

Verizon Communications

3Q20 Wrap: Raising Estimates As Service Revenue Improves

Wireless Telecommunication Services | Earnings

VZ

Target price (12M, US\$)

61.00

Neutral

Estimate Changes: Wireless service revenue came in \$185m ahead for 3Q at +0.2% Y/Y, improving from -1.8% Y/Y in 2Q20 despite continued roaming/travel pass headwinds, and mgt guided to improvements continuing with 4Q service revenue up at least 2%, and encouraging trajectory. While concerns abound among investors regarding increased wireless competition (in particular with AT&T's [stronger iPhone 12 promotions](#)), Verizon has remained disciplined (iPhone promo ~\$50 less Y/Y) and industry promos continued to be focused on phone subsidies and bundling incremental features into unlimited tiers rather than service price cuts, suggesting service revenue should continue to grow into 2021. Thus, we raised service revenue \$313m to \$65.3b in 2020 (+0.4% Y/Y) and \$789m to \$67.315b in 2021 (+3.1% Y/Y). Verizon also raised its EPS guide to flat to +2% Y/Y for 2020, which suggests substantial margin potential upside to 4Q20 – we raised EBIDTA/EPS for 2020 by \$503m/\$0.07 (to \$46.840b/\$4.83) and for 2021 by \$652m/\$0.07 (to \$47.874b/\$4.87). Capex was guided to the high end of the range and we expect a significant working capital hit in 4Q20 as phone inventory is built, keeping our 2020 FCF at \$19.0b and 2021 modestly higher at \$18.4b.

Outlook: Verizon's outlook most strongly hinges on competitive intensity and capital allocation. We see it following up its [\\$1.9B CBRS buy](#) with [\\$27B for C-Band](#) (including satellite payments), and see scope for it to go even higher to secure a generational wireless capacity lead over AT&T; with the C-Band auction likely not concluding until at least March, followed by a quiet period, investors will have to wait until the spring for clarity on incremental capex. The ultimate returns to these investments are also yet to be seen, with little demonstrated consumer willingness to pay for 5G mobility [in the absence of a killer app](#) not served by LTE, small 5G Home volumes, and MEC [unlikely to contribute before 2022](#). Near-term, also interesting will be Verizon's execution marketing the iPhone 12 and its new national 5G coverage (via DSS), relative to competitors efforts and given a reduced timeframe in 4Q given the late iPhone launch this year (and initial supply limits) – outsized share gains should influence sentiment. Overall, Verizon remains a strong operator with a well-built network and estimates are moving a bit higher. Still, we maintain our Neutral rating given the unclear long-term competitive environment (cable, DISH, and how T-Mobile capacity is deployed) and need for clarity on spectrum strategy.

Valuation: VZ trades at 11x P/E from 2021-2025 as we see an only 2% EPS CAGR. We maintain our \$61 DCF-based TP (6% WACC; 0% growth). Risks: surprising spectrum strategy, changes in promotional intensity, ultimate 5G returns, and fixed wireless acceleration.

Financial and valuation metrics

| Year | 12/19A | 12/20E | 12/21E | 12/22E |
|-----------------------------|-----------|---------------------------|-----------|------------|
| EPS (CS adj.) (US\$) | 4.81 | 4.83 | 4.87 | 5.03 |
| Prev. EPS (US\$) | - | 4.76 | 4.81 | 4.97 |
| Revenue (US\$ m) | 131,868.0 | 128,963.4 | 133,539.0 | 134,571.6 |
| EBITDA (US\$ m) | 47,189.0 | 46,839.6 | 47,873.7 | 48,896.2 |
| EV/EBITDA (current) | 7.8 | 7.9 | 7.7 | 7.5 |
| Net debt (US\$ m) | 127,288 | 129,121 | 140,551 | 133,840 |
| ROIC (%) | 13.91 | 11.26 | 10.90 | 10.93 |
| Number of shares (m) | 4,291.43 | IC (current, US\$ m) | | 190,123.00 |
| BV/share (12/19A, US\$ m) | 14.8 | Dividend (12/19A, US\$ m) | | 10.0 |
| Net debt (12/19A, US\$ m) | 127,288.0 | Dividend yield (%) | | 4.3 |
| Net debt/tot eq (12/19A, %) | 202.6 | | | |

