over a period of time.

So when you take that into consideration, as you plan out the curve on the installment sale and penetration of the base, and I said in my prepared comments our base has trended -- 30% of our base is already on this new pricing. So as you go into 2016 and you get into that 50%, it starts to normalize out the earnings impact that was accelerated through the year 2015.

So I guess what I would say is if you took out the impact of that in 2015 and you look at 2014 to 2015 earnings growth, you'd probably get a more normal growth trend than what we are delivering in double-digit growth now and then if you put that normalization into 2016, we actually would have grown earnings, but because of the math exercise here, you are getting a flatness in that GAAP accounting. So that's part of it.

The next piece of it is, as we have said also, with the divestiture of the Frontier properties in the South, these are classified as properties for discontinued operations and for the year, we're anticipating that is going to be a $0.13 to $0.14 EPS lift because we can discontinue the depreciation of those properties. So again, that has to get normalized out as we go into 2016. So if you looked at it today, we are reporting $3.10 to date. We have about $0.11 of benefit, so it would be around a $2.99 versus $2.65 of last year.

The next thing is, if you look at the divestiture of those properties, as we have said, these are higher margin properties and since we are more of a centralized cost base company, we have a lot of allocations into those three properties. So as I said before when we announced the sale, we have this what we call stranded cost that we need to work out of the business since the time that we announced this.

Look, I think we have proven a great track record here in Wireline that we know how to do this. If you look at year-over-year, we are down over 8,000 resources because of all the system enhancements and process improvements that we have made through processes and frontline execution on more online billing and so forth. So we know how to do this and we've got about five more months to go, but we also have to consider the fact that we are in the middle of a labor negotiation and some of those benefits won't be realized until we come to an agreement with the labor.

So this is more of a timing issue on this one. We will realize those benefits. As you know, the last time we entered into a labor negotiation, we said that we would incur about $500 million worth of savings over the three years and you can see that coming through the EBITDA of Wireline. So I think that's important.

And then, of course, the last piece of this is, as you can see in our results this quarter, you are seeing more of a ramp in corporate for the startup businesses. So as any startup business goes, you incur losses upfront because you are investing in the product development, you are investing in the marketing and promotion of that new business and that's going to be a drag on earnings through 2016 because the revenue will not catch up with the cost. So when you take all that into consideration, that is where Lowell was mentioning and forecasting more of a flat, if you will, or plateau for 2016.

Simon Flannery - *Morgan Stanley - Analyst*

And that's a GAAP (multiple speakers)?

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

Simon, on the update of the 600 megahertz, look, as you know, the applications to participate as buyers, the FCC did some forward part of the auction, are expected to be due in January and the whole purpose of this was to give the broadcasters a sense of what the bid would be that they would receive. Now the broadcasters have that chance to look at that and decide whether they are going to participate or not.

I think one important thing here though too is that, after we saw the abuse in the AWS-3 auction by Dish, I think the FCC should learn from this and not give preferences to large corporations, award credits or set-asides, and the government shouldn't be in the business of picking winners and losers. Let the consumer do that. So we will have to see how the rules play out here, but, at this point, we do plan to participate, but we will see how the rules play out and we will go from there.

Simon Flannery - *Morgan Stanley - Analyst*

Thank you.

Operator

David Barden, Bank of America.

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

Good morning, thanks. Maybe two questions if I could. Just, first, on the, Fran, disclosure about the 22% of devices being on EIP plans, but 30% of customers being on EIP pricing, could you talk about the difference there? Is that BYOD? Is that a forward pricing strategy that you are starting to implement? It would be helpful to understand that.

And then just second on the -- as we kind of unfold the go90 strategy and think about content acquisition, now that AT&T and DTV are together, is there any thought about revisiting Verizon's historical kind of conversations with the cable industry about maybe joining forces to try to work together on content and distribution and allocation of resources? Thanks.

