A Progressive Digital Media business

COMPANY PROFILE

Frontier Communications Corporation

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COMPANY OVERVIEW

Frontier Communications Corporation (Frontier or "the company") is a communications company providing services to rural areas, and small and medium-sized towns and cities in the US. The company offers voice, data, and video services and products on a standalone basis and as bundled or packaged solutions. The company operates primarily in the US where it is headquartered in Norwalk, Connecticut and employed approximately 17,400 people as of December 31, 2014.

The company recorded revenues of $4,772.5 million during the financial year ended December 2014 (FY2014), an increase of 0.2% over FY2013. The operating profit of the company was $819.9 million in FY2014, a decrease of 16.4% compared to FY2013. The net profit of the company was $132.9 million in FY2014, an increase of 17.8% over FY2013.

KEY FACTS

Head Office	Frontier Communications Corporation 401 Merritt 7 Norwalk Connecticut 06851 USA
Phone	1 203 614 5600
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Web Address	http://www.frontier.com/
Revenue / turnover (USD Mn)	4,772.5
Financial Year End	December
Employees	17,400
NASDAQ Ticker	FTR

SWOT ANALYSIS

Frontier Communications Corporation (Frontier or "the company") is a rural telecommunications company offering services to small and medium-sized towns and cities in the US. It offers a range of voice, data, and television (TV) services and products. The company's significant investments to enhance its broadband network would enhance its revenue generating abilities. However, intense competition may adversely affect Frontier's profitability.

Strengths	**Weaknesses**
Significant investments to enhance broadband network Local engagement enhancing customer loyalty Broad portfolio of services	Substantial debt could limit growth prospect
Opportunities	**Threats**
Acquisition of AT&T's and Verizon's wireline assets Growing demand for high speed broadband services	Intense competition Decline in the US fixed line telecom market Stringent regulations governing the US telecom market

Strengths

Significant investments to enhance broadband network

Frontier has made significant capital investments and has taken several initiatives to enhance its broadband network in the recent years. The company invested several millions of dollars in capital expenditures throughout its 28 state service territories to deploy and improve broadband services. During 2013-14, Frontier received a total of $72 million from the first round of the Federal Communications Commission's (FCC) Connect America Fund (CAF) Phase I and $61 million related to the second round of CAF Phase I to support broadband deployment in unserved and underserved high-cost areas. In addition to the capital expenditures, network expansion funded by the previously received CAF funds amounted to $56 million, $33 million and $5 million in 2014, 2013 and 2012, respectively, enabling and upgrading 164,000 households with broadband during the three year period. The company's capital expenditures include enhancing the existing outside plant by expanding fiber-based infrastructure through more of its network, enhancing transport and expanding the capability of the middle-mile and data backbone. Further, the company is currently focused on upgrading its broadband network with the latest technology, including internet protocol (IP) transport and routing equipment, reconfigurable optical add/drop multiplexers (ROADM) transport systems, very high bit-rate digital subscriber line (VDSL) broadband equipment, and voice over internet protocol (VoIP) switches.

The company's significant capital expenditure and ongoing broadband expansion initiatives enables it to enhance its revenue generating capabilities. The company continued capital spending for the expansion and improvement of broadband availability and speed in its markets will allow Frontier to attract and retain a greater number of customers and increase average revenue per residential and business customer.

Local engagement enhancing customer loyalty

The company has been following the local engagement strategy to enhance customer loyalty. Its local engagement strategy includes engaging its markets at the local level to ensure that it has a customer-driven sales and service focus that differentiates it from its competitors. The company is one of the largest incumbent local exchange carrier (ILEC) having footprint in 28 states across the US. All of the company's operations in the local markets are operated by local managers responsible for the customer experience, as well as the financial results, in those markets. Moreover, during FY2043, both, the average monthly residential revenue per customer and the average monthly business revenue per customer increased by 1.9% over 2013. Further, the company's rate of residential customer loss improved in FY2014 due to its investments in its network, local engagement strategy, improved customer service and the introduction of stand-alone Simply Broadband product. This also helped the company enhance its broadband and video customer base.