Source: Company data, Refinitiv, Credit Suisse estimates

| | |
|---------------------------|---------------|
| Price (21 Oct 20, US\$) | 56.75 |
| 52-week price range | 62.07 - 49.94 |
| Enterprise value (US\$ m) | 372,660 |

Research Analysts

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Share price performance



On 21-Oct-2020 the S&P 500 INDEX closed at 3435.56 Daily Oct22, 2019 - Oct21, 2020, 10/22/19 = US\$60.77

| Quarterly EPS | Q1 | Q2 | Q3 | Q4 |
|---------------|------|------|------|------|
| 2019A | 1.20 | 1.23 | 1.25 | 1.13 |
| 2020E | 1.26 | 1.18 | 1.25 | 1.14 |
| 2021E | 1.24 | 1.26 | 1.23 | 1.14 |

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Verizon Communications (VZ)

Analyst: Douglas Mitchelson

Price (21 Oct 2020): US\$56.75

Target Price: 61.00

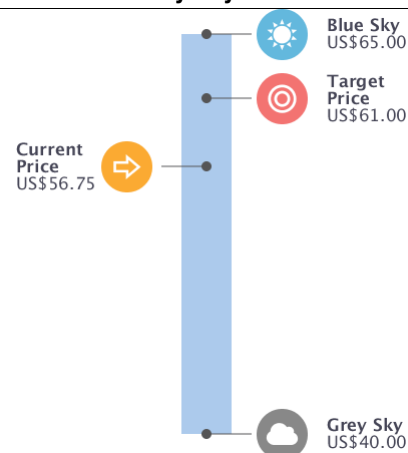
Rating: Neutral

| Income Statement | 12/19A | 12/20E | 12/21E | 12/22E |
|------------------------------|-----------|-----------|-----------|-----------|
| Revenue (US\$ m) | 131,868.0 | 128,963.4 | 133,539.0 | 134,571.6 |
| EBITDA (US\$ m) | 47,189 | 46,840 | 47,874 | 48,896 |
| Depr. & amort. | (16,682) | (16,715) | (16,768) | (16,768) |
| EBIT (US\$) | 30,378 | 29,034 | 31,568 | 32,595 |
| Net interest exp | (4,730) | (4,194) | (4,468) | (4,445) |
| PBT (US\$) | 22,733 | 24,103 | 27,100 | 28,149 |
| Income taxes | (2,945) | (5,617) | (6,369) | (6,756) |
| Minorities | (523) | (537) | (553) | (570) |
| Net profit (US\$) | 19,929 | 20,002 | 20,178 | 20,824 |
| Reported net income (US\$) | 19,265 | 17,949 | 20,178 | 20,824 |
| Other NPAT adjustments | (664) | (2,053) | 0 | 0 |
| Adjusted net income | 19,929 | 20,002 | 20,178 | 20,824 |
| Cash Flow | 12/19A | 12/20E | 12/21E | 12/22E |
| Net interest | (4,730) | (4,194) | (4,468) | (4,445) |
| Change in working capital | (6,713) | (2,576) | (3,316) | (3,567) |
| Cash flow from operations | 35,746 | 37,482 | 36,403 | 36,520 |
| CAPEX | (17,939) | (18,482) | (18,028) | (17,831) |
| Free cashflow to the firm | 17,807 | 19,000 | 18,375 | 18,690 |
| Acquisitions | (28) | (507) | 0 | (625) |
| Divestments | 27 | 0 | 0 | 0 |
| Cash flow from investments | (17,581) | (25,283) | (37,393) | (19,160) |
| Net share issue/(repurchase) | 0 | 0 | 0 | 0 |
| Dividends paid | (10,016) | (10,232) | (10,440) | (10,649) |
| Cashflow from Financing | (18,164) | (13,509) | 3,494 | (13,296) |
| Change in cash | 1 | (1,310) | 2,504 | 4,065 |
| Balance Sheet (US\$) | 12/19A | 12/20E | 12/21E | 12/22E |
| Cash & cash equivalents | 2,594 | 1,407 | 3,911 | 7,976 |