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

Thanks, David. Good morning. Okay, so on the difference between the 22% on Edge and the 30% on pricing, obviously, if customers have fulfilled their contract over the two-year period of time under the old subsidized model, those customers are free and always have been free to select whatever price plan they want. And we are allowing them to move to the new pricing because they fulfilled their contractual obligation under the old pricing. So in essence, they are bringing their previous device into the new pricing. So that's part of it.

The other thing is is there is a little bit of forward pricing here with current customers and as we've talked before on calls, we have a pretty diligent exercise where we go through our customer base and we attack the high-value customers who we think have a higher propensity to churn from us. So there is some proactiveness there and I think you are seeing that come through on the reduction of churn through this year of 4 to 7 basis points. I would anticipate that going into the fourth quarter, you should consider us to be within that improvement on a year-over-year basis. Now given the fourth quarter is always generally a higher churn quarter, as it was last year, but we do believe that we will see a consistent improvement as we have seen through the beginning of this year.

As far as go90, look, go90 is a very, very different product set. It is a mobile-first, social entertainment platform. Let me just talk a little bit about where we are here, but this really is just a totally different perspective than linear TV and content deals. We know how to do that and we have been doing that for 10 years with fios. But this is a very, very different platform. Keep in mind we are 20 days into this. We actually haven't done any advertising or promotion activity around this product. So for early stages, we're seeing very good platform stability. We are seeing very encouraging feedback and of course, we are looking at some very specific metrics here of what's the viewership? How many times do people revisit the site? What do the new shows capture?

If you haven't downloaded, I would encourage you to because we now have over 10,000 assets in the product. We have two exclusive episodes. One is called Top Five Live and the other is called Betch and these are really starting to take form with the millennials. We're starting to see a number of encouraging revisits to the platform on a daily basis to see what Top Five Live and Betch are doing and we have 48 more exclusive content deals coming that will be on this product before the end of the quarter.

So go90 right now, we are seeing very, very good upstage, but again we really haven't started to advertise the platform. We do have entertainers tweeting the platform who are part of the platform like Kanye West on his live show. So there's a lot happening in this platform. So we're really pleased with the initial stages, but this is very, very different than the legacy linear TV model. So I will stop there, David. Thanks for the question.

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

Thanks, Fran.

Operator

Phil Cusick, JPMorgan.

Phil Cusick - *JPMorganChase - Analyst*

Thanks. Fran, can you talk about the Custom TV effort what you are seeing overall in the video landscape? It seems like the 42,000 this quarter was a little bit weaker than we would've thought given seasonality. I wonder if you're still having any advertising issues or if this is just the way we should look at it going forward. Thanks.

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

So look, the TV environment this past quarter was extremely competitive and continues to be. Custom TV though actually within the portfolio is performing similar to what it did last quarter with the number of people choosing the product and the number of migrations that we have within the product. Of course, as we have said, this is going to put a little bit of top-line pressure on fios growth and the reason for that is -- the way you have to think about this is the new bundle is about $20 less than the average normal fios bundle. But the offset to that is we are also getting an incremental benefit in the content costs. So we're seeing an incremental margin gain by people selecting the Custom TV package.

I think what's more important, though, is that consumers are speaking to the total linear environment that says they only want to pay for what they want to watch and they don't want to pay for 300 channels when they watch only about 10% of those channels. So I think that's more important as to where the ecosystem is going. We will continue to support Custom TV. As we said, we know we have some disputes that we are working through, but Custom TV right now is doing what we thought it would do.

As far as the growth perspective, I think if you look at last quarter with the 625,000 negative adds, we continue to be positive, so we are gaining share, but, look, the environment is millennials just don't want linear TV content. They're disconnecting their cable for just Internet content and mobile content. And that goes to why we're launching go90 with a mobile-first perspective and that is attacking that entire segment that a fios brand does not attack today through a linear TV product.

Phil Cusick - *JPMorganChase - Analyst*

Thanks. When you reported the second quarter, you talked about Custom TV. Most people were taking only the basic sort of 55. Have you seen that evolve upward a little bit as we have seen football season and other things start in the fall?

