



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

FTR - NYSE (Price as of (2/27/17))	\$3.29
Price Target	NA
52-Week Range	\$5.85 - \$3.10
Shares Outstanding (mm)	1,164.0
Market Cap. (\$mm)	\$3,829
3-Mo. Average Daily Volume	21,229,000
Institutional Ownership	71.0%
Debt/Total Capital	73.3%
ROE	4.1%
Book Value/Share	\$3.56
Price/Book Value	0.9x
Dividend Yield	\$0.42 12.8%
LTM EBITDA Margin	36.1%

Pro forma EBITDA (MM) FY 12/31

	2015	2016A	Prior 2017E	Curr. 2017E
1Q	--	--	--	--
2Q	--	--	--	--
3Q	--	--	--	--
4Q	--	--	--	--
Year	\$2,068	\$3,545	\$4,000	\$3,740
P/E	NM	NM		NM

Pro forma Revenue (\$mm)

	2015	2016A	Prior 2017E	Curr. 2017E
1Q				
2Q				
3Q				
4Q				
Year	\$11,264	\$8,896	\$10,175	\$9,350

Note: Pro forma numbers to reflect purchase of Verizon wireline assets in California, Texas and Florida on April 1, 2016.

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 -- Neutral -- 4

Revenue pressures persist; lowering suitability rating to 4

Investment Highlights

- **Frontier reported fourth quarter results that were weaker than anticipated.** Both revenue and EBITDA (earnings before interest, depreciation and amortization) came in below expectations. Revenue was \$2.4 billion compared with a \$2.5 billion consensus and declined by 4.5% sequentially from 2016's third quarter. Revenue was particularly weak in the California, Texas and Florida wireline properties acquired from Verizon last year. These revenues declined by 6.9% sequentially from the third quarter. While the figure was exacerbated by a \$45 million write-down of non-paying customers, the underlying trend remains weak. Overall, FTR lost 175,000 broadband and video subscribers sequentially in the fourth quarter. Adjusted EBITDA totaled \$966 million, which was below expectations of \$1 billion and a 3Q figure of \$999 million.
- **Company introduces 2017 guidance.** Frontier expects this year's free cash flow to be in the range of \$800 million to \$1.00 billion. Capital expenditures are anticipated to be in a range of \$1.00 billion to \$1.25 billion. However, FTR has backed away from previous 2017 EBITDA guidance of greater than \$4 billion. Our revised estimate is \$3.74 billion.
- **Management to propose a reverse stock split.** FTR announced it intends to seek a charter amendment for a reverse stock split at the company's annual meeting in May. Frontier anticipates a reverse stock split in a range between 1-for-10 and 1-for-25.
- **We maintain our Neutral rating on Frontier.** We have remained on the sidelines with FTR over the past five years because of the company's ongoing inability to stem its revenue declines. While the company has attempted various approaches to deal with the problem, the challenge has persisted. We believe that if this trend continues there will be increased pressure to cut the dividend.

**Note Important Disclosures on Pages 2 and 3.
Note Analyst Certification on Page 2.**

Suitability

We are lowering our suitability rating to 4 for Frontier Communications. We believe FTR now warrants a 4 rating due to its continuous revenue struggles, highly leveraged balance sheet, and the pressure that these revenue declines could place on Frontier's dividend. While we feel the dividend could be maintained near-term, we believe continued revenue and EBITDA declines could eventually necessitate a dividend cut. As a reminder, Frontier has cut its dividend twice within 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.

Price of other stocks mentioned: Verizon (VZ-\$49.94).

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.

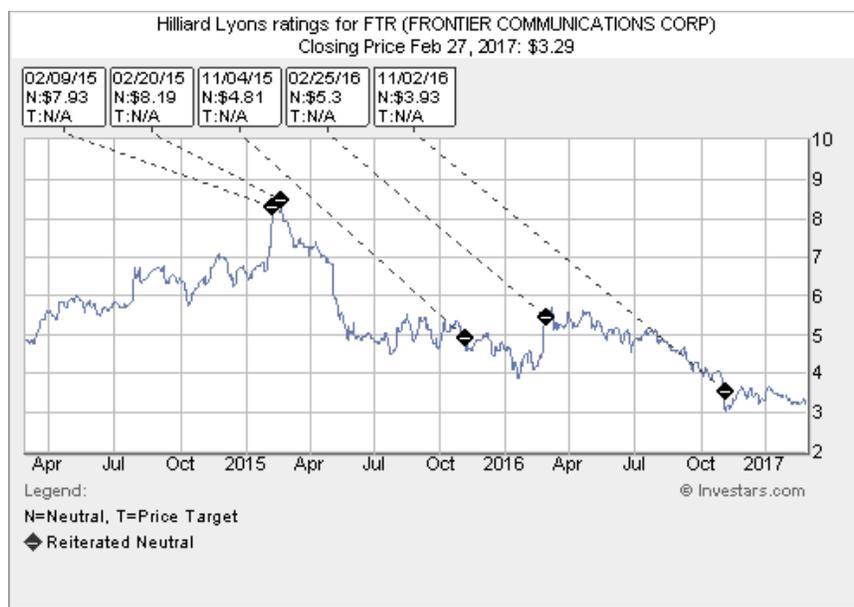
Suitability Ratings

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



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 2017

Other Disclosures

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