| Account receivables | 25,429 | 26,684 | 33,453 | 34,837 |
| Other current assets | 8,028 | 5,563 | 5,644 | 5,957 |
| Total fixed assets | 91,915 | 93,753 | 95,911 | 99,668 |
| Investment securities | 558 | 535 | 535 | 535 |
| Total assets | 291,727 | 297,336 | 330,367 | 338,914 |
| Total current liabilities | 44,868 | 37,560 | 43,058 | 41,308 |
| Total liabilities and equity | 291,727 | 297,336 | 330,367 | 338,914 |
| Net debt | 127,288 | 129,121 | 140,551 | 133,840 |
| Per share | 12/19A | 12/20E | 12/21E | 12/22E |
| No. of shares (wtd avg) | 4,140 | 4,141 | 4,142 | 4,143 |
| CS adj. EPS | 4.81 | 4.83 | 4.87 | 5.03 |
| Prev. EPS (US\$) | - | 4.76 | 4.81 | 4.97 |
| Dividend (US\$) | 2.42 | 2.47 | 2.52 | 2.57 |
| Free cash flow per share | 4.30 | 4.59 | 4.44 | 4.51 |
| Earnings | 12/19A | 12/20E | 12/21E | 12/22E |
| Sales growth (%) | 0.8 | (2.2) | 3.5 | 0.8 |
| EBIT growth (%) | 36.4 | (4.4) | 8.7 | 3.3 |
| Net profit growth (%) | 2.3 | 0.4 | 0.9 | 3.2 |
| EPS growth (%) | 2.1 | 0.3 | 0.9 | 3.2 |
| EBITDA margin (%) | 35.8 | 36.3 | 35.8 | 36.3 |
| EBIT margin (%) | 23.0 | 22.5 | 23.6 | 24.2 |
| Pretax margin (%) | 17.2 | 18.7 | 20.3 | 20.9 |
| Net margin (%) | 15.1 | 15.5 | 15.1 | 15.5 |
| Valuation | 12/19A | 12/20E | 12/21E | 12/22E |
| P/E (x) | 11.8 | 11.7 | 11.6 | 11.3 |
| Returns | 12/19A | 12/20E | 12/21E | 12/22E |
| ROIC (%) | 13.9 | 11.3 | 10.9 | 10.9 |
| Gearing | 12/19A | 12/20E | 12/21E | 12/22E |
| Net debt/equity (%) | 202.6 | 188.2 | 173.6 | 144.2 |
| Quarterly EPS | Q1 | Q2 | Q3 | Q4 |
| 2019A | 1.20 | 1.23 | 1.25 | 1.13 |
| 2020E | 1.26 | 1.18 | 1.25 | 1.14 |
| 2021E | 1.24 | 1.26 | 1.23 | 1.14 |

Company Background

Verizon Communications is a US provider of wireless and wireline services to businesses and consumers.

Blue/Grey Sky Scenario



Our Blue Sky Scenario (US\$)

65.00

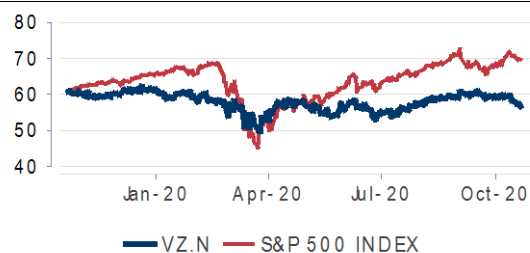
Competitive intensity eases more than we expect in this scenario, allowing VZ to grow post-paid subs and rev beyond our ests. VZ EBITDA benefits from lower marketing costs to attract new customers and lower call center volume, increasing EBITDA margins. Last, we would expect VZ to trade at a higher multiple given the faster growth.

Our Grey Sky Scenario (US\$)

40.00

Competitive intensity increases more than we expect in this scenario, challenging VZ's ability to grow post-paid subs and rev compared to our ests. VZ EBITDA is impacted by higher marketing costs to attract new customers and higher call center volume, decreasing EBITDA margins. Last, we would expect VZ to trade at a lower multiple given the slowdown.