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

You know, Phil, no, we haven't. The basic package is the basic and then you get two packages included. Now, of course, you have a selection of those packages among seven. Some people are selecting the sports. Others are selecting the Hallmark station and those things. But generally sports fanatics generally take a premium package. So Custom TV more is for those folks who really aren't interested in sports and are taking less of the sports channels. But it's more or less the same trend; not seeing any difference there.

Phil Cusick - *JPMorganChase - Analyst*

Got it. Thanks, Fran.

Operator

John Hodulik, UBS.

John Hodulik - *UBS - Analyst*

Thanks. Back to Wireless, Fran, if we could. You had a handset upgrade rate of about 7%, which is down slightly on a year-over-year basis, but there's a much bigger comp coming up in the fourth quarter of 2014 where you did almost 10%. Do you expect a bigger, sort of year-to-year decline in the fourth quarter here? If so, what kind of impact could that have on the margins? If you could give us a sense for how you expect, given the trends you are seeing with installment plans, 2016 over 2015 would be great. Thanks.

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

Thanks, John. So on the handset piece for upgrades, what I would say is we are anticipating a little less volume than last year because of the total iconic launch of the iPhone 6 and 6 Plus. But this quarter, we are still anticipating a fairly heavy volume quarter as every fourth quarter is, but I would anticipate a little less than what we saw last year. So I would think that upgrades would be a little less than what we ran last year.

As far as what we see from a take rate on installments going into 2016, look, at this point, we are guiding to 70% in the fourth quarter. We are now 100% at the point-of-sale with Edge only. Of course, we have an exemption for current customers who are on the subsidy model who can opt to take a new subsidized handset. So we will have to see how that works going into 2016 and that may keep us around that 70% to 75% take rate. But it's too early to tell, so I don't really want to give guidance yet on what the take rate will be. Let's see how we come out the fourth quarter. I will readjust that in the first quarter.

John Hodulik - *UBS - Analyst*

Thanks, Fran.

Operator

Mike McCormack, Jefferies.

Mike McCormack - *Jefferies & Co. - Analyst*

Thanks. Fran, just thinking about the uptake of factoring -- I'm sorry -- of EIP and looking into next year, you've got two competitors getting very aggressive on leasing. Just a sense for your thoughts on leasing as a structure. Then, secondly, the prepaid declines, is that just sort of a defocusing on that segment or are you actually seeing some wins on the postpaid side from the prepaid base? Thanks.

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

Thanks, Mike. So on EIP, look, we've gone to the full Edge product. As I've said before, I'm not interested in a rental program. We are not seeing any impact from those programs from the competitors in our base and I think our results speak to that this quarter. I think they will speak to that in the fourth quarter as well.

I think what you will see is, if you speak to the rating agencies, they are becoming very concerned with the balance sheet risk of some of the industry on putting up rental phones on the balance sheet with what the residual value will be with those rental phones. So again, as I've said before, that is not something that we are entertaining at this point. Again, I never say never, but that is not something that I would have an appetite for.

On the prepaid decline, I think, look, generally, if you look at how postpaid and the price points of postpaid and I've talked about this before, postpaid pricing is more or less mirroring what prepaid pricing was in the past and we are seeing some migration of our prepaid product customers to postpaid, but it's more probably limited than some others because of our intense credit models. You have to pass the credit in order to become postpaid. But there is a segment of prepaid customers that are good credit customers that now that the price point is closer to affordability for them on postpaid, they are moving into the postpaid product.

I don't really look into the prepaid product decline as a problem set for us at this point. We generally really compete with prepaid in our reseller model with companies like TracFone and Straight Talk and Straight Wireless and that's where we really drive home the lower-end product without our brand connected to it. Although we don't disclose much in reseller anymore, that segment continues to perform well for us.

Mike McCormack - *Jefferies & Co. - Analyst*

I guess on the residual risk, is that just you think secondary market can become softer or new devices being launched or is it just an overall view on risk on the balance sheet?

