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Answering the Call

By DYAN MACHAN

Verizon Communications CEO Lowell McAdam is an engineer by training and a wireless visionary by temperament. Imagining a fully networked world.

The origins of Verizon Wireless, the mobile-telecom arm of **Verizon Communications**, are almost as difficult to unravel as a tangle of multicolored wires in a dark basement. When the service was launched on April 4, 2000, its DNA included bits of **AT&T**, Pacific Telesis, Bell Atlantic, AirTouch, and Britain's **Vodafone Group**, among other fabled forebears.

Few know this history—and the history of mobile telephony generally—as well as Verizon CEO Lowell McAdam, a wireless pioneer who was present before the creation. An engineer by training, McAdam, 59, did time at Pac Tel, AirTouch, and PrimeCo, driving trucks, managing stores, and helping to build the corporate underpinnings of what would become the country's largest mobile-communications network, which today counts more than 100 million subscribers.

McAdam's current assignment arguably is even more challenging: keeping Verizon Wireless No. 1 in the face of increasingly tough competition, and ensuring it will be able to meet the exponential growth in demand for wireless connectivity and bandwidth. "We'll keep pushing the envelope," he says, and he means it in multiple ways.



Enlarge Image

Wesley Mann for Barron's

McAdam's career tracks the history of the modern mobile-communications industry.

McAdam, who became CEO in August 2011, recently placed Verizon's (ticker: VZ) biggest bet yet on the U.S. wireless market, with an agreement to buy Vodafone's (VOD) 45% stake in Verizon Wireless for \$130 billion in cash and stock. Some Wall Street analysts, including Christopher King of Stifel, question the rich purchase price of 8.5 times Verizon Wireless' estimated 2014 cash flow, and say Vodafone got "the better end of the deal."

But Ivan Seidenberg, Verizon's former chairman and CEO, vigorously disputes that. Indeed, he sent McAdam a thank-you note for snaring the prize that had eluded him during his own 11-year tenure at the company's helm.

SEIDENBERG IS CONSIDERED the architect of the modern Verizon, but McAdam hardly is standing still. The New York-based company continues to spend to maintain its formidable lead in deploying fourth-generation LTE, or Long Term Evolution networks, the technology that allows customers to download and stream content on smartphones nearly as fast as they do via broadband Internet connections.

Improvements over third-generation LTE mean not only newer and better services for consumers, but high profit margins for Verizon. The company hopes to realize similar efficiencies in the next few years when it rolls out 5G, which offers more capacity for video-streaming. "If we are standing still, AT&T will catch us," McAdam says.

AT&T (T) is about a year behind, and rivals **Sprint** (S) and **T-Mobile US** (TMUS), two years behind in building their 4G LTE networks. Still, Verizon no longer has the luxury of competing primarily with AT&T, as it has done effectively for the past decade. Both Sprint and T-Mobile have used aggressive pricing of mobile and data subscriptions to win market share from the industry's giants in urban areas, and Sprint inked a deal in July with a deeper-pocketed partner, Japan's **SoftBank** (9984.Japan), which now owns more than 70% of the company and could give it more muscle in the market.

So far, investors have endorsed Verizon, whose shares have risen 40%, to \$50.51, since McAdam took charge. The stock, trading just below a 52-week high, has bested AT&T's 23% return and Sprint's 24% gain in the same time period. Verizon pays an annual dividend of \$2.12 a share, for a yield of 4.2%.

Underscoring the stock's recent gains are expectations for stronger revenue and profit growth. Verizon's earnings are likely to rise

22% this year, to \$8 billion, or \$2.83 a share, on a 4% increase in revenue, to \$120 billion. Next year, with Verizon Wireless fully in the fold, the company could earn \$3.50 a share. Wireless operations will account for an estimated 69% of revenue and 82% of earnings before interest, taxes, depreciation, and amortization in 2014, with the traditional wireline business contributing the rest.

MCADAM GREW UP in rural Barker, N.Y., making broken things work. As a kid, he built and repaired farm equipment for his father's family business, which manufactured forklifts and spring-tooth harrows, which farmers drag behind their tractors after plowing to break up the soil in the fields. His dad, too, was a trained engineer, and his mother a teacher for 35 years, before returning to school to become a registered nurse for another decade.

McAdam had two brothers, and even though the family was ambitious and hard-working, money was tight. One brother joined the Air Force, so military service was a familiar concept when McAdam enlisted in the Navy after high school. The Navy, in turn, gave him a scholarship to attend Cornell University, from which he graduated in 1976.

Just days after receiving his engineering degree, McAdam was shipped off to Guam, where a typhoon had hit. As a part of the Navy's Civil Engineer Corps, he cut trees, built bridges, and cleared highways, working seven days a week for two months. Later, in the Philippines, he drove two-ton military vehicles and repaved runways for aircraft carriers.

"He was singled out as a pick of the litter by his commanding officer," says Don Crumbley, a retired Navy captain and still a close friend. "McAdam didn't just sit in his office chair and direct traffic. He was always out in the field checking on the assigned construction work until it was right. The office civilian staff members and military officers really liked Lowell, because he treated everyone with the same respect. He never played favorites."

AFTER ACTIVE SERVICE, McAdam sought additional management training, earning his master's in business administration from the University of San Diego. Then he resigned from the Navy to take a job at Pacific Bell, which had recruited on campus.