Further, the company's marketing strategy that includes the sale of voice, data and video services as standalone offerings and bundled packages and the use of promotions and incentives to drive market share through a variety of channels helped the company yield increased revenue per customer, strong customer relationships and improved customer retention. The company's marketing strategy that complements the local engagement strategy enables it to enhance customer loyalty.

Broad portfolio of services

Frontier has a broad portfolio of services. The company's services portfolio includes voice services, internet access, broadband-enabled services and video services offered to residential and business customers in 28 states across the US. The company offers these services either on standalone basis or as bundled packages. Frontier's services are grouped into four segments: local and long distance voice services; data and internet services, switched access and subsidy and other services.

The local and long distance voice services include basic wireline services to residential and business customers. Frontier offers a number of calling features, including call forwarding, conference calling, caller identification, voicemail and call waiting. It also offers packages of communication services that allow the customers to bundle the basic wireline services with their choice of enhanced, long distance, video and Internet services. The company's data and internet services include broadband, dial up internet, portal and e-mail products. Its commercial services include Ethernet, dedicated internet, multiprotocol label switching (MPLS), time division multiplexing (TDM) data transport services and optical transport services. The company also offers Frontier Secure suite of products and services for computer security, cloud backup and sharing, identity protection, equipment insurance. The company also offers fiber optic based video services on a limited basis.

Further, the company enhanced its services portfolio through new product launches. For instance, in July 2015, Frontier introduced Ethernet Internet Access (EIA) product to the carrier channel, enabling carriers to offer customers internet access within Frontier's footprint. Earlier, in April 2014, Frontier launched Frontier Business Edge, a new business focused brand marketing platform encompassing a portfolio of commercial products and services for businesses. In March 2014, Frontier launched Frontier AnyWare, a cloud based voice over internet protocol (VoIP) service. Similarly, in January 2014, Frontier enhanced its Ethernet portfolio with the addition of advanced application-based routing and New Quality of Service (QoS) capabilities. The company also enhanced its data portfolio with the addition of optical transport services.

The broad portfolio of services and the continued enhancements of the portfolio will help the company serve its customers effectively and strengthen its customer base, thereby boosting its sales and profitability.

Weaknesses

Substantial debt could limit growth prospect

Frontier is highly leveraged. In FY2014, the company had total long term debt of $9,485.6 million. The heavy long term debt could force the company to allocate a considerable portion of its cash flow from operations towards servicing its debt. It will limit the company's ability to obtain additional financing and Frontier might suffer competitive disadvantage in comparison to peers with low debt. High long term debt to equity ratio indicates that the company has been aggressive in financing its growth through debt. As a consequence of such heavy debt, Frontier incurred interest expense of $695.5 million, which impacted the company's net profits and margins.

Substantial debt limits the company's flexibility to plan for, or react to, changes in its business and the industry in which it operates.

Opportunities

Acquisition of AT&T's and Verizon’s wireline assets

The company has been focused on assets in the process of its expansion at regular intervals. For instance, February 2015, Frontier entered into a definitive agreement with Verizon Communications under which the company will acquire Verizon's wireline operations that provide services to residential, commercial and wholesale customers in California, Florida and Texas for a purchase price of $10.5 billion in cash. These Verizon properties include 3.7 million voice connections, 2.2 million broadband connections, and 1.2 million FiOS video connections. These properties are expected to be a strategic fit for Frontier and would strengthen Frontier’s presence in competitive suburban markets and accelerate recent market share gains.

Earlier in October 2014, the company acquired the wireline properties of AT&T in Connecticut for a purchase price of $2 billion in cash. Following the acquisition, Frontier now owns and operates the wireline broadband, voice and video business and statewide fiber network that provides services to residential, commercial and wholesale customers in Connecticut. The company also acquired AT&T’s U-verse video and DISH satellite TV customers in Connecticut. The acquisition is expected to enhance the service portfolio of the company by the addition of AT&T's U-verse services to its service offerings.

The acquisition of AT&T's and Verizon’s wireline assets would enhance the company's broadband network coverage, enabling the company to offer high speed high speed connectivity to its customers, thereby allowing the company to enhance its customer base and drive higher average revenue per residential and business customer. Further, this acquisition is expected to provide cost synergies to the company and help drive revenue growth in the future.