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

Look, if you look at some of the programs, you have balloon payments that are due in 18 months. 18 months from now, the market is changing. There's a lot of Apple product hitting the Chinese market now where China was one of the larger areas where we sold off used handsets. So as these markets get heavily penetrated with newer product, that could impact the residual value of these phones going forward. So it's just a risk that is going to have to be handled by the industry under that program. And at this point, that's not something we want to deal with.

Mike McCormack - *Jefferies & Co. - Analyst*

Great. Thanks, Fran.

Operator

Michael Rollins, Citi Investment Research.

Michael Rollins - *Citi Investment Research - Analyst*

Good morning. Thanks for taking the questions. Just two, if I could. First, Fran, could you talk a little bit more about what the mobile data usage looks like? You talked about the mix of data that's on 4G LTE, but kind of curious how much does a customer use? How much is the data growing year-over-year? Metrics that could help on that basis. And then, secondly, you described that the service revenue plus installment billing was 1.2% up year-over-year. As you are making the transition to these new rate plans, the unbundled installment plans, what is the risk that that goes lower before it goes higher? Thanks.

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

Thanks, Michael. Okay, so on mobile data, what we're seeing right now is a trend across our entire network of 75% growth year-over-year. Obviously, some of the metropolitan areas like a New York and Chicago are higher than that. Chicago, we said, is up 75%, but New York, San Francisco, some others are higher than that in growth rates. So it depends where you are at and then we have markets obviously lower than that because of more rural areas. So that's generally what we are seeing in the network right now.

On the installment sale billings of 1.2%, yes, I do believe that will go lower as we make this transition into 50% of our base for installment sale. So the trend of service revenue and the installment billings plus the service is going to continue to decline until we get into that middle part, latter part of 2016, where the curve will reverse, and then you'll start to that flatten out and start trending back up just like the math would dictate.

Michael Rollins - *Citi Investment Research - Analyst*

Could that go negative? Could there actually be a rate of decline during this transition?

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

No, I think what you're seeing now, if you look at the previous quarters, it's pretty well trending about the same. I don't think it's going to accelerate.

Michael Rollins - *Citi Investment Research - Analyst*

Thank you.

Operator

Amir Rozwadowski, Barclays.

Amir Rozwadowski - *Barclays Capital - Analyst*

Thank you very much and good morning, Fran and Mike. I was wondering if we might be able to discuss a bit more about your mid-term thoughts on the competitive landscape. For some time, of course, we've seen the impact of increased competition in the market with respect to how devices are sold, pricing of services, etc. And at least from our end, the most draconian fears have yet to be realized. As we head into 2016, both of the comparatively smaller carriers seem to be positioning themselves to be levering up here, albeit one of them synthetically through the lease company. With that in mind, are we potentially entering a period in which the focus may increasingly shift towards increased returns versus one that is overly emphasizing competition? If so, how do you believe you can fare in that type of environment?

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

I guess, first of all, let's set the stage that the wireless industry has always been very competitive and even through all this competitiveness, the industry themselves continues to grow. Even though everyone thinks that the industry is slowing, we continue to have net adds overall. Tablet has become a bigger piece. Data continues to grow. So the industry overall, although very competitive, continues to grow despite all that.

Our focus has always been competing on network quality, reliability and simplicity. That is how we have been winning for the past 18 years and that's our focus going forward. You can see that with our new brand campaign, Better Matters, because what we believe with our brand and our campaign is we're trying to send the message that although some say video and data are not as important and people are willing to get disrupted, I think if you talked to millennials, the thing that frustrates them the most is the spinning wheel when they want to watch a video or download something.

So our focus on our brand is better does matter. We have the best network. We are the most reliable and we have become a more simple company to deal with with our simplicity of pricing. So that's where we look to compete. I think the fourth quarter will be a competitive quarter, as it always is every year. I think you're going to see promotions in the marketplace and this industry is going to compete as we always have. But I think our differentiation is how we differentiated ourselves through this whole entire process of installment sale and now rental. As I said before, the rental programs don't seem to be having any impact or appeasing to our customers.

