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TECHNOLOGY

Frontier Stakes Its Claim on Landlines

Its \$10.54 Billion Deal for Verizon Customers Is a Contrary Move in Telecom



'We've been regulated for a long time,' said Maggie Wilderotter, chairman and chief executive officer of Frontier Communications. "So we know how to operate in a regulated environment.' *PHOTO: PETER FOLEY/BLOOMBERG NEWS*

By **RYAN KNUTSON**

Updated Feb. 8, 2015 5:06 p.m. ET

As the telecom industry marches forward, Frontier Communications Corp. is growing quickly by snapping up the unloved telephone lines its bigger competitors are leaving behind.

Its latest deal is to pay \$10.54 billion for millions of Verizon Communications Inc. 's landline customers in Florida, California and Texas—a big one for a company with a market capitalization of just under \$8 billion. If approved by regulators, the acquisition would cap a stretch of fast growth that has transformed Frontier from a minor regional telecom into a company providing phone and Internet service throughout more than half the country.

Frontier Chief Executive Maggie Wilderotter has spent billions of dollars on acquisitions over the past 10 years that have pushed the company into more-populated markets. The company tripled in size following a deal in 2010, and will double it again following the close of the Verizon deal, which is expected in 2016. In the process, it is betting that heavily regulated wireline businesses will remain lucrative even as more traffic move to cellphones and tablets.

“They’re trying to be the last newspaper,” said Craig Moffett, a telecom analyst at MoffettNathanson LLC.

Frontier’s continued reliance on copper presents challenges. Americans increasingly are demanding faster Internet service, and physics limit the amount of speed copper can provide. Moreover, the government recently raised the bar on what speeds can be called broadband.

- Frontier says the Verizon deal is attractive, however, because it will get a big slug of fiber-optic lines in the bargain. Verizon invested \$7 billion building out connections for its FiOS system in the three states, and more than half of the footprint is passed by fiber. Following the deal, the percentage of homes in Frontier’s territory enabled with fiber or other high-speed Internet service will rise to 31% from 14%.

“We see the business itself as a healthy business that generates consistent, predictable revenues,” Ms. Wilderotter said in an interview.

Frontier’s shares rose about 3% Friday to \$7.93 after the deal was announced and

have gained 19% so far this year, ranking them among the best performers in the S&P 500.

‘Verizon and AT&T are two huge customers of mine.’

—Maggie Wilderotter

Voice service accounts for almost half of the company’s revenue, a business that has been in

decline. In the third quarter last year, the company lost about 21,000 subscribers and voice revenues fell about 8%. But average revenue per customer increased by about 1% because more of the customers were buying Internet service, according to securities filings. The company says it expects the trend to continue. Residential copper voice only makes up 10% of the revenue its acquiring in the deal with Verizon, Frontier says.

The company, originally named Citizens Utility Co., was founded in 1935 and incorporated in Delaware. It grew modestly over the years via minor acquisitions, including a deal in 2001 that gave it the name Frontier.

When Ms. Wilderotter became chief executive in 2004, Frontier had less than \$1 billion in revenue and was scattered through mostly rural and suburban markets across the Midwest, she said in the interview. The company had no broadband Internet business and was selling only landline telephones. The board at the time had tried to sell the company, but no one bought it, she said.

Since then, it has had to grow on its own.

Ms. Wilderotter began selling DSL Internet service via the company’s copper wires. A few years later, it acquired phone companies in Pennsylvania and California, and in 2010 bought landline assets from Verizon in 14 states in a deal valued at \$8.6 billion. Last year, Frontier paid \$2 billion for AT&T Inc.’s landline business in Connecticut, giving it a much larger presence in the state where it is based.

Last fall, Ms. Wilderotter met with Verizon Chief Executive Lowell McAdam and hammered out the outlines of the latest transaction.

Frontier has helped Verizon and AT&T shed businesses they no longer want as

THE BUILDING OF FRONTIER

A chronology

- **November 1935** – Citizens Utilities Co. incorporates in Delaware.
- **In the 1990s**—Citizens buys telephone access lines from GTE and Alltel, and decides to get out of the utilities business, precipitating a period of divestment. In May 2000, the company's name was changed to Citizens Communications Co. to reflect the new focus.
- **2001**—The company purchases the wireline assets of Frontier Communications (formerly known as Rochester Tel) from Global Crossing Inc. and begins using the Frontier brand.
- **2007**—Acquisitions include Commonwealth Telephone Enterprises Inc. in Pennsylvania, and Global Valley Networks, Inc. and GVN services, increasing its presence in California.
- **2008**—Company name is changed to Frontier Communications Corp.
- **2009**— Frontier agrees to buy many of the local exchange businesses and related landline assets of Verizon Communications in 14 states. This acquisition was finalized July 1, 2010, tripling the size of the Frontier and making Frontier the nation's largest communications services provider focused on rural America.
- **2013**—Agreement is struck to buy wireline assets from AT&T in Connecticut. The \$2 billion deal closes in October, 2014.
- **Feb. 5, 2015**—A definitive agreement reached to buy Verizon's wireline operations that provide services to residential, commercial and wholesale customers in California, Florida and Texas, for \$10.54 billion. These properties include 3.7 million voice connections, 2.2 million broadband connections, and 1.2 million FiOS® video connections.

the nation's two largest carriers shift away from landlines and toward mobile. With the latest deal, Verizon will rid itself of a significant portion of its past: Verizon was formed via a merger in 2000 between Bell Atlantic and GTE, but after this deal the company will have sold off the bulk of that GTE business.

MORE ON FRONTIER

- A 'Boss Talk' Interview With Maggie Wilderotter (<http://www.wsj.com/articles/SB10001424052702304441404579121633608252574>) Oct. 8, 2013

Some of Verizon's previous deals didn't work out so well for the buyers. Companies that acquired Verizon's former phone-directory unit and wireline assets in Hawaii and parts of the Northeast all went bankrupt.

Ms. Wilderotter said Frontier's position is strong. The backbone of its network is mainly fiber, and Frontier is able to cash in on growing wireless traffic, because companies pay to use its lines to carry signals from cellphone towers back into the network. "Verizon and AT&T are two huge customers of mine," Ms.

Wilderotter said.

Ms. Wilderotter is also making a bet that increased regulation of broadband networks won't hurt the business—the opposite bet being made by her counterpart at Verizon. Mr. McAdam said last week that the government's proposal to reclassify broadband Internet as a Title II Telecommunications Service was a factor in his decision to sell the business.

“We've been regulated for a long time,” Ms. Wilderotter said. “So we know how to operate in a regulated environment.”

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