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Telecommunications
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COMPANY UPDATE / OPINION CHANGE / ESTIMATE CHANGE

Key Metrics

FTR - NYSE (Price as of (8/2/17)		$17.05
Price Target		NA
52-Week Range		$13.13 - $74.70
Shares Outstanding (mm)		77,795.0
Market Cap. ($mm)		$1,322
3-Mo. Average Daily Volume		2,803,000
Institutional Ownership		71.0%
Debt/Total Capital		73.3%
ROE		4.1%
Book Value/Share		$3.21
Price/Book Value		0.6x
Dividend Yield	$2.40	14.1%
LTM EBITDA Margin		35.3%

Pro forma EBITDA (MM) FY 12/31

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$3,545	$3,670	$3,600		$3,690
P/E	NM		NM		NM

Pro forma Revenue ($mm)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q					
2Q					
3Q					
4Q					
Year	$8,896		$9,200		$8,850

Company Description: *Frontier Communications is a leader in providing communications services to urban, suburban, and rural communities in 29 states. Frontier offers a variety of services to residential customers over its fiber-optic and copper networks, including video, high speed Internet, advanced voice and digital protection services.*

Frontier Communications

FTR -- NYSE -- Underperform -- 4

We are lowering our rating to Underperform due to ongoing customer losses and revenue declines

Investment Highlights

- **We are lowering our rating on Frontier to Underperform from Neutral.** Our primary concern remains that both revenues and customers decline consistently each quarter. This has been the case for several years and shows little signs of meaningful improvement despite new management initiatives.
- **These disturbing trends were once again evident in second quarter results.** Total revenue in the second quarter was $2.30 billion versus $2.60 billion in 2016's second quarter, a decline of 11.7%. Revenues declined by 2.2% sequentially from the first quarter. Second quarter customer losses proved similar. Frontier had 5.058 million total customers at the end of the quarter, a decline of 11.5% from midyear 2016. In addition, total customers declined by 3.1% sequentially from this year's first quarter. Both consumer and business customer segments continue to experience weakness. FTR lost 151,000 consumer customers in the second quarter alone, a 3.2% drop from the first quarter. While the consumer customer churn rate improved marginally to 2.27% from 2.37% in the first quarter, the company continues to consistently lose customers. Business customer losses totaled 11,000 in the second quarter, a marginally better 2.2% decline from the first quarter. While the company is attempting to address the customer loss issue through various initiatives, results have not yet proven successful.
- **We remain cautious on Frontier's fundamental outlook.** In our view, the company's inability to stem its customer losses and revenue erosion does not bode well for either its near-term or long-term future, as profits and cash flows could continue to be pressured. In short, we believe Frontier remains in a secular decline. While we believe the dividend should be safe near term, there is risk of yet another cut longer term if customer trends do not improve. Our suitability rating remains a 4, which is considered speculative.

Note Important Disclosures on Pages 3 and 4.
Note Analyst Certification on Page 3.

Second Quarter Results

Total revenue was $2.30 billion versus $2.60 billion in 2016's second quarter, a decline of 11.7%. Revenue was essentially in line with expectations. Still, revenue dropped by 2.2% sequentially from the first quarter. Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) totaled $906 million. This was actually above the consensus estimate of $898 million. In addition, FTR's EBITDA margin rose slightly to 39.3% from 39.2% in the first quarter. We feel the company has done a good job in cutting costs to maintain its margins. However, EBTIDA declined by $126 million or 12.2% from the second quarter of 2016. EBITDA declined by $17 million or 1.8% from the first quarter. Management believes it can achieve an adjusted EBITDA run rate of $3.8 billion by the end of the year through improved operating metrics and cost cutting. The company had previously believed that it could achieve a $3.8 billion rate for the full year 2017. In our view, a potential $3.8 billion run rate for 2018 could prove to be a challenge if the headwind of customer losses does not abate.

As mentioned previously, customer losses remain disappointing. Total customers in the second quarter declined by 659,000 from a year ago, a drop of 11.5%. Total customers declined sequentially by 162,000, or 3.1%, from this year's first quarter. This included 151,000 consumer customers and 11,000 business customers. Consumer customer losses exceeded business customer losses on a percentage basis. Total consumer revenue dropped to $1.12 billion from $1.33 billion a year ago, a decline of 15.6%. Consumer revenue fell by 3.4% sequentially from the first quarter. One area of specific concern is Frontier's continued loss of broadband customers, once an area of relative strength for the company. FTR lost 399,000 broadband customers year-over-year in the June quarter, an 8.9% decline. Moreover, the company lost 101,000 broadband customers in the second quarter from the first quarter, a drop of 2.4%. Business revenue declined by 6.4% year-over-year and 1.3% sequentially from the first quarter.