So I would say that we will continue to do the same. As far as how the industry changes, I think what you are seeing from us is we are going in a different direction with our go90 launch. We're appealing to a millennial population with our network and our products. And I do think that, as we've said before, you can only price down so much and then you need to generate cash. I think, as you said, some have to start generating cash in order to invest in their networks to support the growth of the data or else things are going to start to fall apart and I think you are starting to see some of that in some of the national RootMetrics drive tests on where some of the networks are starting to feel pressure and starting fall down in the rankings.

We continue to invest heavily in our networks, as I said before. You should continue to see us as a flat overall capital company, but Wireless continues to trend up. That is important for the product set we are launching. So I do think there will be more focus on returns and profitability and that is good for the industry.

Amir Rozwadowski - *Barclays Capital - Analyst*

Thank you very much for that helpful color.

Operator

Brett Feldman, Goldman Sachs.

Brett Feldman - *Goldman Sachs - Analyst*

Thanks. I'd like to go back to a question I think David asked earlier about sort of your relationship with the cable industry. One of the things that has come up is the MVNO agreement that you guys signed several years ago. And because it was signed several years ago, it is perceived to be maybe a little outdated. So I'm just curious do you still feel comfortable with the agreement the way it's structured? Do you feel like it is enabling the cable companies to do whatever they want? Are you open-minded if they approached you about redoing it if they felt that the industry has evolved to a point where the agreement was stale and it was not likely to create value for either you or for them?

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

Well, I think that you stated it, Brett. We have an existing MVNO agreement and we were informed that they are going to execute on that agreement. The agreement is the agreement. I am not going to get into whether we are discussing revising the agreement or the terms and conditions of that since it's under NDA and we will see how this plays out. Obviously, the industry is moving. Cable is going to do what they are going to do and we're going to do what we're going to do.

I think that, again, though what I would say is we truly believe that Wi-Fi is a complementary wireless network, if you will, with LTE and we don't believe one replaces the other. Just like when we launched LTE we said, look, it's not going to replace Wi-Fi, it's not going to replace broadband into the home. Similar, Wi-Fi is not going to replace LTE. So I think that's where it stands right now, so I really won't interject anymore around the MVNO.

Brett Feldman - *Goldman Sachs - Analyst*

Just a quick follow-up since you mentioned Wi-Fi and I was thinking about small cells. I think you had earlier said you were looking to deploy unlicensed LTE maybe in trial phases I think either this year, early next year. Where are you on that?

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

We're right on course. We're actually testing in the labs now and we are looking to deploy sometime in 2016 and again, the unlicensed LTE is a great piece for us to increase our capacity and again, another differentiator between LTE and Wi-Fi is LTE is a fully managed network; Wi-Fi is not. When you start to load up Wi-Fi, that's why you start to see real degradation in service, whereas with LTE and then overlaying unlicensed LTE, we can dynamically increase capacity when we see that capacity needing increased. So it's going to be a very viable tool for us in order to increase capacity without deploying a lot of dollars.

Brett Feldman - *Goldman Sachs - Analyst*

Great, thanks for taking the question.

Operator

Craig Moffett, MoffettNathanson.

Craig Moffett - *MoffettNathanson - Analyst*

Good morning. Two questions, if I could. First, you talked a little bit about the upcoming auction. I wonder if you could just talk a little bit about how you think about different spectrum bands at this point with the options I guess out there being 600 megahertz from the auction versus 2.5 gigahertz from Sprint that may be for sale versus Charlie Ergen's spectrum that is mostly in the 2.1 range.

And then if you could also just talk about on the Wireline side, how do you think about your commitment to the Wireline business in fios going forward with Altice coming into the New York market, but you divesting some properties outside of the Northeast? Is that still a meaningful focus or would you look to reduce your exposure to Wireline if you had the opportunity?