Share price performance



On 21-Oct-2020 the S&P 500 INDEX closed at 3435.56
Daily Oct22, 2019 - Oct21, 2020, 10/22/19 = US\$60.77

Source: Company data, Refinitiv, Credit Suisse estimates

Figure 1: Verizon 3Q20 results vs estimates

| Subs 000s, \$MMs ex per share | 3Q19 | 3Q20 | | % Y/Y | | |
|-------------------------------|----------------|----------------|--------------|----------------|---------------|---------------|
| | | Old | Change | New | Old | New |
| Total Company | | | | | | |
| Consumer | 22,706 | 22,082 | (346) | 21,736 | -2.7% | -4.3% |
| Business | 7,885 | 7,630 | 119 | 7,749 | -3.2% | -1.7% |
| Corp, Other & Elims | 2,303 | 2,045 | 13 | 2,058 | -11.2% | -10.6% |
| TOTAL REVENUE | 32,894 | 31,757 | (214) | 31,543 | -3.5% | -4.1% |
| Consumer EBITDA | 10,295 | 10,200 | 99 | 10,299 | -0.9% | 0.0% |
| % of revenue | 45.3% | 46.2% | +119 bps | 47.4% | +85 bps | +204 bps |
| % of rev ex-equipment | 55.8% | 55.9% | +32 bps | 56.2% | +5 bps | +37 bps |
| Business EBITDA | 1,987 | 1,925 | 25 | 1,950 | -3.1% | -1.9% |
| % of revenue | 25.2% | 25.2% | -6 bps | 25.2% | +3 bps | -4 bps |
| % of rev ex-equipment | 28.4% | 28.5% | -84 bps | 27.7% | +15 bps | -68 bps |
| Corp, Other & Elims | (249) | (265) | (114) | (379) | NM | NM |
| Adj. TOTAL EBITDA | 12,033 | 11,860 | 10 | 11,870 | -1.4% | -1.4% |
| % of revenue | 36.6% | 37.3% | +29 bps | 37.6% | +76 bps | +105 bps |
| % of rev ex-equipment | 43.4% | 43.8% | -57 bps | 43.3% | +48 bps | -9 bps |
| Adj. EPS | \$ 1.25 | \$ 1.22 | +0.03 | \$ 1.25 | -2.4% | 0.0% |
| CapEx | 4,365 | 4,128 | 190 | 4,318 | -5.4% | -1.1% |
| % of revenue | 13.3% | 13.0% | +69 bps | 13.7% | -27 bps | +42 bps |
| FCF | 6,547 | 2,557 | 2,045 | 4,602 | -60.9% | -29.7% |
| Dividends | 2,493 | 2,545 | 1 | 2,546 | 2.1% | 2.1% |
| Net Debt | 106,579 | 106,716 | (139) | 106,577 | 0.1% | 0.0% |
| Net Leverage | 2.24x | 2.30x | 0.00x | 2.29x | 0.06x | 0.06x |
| Wireless | | | | | | |
| Postpaid Accounts | | | | | | |
| Consumer | 33,898 | 33,780 | (68) | 33,712 | -0.3% | -0.5% |
| Business | 1,473 | 1,586 | (19) | 1,567 | 7.7% | 6.4% |
| Total Wireless | 35,371 | 35,366 | (87) | 35,279 | 0.0% | -0.3% |
| Postpaid Phone Net Adds | | | | | | |
| Consumer | 239 | 230 | (88) | 142 | (9) | (97) |
| Business | 205 | 151 | (10) | 141 | (54) | (64) |
| Postpaid Phone Adds | 444 | 380 | (97) | 283 | (64) | (161) |
| Prepaid Net Adds | (81) | 21 | 56 | 77 | 102 | 158 |
| Postpaid ARPA | | | | | | |
| Consumer | \$ 118.89 | \$ 118.02 | +0.50 | \$ 118.52 | -0.7% | -0.3% |
| Business | \$ 608.41 | \$ 574.95 | +12.80 | \$ 587.75 | -5.5% | -3.4% |
| Total Wireless | \$ 138.93 | \$ 140.18 | -0.94 | \$ 139.24 | 0.9% | 0.2% |
| Service Revenue | 16,398 | 16,247 | 185 | 16,432 | -0.9% | 0.2% |
| Equipment Revenue | 5,141 | 4,704 | (592) | 4,112 | -8.5% | -20.0% |
| Other Revenue | 2,030 | 2,055 | 41 | 2,096 | 1.2% | 3.3% |
| Total Wireless Revenue | 23,569 | 23,006 | (366) | 22,640 | -2.4% | -3.9% |
| Wireline | | | | | | |
| FiOS Video Net Adds | (66) | (72) | 10 | (62) | (6) | 4 |
| FiOS Internet Net Adds | 36 | 37 | 107 | 144 | 1 | 108 |
| FiOS Voice Net Adds | (53) | (60) | (12) | (72) | (7) | (19) |
| FiOS Revenue | 3,054 | 3,060 | (24) | 3,036 | 0.2% | -0.6% |