Growing demand for high speed broadband services

The demand for high speed broadband services, both fixed and mobile have been increasing across the world. The broadband penetration is growing due to a strong demand for high-speed broadband access resulting from the increased adoption of online apps and services through internet-connected devices, such as smartphones, TVs and tablets. According to industry estimates, the broadband coverage in the US is currently at 70% of the US households and is expected to reach 74% by 2018 and cover more than 90% in the long run. Growing customer demand for faster speeds and value-added services, such as online security and back-up, are expected to drive growth in consumer high-speed internet revenues.

To meet the increasing demand for broadband services, the company has made significant investments in expanding its broadband network. The company also offers a range of services through its data and internet services segment. These include wireline and satellite broadband services to residential, commercial and carrier customers. Rising demand for high speed broadband services is likely to contribute to the company's revenues in the coming years.

Threats

Intense competition

The communications industry is highly competitive. The traditional difference between local, long distance, wireless, cable and internet service providers are becoming increasingly vague. Through mergers and various service expansion strategies, most of the service providers are providing integrated solutions both within and across geographic markets.

The company's competitors include cable operators offering video, data and VoIP products, wireless carriers, long distance providers, competitive local exchange carriers, internet providers, satellite video, satellite broadband and other wireline carriers. Also, as per the company, as of December 31, 2014, approximately 96% of the households in its territories could receive voice, data and video services from a competitive provider. Moreover, the wireless and cable telephony providers are increasing their penetration of various services in the company's core markets. Further, some of the company's competitors, including AT&T, Verizon and Sprint have substantially greater market presence, engineering, technical, marketing and financial capabilities, personnel and other resources. Intense competition may adversely affect Frontier's profitability.

Decline in the US fixed line telecom market

The US fixed line telecom market has declined in the past and the declining trend is expected to continue in the future. The fixed line telecom market includes voice telephony and other non-voice information transmission using fixed lines. According to MarketLine, the US fixed line telecom market declined to $91.8 billion in 2014, a decrease of 3.3% over 2013. Further, the market is estimated to decrease by 13.6% in 2019 reaching $79.3 million. The fixed line technology is being substituted with wireless technology at a fast pace. These trends suggest that there has been a continuous decline in the number of landline voice accounts owing to technology substitution. The company is one of the largest local wireline communications service providers in the US. Persistent decline in the market for these services may impact the overall topline growth.

Stringent regulations governing the US telecom market

The company's operations are subject to regulation by the Federal Communications Commission (FCC) and various state regulatory agencies, often called public service or utility commissions. Also, federal and state lawmakers continually review the statutes and regulations governing communications services. The regulation restricts the company's ability to change rates, especially on its basic voice services, and imposes substantial compliance costs on the company. Regulation also constrains the company's ability to compete and, in some jurisdictions, it may restrict the expansion of its service offerings. In addition, changes to the regulations that govern the company may have an adverse effect upon its business by reducing the allowable fees that it charges and imposing additional compliance costs.

In addition, the company generated a significant portion of its revenues, $201 million in FY2014, from switched access charges paid by other carriers for services in originating and terminating intrastate and interstate long distance traffic. The amount of access charge revenues that Frontier receives is regulated by the FCC and state regulatory agencies. These switched access charges are expected to decline further in 2015. The FCC is considering proposals that may significantly change interstate, intrastate and local inter-carrier compensation. Future reductions in the company's subsidy or switched access revenues will directly affect the company's profitability and cash flows as those regulatory revenues do not have associated variable expenses.

In FY2014, approximately $319 million of Frontier's revenues were derived from federal and state subsidies for rural and high cost support. The FCC and state regulatory agencies are currently considering a number of proposals for changing the manner in which eligibility for federal and state subsidies is determined as well as the amounts of such subsidies. The FCC has an ongoing proceeding considering whether to make changes in its regulatory regime governing special access services, including whether to mandate lower rates, change standards for deregulation and pricing flexibility, or to require changes to other terms and conditions.

Changes in the regulatory framework may adversely affect the company's results of operations.