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

Thanks, Craig. I appreciate it. On the auction and the spectrum bands, it's a good question because the current auction is a 600 megahertz band and as you know, we deployed LTE contiguously on 700 megahertz. That doesn't mean that we can't operate with 600 megahertz, but 600 and 700 don't play well together. There's a lot of interference. So where we have 700, there would be a lot of work to deploy a 600 megahertz spectrum. But there's areas where we could use lower band spectrum, but it's probably not the top priority. We like the higher band like AWS. We've said that all along that Charlie is sitting on very good spectrum. It's very good for capacity, which is why we spent $10.4 billion in the auction. But we also can do things like we've done in Chicago and New York, where we felt the license cost was way too high and we instead decided to deploy small cells and get capacity in a more reasonable, cheaper way, if you will. Now some of this spectrum will come back to market. We don't know how the FCC will treat that yet, so we will just wait and see, but higher frequency spectrum is capacity and that's really what we need at this point in time.

As far as the Wireline commitment, look, I think with the three divestitures in the South, they were more or less footprints which were not contiguous to anything else. Most of that property was copper, not fiber. So when we look at the East Coast, it's a much different footprint. We will have covered over 70% of the footprint with our fios product. This is a -- we are very committed to it. We are investing over $4 billion into the Wireline company a year, so that shows our commitment from a capital investment perspective. We have already passed 20 million homes when we committed to originally 18 million, so we are very committed to the fios product.

It goes hand-in-hand with our Wireless strategy and I think if you've asked anybody like an Altice if you were going to come in and compete for fiber into the home, you certainly would either pick the East Coast or the West Coast and they've started with Cablevision in the East Coast. So we have a very viable footprint and we are committed to that. Now, again, as I have always said, you never say never. And of course, Lowell and I are always open to new options and we always keep our eyes open for that. But, at this point, we are very committed to the Wireline business.

Craig Moffett - *MoffettNathanson - Analyst*

Thanks, guys.

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

We have time for one more question if you can please tee that up.

Operator

Jonathan Atkin, RBC Capital Markets.

Jonathan Atkin - *RBC Capital Markets - Analyst*

Thanks. So my question is on enterprise and I just wondered if you're seeing any notable changes in competitive behavior versus other carriers. And then just on Wireless on the network side, if you could just remind us the approximate timeline for AWS redeployment. And then when would the network be ready for VoLTE-only phones to be sold at retail? Thanks.

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

All right, great. On the enterprise piece, I guess what I would say is we are seeing more or less the same. There has really been no change. I think there's a lot of competition. There's a lot of price compression continuing in the IP space. As we've said before, the strategic side around security and data centers, but even within the data center space now, there's an awful lot of competition happening with price compression. So I think what you are seeing is a trend that we think will continue as we revamp the portfolio, if you will, and come into more of where we are going to be willing to compete. So I think you're just going to see more of the same here.

As far as the Wireless network and deployment of AWS, we are looking at probably in the 2017-2018 timeframe with that similar to where LTE would be for starting in 2016 and then, of course -- so that will continue to deploy out there. Then on the phone only where we would only get an LTE-only handset, probably more to the end of 2016 is where we are looking to deploy an LTE-only handset.

Jonathan Atkin - *RBC Capital Markets - Analyst*

Thank you.

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

That takes us to the end of the questions. I'd like to turn the call back onto Fran to close.

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

Thanks, Mike. I'd just like to close with a few key points. So through the first nine months, we have solidly executed on our fundamentals, delivering quality customer growth and strong financial results while positioning the business for the future and returning value to shareholders. This execution has generated strong cash flows, enabling us to consistently invest in our networks, platforms, future growth and innovation.

In addition, we have returned value to shareholders and maintained a strong balance sheet, keeping us on track with our deleveraging plans. As I highlighted earlier, we have returned more than $11 billion to date through dividends and a $5 billion accelerated share repurchase program. In September, our Board of Directors again reiterated their confidence with a 2.7% dividend increase, making this the ninth consecutive year of a dividend increase.

We look forward to maintaining our positive momentum in the fourth quarter as we execute our strategy, launch new products and services like go90, positioning ourselves for future growth and creating value for customers and shareholders. Thank you again for joining Verizon today.

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.