Outlook

Frontier expects 2017 free cash flow to total between $800 million to $900 million, down from $800 million to $1.0 billion, previously. Capital spending is expected to be between $1.1 billion to $1.2 billion. Management expects improved performance in the second half of the year due to potentially better operating metrics and ongoing cost cutting. We are trimming our 2017 EBTDA estimate to $3.60 billion from $3.67 billion. We are maintaining our 2018 EBITDA estimate of $3.69 billion. While the company believes it may be able to achieve $3.8 billion of EBITDA in 2018, we feel this could prove difficult to achieve without better customer retention.

Rating Change

We are reducing our rating to Underperform from Neutral. While we believe the company is doing a solid job in managing its costs, we remain concerned about the ongoing weak customer and revenue trends. Despite the company's best efforts, Frontier continues to lose large numbers of customers each quarter. While perhaps that might change, our fear is that it will not. If it does not, this could have major negative ramifications for the company including lower EBITDA and cash flows. Moreover, the company has a highly leveraged balance sheet with significant debt maturities. Consequently, our new rating is now Underperform. We believe the dividend is relatively secure near term following the 62% cut earlier this year. However, should current customer and revenue trends remain weak, there could once again be an eventual risk to the dividend.

Suitability

We assign a 4 suitability rating to Frontier Communications. We believe FTR warrants a 4 rating due to its continuous revenue struggles and highly leveraged balance sheet. In addition, with this year's dividend cut, the company has now cut its dividend three times in the past seven years.

Annual yield is calculated by dividing the distribution amount by the current market price of the security. For US income tax purposes, the Company may classify all or a portion of its distributions as dividends or other non-dividend distributions. Note that for some investors, for US income tax purposes all or a portion of the Company's 2016 dividend or distribution was treated as return of capital and not as "dividend income" as reflected on the IRS Form 1099-Div for the 2016 tax year. The Company generally makes a final determination regarding the proper tax treatment of distributions after calendar year end. We urge each shareholder to consult with his or her own tax advisor to determine the tax consequences of the distributions received, including any state, local or foreign tax considerations.

Additional information is available upon request.

Analyst Certification

I, David B. Burks, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

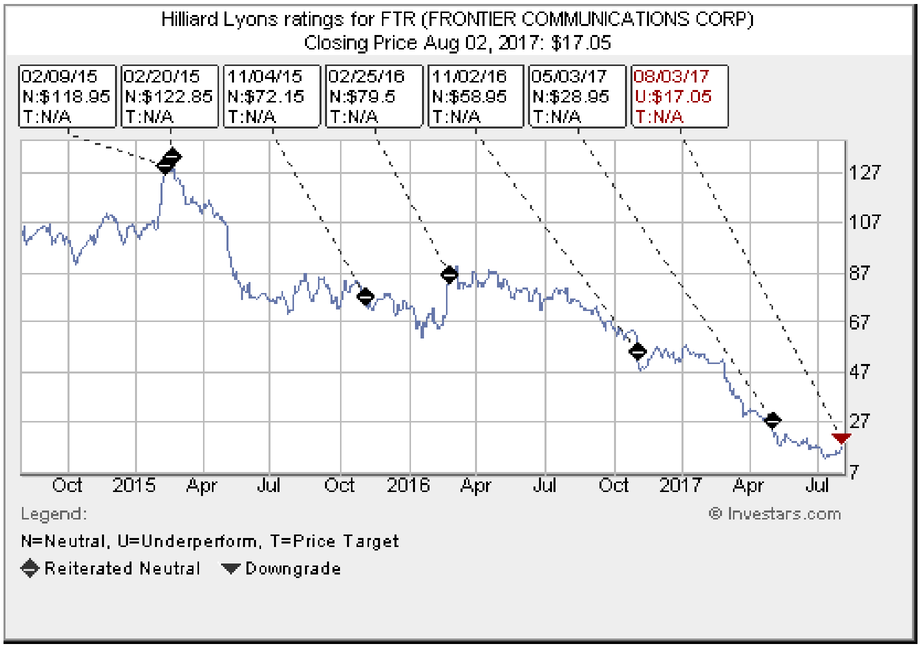
Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.
Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings

1 - A large cap, core holding with a solid history
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	**# of Stocks Covered**	**% of Stocks Covered**	**Banking**	**No Banking**
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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