

**Frontier Communications Corp.**

January 27, 2012

(FTR:NASDAQ)

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**Company Brief**

**Telecommunications Services: Wireline**

**Rating** \_\_\_\_\_  
Outperform 2

**Comments on Recent Activity**

- ◆ Recent share price declines in Frontier are the result of a lack of confidence on the part of some investors regarding management’s ability to turn its top-line trajectory around over the next 12 months to avoid a dividend cut, in our view. This has likely resulted in some holders exiting and may have attracted short sellers, as short interest has risen lately.
- ◆ Management remains firm that it is committed to the dividend and that rumors of a dividend cut are not founded in what they see as the current reality for the business.
- ◆ We do not expect 4Q11 results to show a significant improvement, but the implementation of marketing strategies by its new chief marketing officer combined with the 1H11 completion of systems conversions should be beneficial in this regard. We expect an update on both when Frontier reports 4Q11 results.
- ◆ The change in outlook to negative by Standard & Poor’s is somewhat of a non-event, in our view, as we tend to discount their analysis as a general rule. The company has done refinancing recently, and we do not believe the impact of this change will make a material difference to its borrowing costs, although this headline has likely contributed to the last two sessions’ weakness.
- ◆ We will continue to monitor the company for additional information, and look for some further clarity when the company reports 4Q11 earnings on February 23.

**Current Price** \_\_\_\_\_  
Current Price (1/27/2012 10:30 a.m.) \$4.25  
52-Week Range \$9.55 - \$4.25  
Suitability Total Return

**Market Data** \_\_\_\_\_  
Shares Out. (mil.) 990.3  
Market Cap. (mil.) \$4,209  
Avg. Daily Vol. (10 day) 19,543,030  
Dividend/Yield \$0.75/17.7%  
Book Value (09/11) \$4.82  
ROE % 6%  
LT Debt (mil.)/% Cap. \$8,151/47%

**Earnings & Valuation Metrics** \_\_\_\_\_

	2010A	2011E	2012E
Non-GAAP EPS	\$0.41	\$0.24	\$0.24
P/E Ratios (Non-GAAP)	10.4x	17.7x	17.7x
GAAP EPS	\$0.28	\$0.16	\$0.24
Revenues (mil.)	\$5,652	\$5,216	\$4,832
Levered FCF/Share	\$0.96	\$1.01	\$0.95

**Company Description** \_\_\_\_\_  
Headquartered in Stamford, Connecticut, Frontier Communications Corp. (formerly Citizens Communications) was founded in 1935 and provides local, long-distance, data, and Internet services in the northeastern, central, and western U.S., with more than five million access lines and over 1.5 million xDSL customers.

**Footnotes:** Non-GAAP EPS excludes non-recurring items.

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**Market Perform (MP3)** Expected to perform generally in line with the S&P 500 over the next 12 months.

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<b>Market Perform (Hold)</b>	36%	27%	52%	5%	26%	3%
<b>Underperform (Sell)</b>	6%	1%	7%	8%	0%	0%

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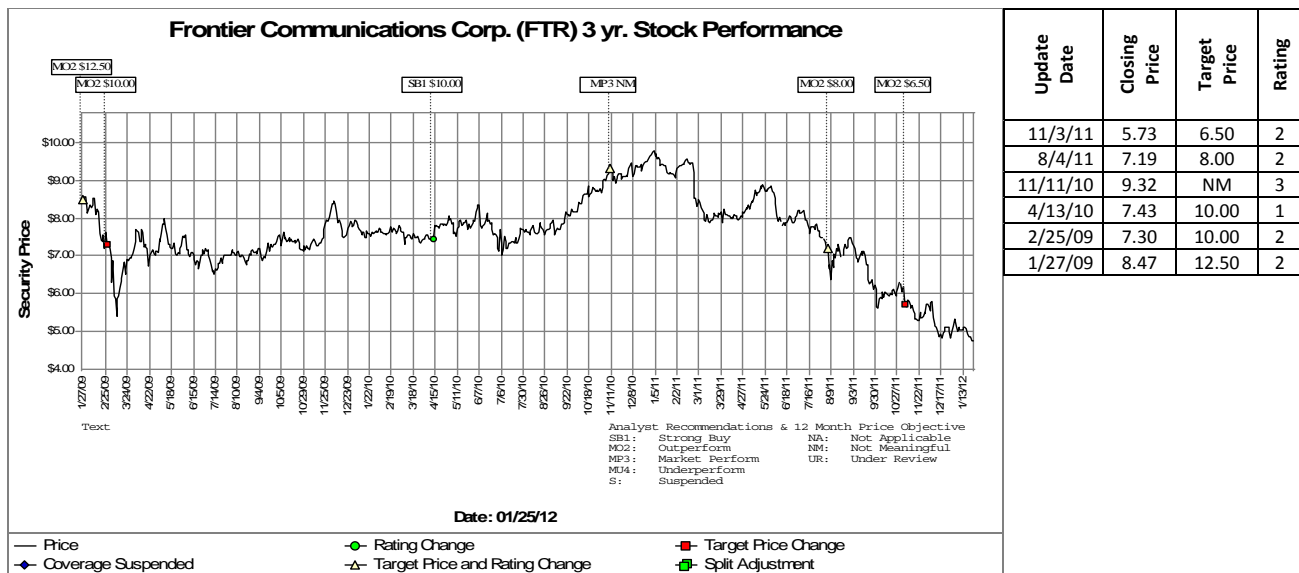
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Company Name	Disclosure
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**Target Prices:** The information below indicates our target price and rating changes for FTR stock over the past three years.



**Valuation Methodology:** Our valuation methodology for Frontier Communications is based on a multiple of levered free cash flow relative to the peer group and historical levels, and also considers EBITDA multiples.

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**Frontier Communications Risk Factors**

Should additional unfavorable regulatory rulings emerge or the landscape for USF change, we believe it would have a material negative impact on Frontier. Regulatory changes to network access rates also represent a significant risk to ILECs (incumbent local exchange carriers) and to Frontier, as the company currently derives a meaningful percentage of its total revenue from network access. Voice over Internet Protocol (VoIP) and wireless replacement also represent significant competitive threats to Frontier, especially in Rochester, New York, and we believe if consumer demand for the technology expands significantly, Frontier would be adversely affected.

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