The job suited McAdam because of its rotating assignments. He climbed poles with the outdoor work crews, and also interacted with management. Eventually, he became head of the South San Francisco office, and transformed it into the company's fifth-best performer from near last among 25 offices. "You grind away," he says of the work. "It's not sexy. It's fixing the plant, training people to do their jobs better, holding them accountable for results."

■ IN THE SPOTLIGHT

<p>Age: 59</p> <p>Education: Cornell University, B.S., engineering, 1976; University of San Diego, MBA, 1983</p> <p>CEO since: 2011</p> <p>Affiliations: National Academy Foundation (prepares students for college and careers); Council on Health and Innovation (seeks to improve employee health); Cornell University</p> <p>First Job: U.S. Navy ensign</p> <p>American pastoral: McAdam grew up in Barker, N.Y., a farming community near Buffalo. He played pond hockey and basketball.</p>	 <p>Verizon Communications Monthly Close on Oct. 31</p> <p>Recent Price: \$50.51</p> <p>52-Week Range: \$54.31 - \$40.51</p> <p>Market Value: \$144.5 billion</p> <p>2012 Revenue: \$115.8 billion</p> <p>2012 Net Income: \$6.8 billion</p> <p>2012 EPS: \$2.31</p> <p>2013 EPS: \$2.83</p> <p>2014E EPS: \$3.50</p> <p>P/E 2014E: 14.4</p> <p>Dividend Yield: 4.2%</p>	<p>McAdam believes. He used to root for the Buffalo Sabres but now favors the Dallas Stars. He clinched the Stalder deal with its CEO, Vittorio Colan, at a New York Rangers game.</p> <p>Car talk: Restores muscle cars of the 1960 and '70s, often with his son. On an even keel in driving conditions, others, including a Dodge Charger and Chevy Camaro, avoid the engineer's hands.</p> <p>Management advice: "Don't get too much stuck in five-year plans. Stay flexible and get out of your comfort zone. Being rigid in your plans means you may overlook new careers. Do the best you can at every job, and the future will take care of itself."</p> <p>On-the-job saying: "There is always a higher gear."</p>
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In 1994, when Pac Tel spun off its nascent wireless division as AirTouch, McAdam was asked to lead the new company's European operations, and later its Asian business, from Frankfurt. He commuted to Germany from the Bay Area for two years, leaving his family behind. In addition to driving a gear-stuffed van to test the German network, he established partnerships and networks in Spain, Portugal, Sweden, and Italy, and then in Korea and Japan.

Three years later, McAdam was lured to PrimeCo, a Dallas-based wireless-communications venture formed by three regional Bell operating companies—Bell Atlantic, Nynex, and U.S. West—and AirTouch. Texas, he says, was a hard sell for his San Francisco-born wife, but PrimeCo's business was exploding. In 1997, he became CEO.

McAdam's career steps from here followed the trajectory of Verizon Wireless, and are almost as confusing. Bell Atlantic agreed to merge with the independent phone company GTE in 1998, and later changed its name to Verizon. Vodafone acquired AirTouch the following year, and then agreed to create a new wireless business with Bell Atlantic. In 2000 McAdam became chief operating officer of this joint venture, called Verizon Wireless, and by 2007 was its leader. His success positioned him to become chief operating officer of Verizon in 2010, and CEO when Seidenberg retired in 2011.

"Whether we are the best or near the best operating global franchise, that was Lowell," says Seidenberg. "He pushed us to do every innovative thing we did."

The two speak from time to time, but Seidenberg keeps a respectful distance from the corner office.

EVER THE ENGINEER, McAdam is deeply involved in the nuts and bolts of Verizon's business. He loves nothing more than going into the field to check on the service his customers are getting, and was looking forward to surprising Verizon store managers in Montana in the days after *Barron's* interviewed him at the company's Basking Ridge, N.J., corporate office. "A good day is a day out of the office," he says.

Verizon employees might feel differently about the boss' undercover outings, however. Dressed in jeans and a baseball hat, McAdam might knock at 7:15 a.m. on the door of a Verizon store that opens at 7:30, just to see what sort of reception he gets. On

one occasion, he fired a store employee on the spot after the person cursed at him for showing up before operating hours.

More often, there are teaching moments. Once he heard an employee explain that Verizon has a special battery only the company knows about, and on another occasion, he overheard an employee tell shoppers that Verizon can listen into any customer's phone messages even when the phone is turned off. Neither claim is true. He had a talk with the store managers about training.

If light bulbs are out in a store, McAdam will send the regional president a package of light bulbs—confirmation that the CEO had made a surprise visit to the territory and wasn't pleased. On one outing, McAdam opened the back of a service van, climbed in, and sorted parts one by one, tossing out items he knew the repairman didn't need. He lightened the van's load by several hundred pounds, and then took the changes companywide, helping Verizon save on gasoline and vehicle wear and tear.

STILL, HE MOST ENJOYS contemplating the future, and the ways in which mobile communications can be used to improve lives and businesses. He ruminates about the day when cellphones will control cars, thermostats, appliances, and even pacemakers, and predicts that the number of subscriptions to cellular services will far outpace the world's population.

In the nearer term, McAdam describes a "convergence" of technology and content, or the ability to send video content to subscribers on any platform via a Verizon app. To that end, Verizon recently signed a \$1 billion, multiyear contract to give customers access to National Football League games, including the 2014 Super Bowl, via their smartphones. "What you think of as a cable company will be shifting to the mobile environment," he says. "And it will run on our network."

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