



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

FTR - NYSE (Price as of (10/31/17))	\$12.11
Price Target	NA
52-Week Range	\$11.16 - \$61.05
Shares Outstanding (mm)	77,797.0
Market Cap. (\$mm)	\$942
3-Mo. Average Daily Volume	2,603,000
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 20.0%
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	\$3,600	\$3,570	\$3,690	\$3,600
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		\$8,625

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 -- Underperform -- 4

Company's revenues remain under pressure; we maintain our Underperform rating

Investment Highlights

- **Frontier reported third quarter revenues of \$2.25 billion, in line with expectations.** However, revenue was still 10.8% below last year's third quarter total of \$2.42 billion. Sequential revenue declined by 1.7% from the second quarter, which represented a slight improvement from the second quarter drop of 2.2%. Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) was \$914 million, and slightly ahead of consensus expectations. Customer churn improved to 2.08% from 2.24% in the second quarter due to better FiOS performance in its California, Florida and Texas assets.
- **Management acknowledged that second half 2017 EBITDA will be less than had been previously anticipated.** Fourth quarter EBITDA is projected to be in a range of \$910 million to \$930 million. The company earlier this year had anticipated exiting the year running at a \$1 billion EBITDA quarterly rate. The lower EBITDA is also negatively impacting Frontier's free cash flow. The company lowered 2017 free cash flow guidance to a range of \$730 to \$750 million. FTR originally expected free cash flow of \$800 million to \$1.0 billion this year then lowered their projection to \$800 million to \$900 million after the second quarter. We are concerned that both EBITDA and cash flow estimates keep getting continually revised lower.
- **We maintain our Underperform rating on Frontier.** As mentioned in our August downgrade, 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. Moreover, the company's declining EBITDA and cash flows could further exacerbate the company's already tenuous financial condition. As a result, we believe the dividend is once again at risk. Frontier has already cut its dividend three times this decade. We continue to feel Frontier has a poor fundamental outlook and consider it a speculative stock.

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

Suitability

We assign a 4 suitability rating to Frontier Communications, which is considered speculative. 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. In our view, this is not a suitable holding for a conservative investor or an investor relying on the dividend income it provides.

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.

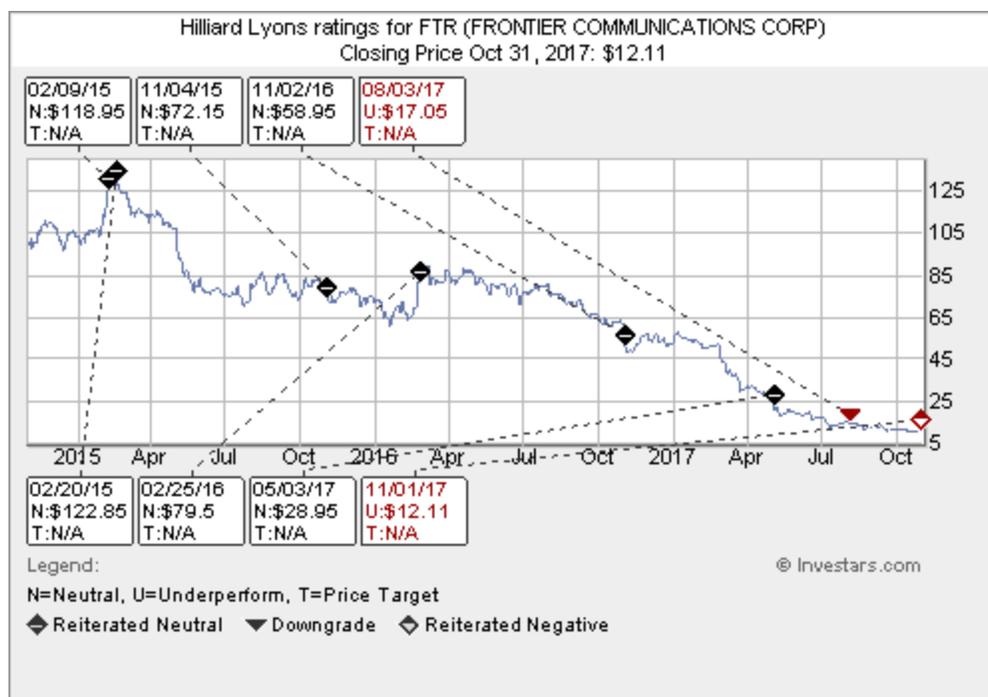
Suitability Ratings

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	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 2017

Other Disclosures

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