Source: Company data, Credit Suisse estimates

Figure 2: Verizon 4Q20 estimate changes

| Subs 000s, \$MMs ex per share | 4Q19 | | 4Q20E | | % Y/Y | |
|-------------------------------|----------------|----------------|----------------|----------------|---------------|---------------|
| | | Old | Change | New | Old | New |
| Total Company | | | | | | |
| Consumer | 24,207 | 25,326 | (520) | 24,805 | 4.6% | 2.5% |
| Business | 8,071 | 7,942 | 80 | 8,022 | -1.6% | -0.6% |
| Corp, Other & Elims | 2,497 | 2,473 | 63 | 2,537 | -1.0% | 1.6% |
| TOTAL REVENUE | 34,775 | 35,740 | (377) | 35,363 | 2.8% | 1.7% |
| Consumer EBITDA | 9,658 | 9,640 | 329 | 9,970 | -0.2% | 3.2% |
| % of revenue | 39.9% | 38.1% | +213 bps | 40.2% | -183 bps | +29 bps |
| % of rev ex-equipment | 52.2% | 51.9% | +132 bps | 53.3% | -30 bps | +103 bps |
| Business EBITDA | 1,673 | 1,640 | 184 | 1,824 | -2.0% | 9.0% |
| % of revenue | 20.7% | 20.7% | +208 bps | 22.7% | -7 bps | +201 bps |
| % of rev ex-equipment | 23.8% | 24.0% | +231 bps | 26.3% | +21 bps | +252 bps |
| Corp, Other & Elims | (197) | (270) | (20) | (290) | NM | NM |
| Adj. TOTAL EBITDA | 11,134 | 11,011 | 493 | 11,504 | -1.1% | 3.3% |
| % of revenue | 32.0% | 30.8% | +172 bps | 32.5% | -121 bps | +51 bps |
| % of rev ex-equipment | 39.8% | 39.5% | +130 bps | 40.8% | -23 bps | +107 bps |
| Adj. EPS | \$ 1.13 | \$ 1.10 | +0.04 | \$ 1.14 | -2.7% | 0.9% |
| CapEx | 5,607 | 4,182 | 133 | 4,314 | -25.4% | -23.1% |
| % of revenue | 16.1% | 11.7% | +50 bps | 12.2% | -442 bps | -392 bps |
| FCF | 3,391 | 2,826 | (2,130) | 696 | -16.7% | -79.5% |
| Dividends | 2,542 | 2,596 | | 2,596 | 2.1% | 2.1% |
| Net Debt | 108,895 | 111,485 | (508) | 110,977 | 2.4% | 1.9% |
| Net Leverage | 2.31x | 2.41x | -0.04x | 2.37x | 0.10x | 0.06x |
| Wireless | | | | | | |
| Postpaid Accounts | | | | | | |
| Consumer | 33,875 | 33,930 | (205) | 33,724 | 0.2% | -0.4% |
| Business | 1,526 | 1,611 | 12 | 1,623 | 5.6% | 6.4% |
| Total Wireless | 35,401 | 35,541 | (193) | 35,348 | 0.4% | -0.2% |
| Postpaid Phone Net Adds | | | | | | |
| Consumer | 588 | 706 | (189) | 517 | 118 | (71) |
| Business | 202 | 138 | 12 | 150 | (64) | (52) |
| Postpaid Phone Adds | 790 | 844 | (177) | 667 | 54 | (123) |
| Prepaid Net Adds | (121) | (58) | 59 | 1 | 63 | 122 |
| Postpaid ARPA | | | | | | |
| Consumer | \$ 118.03 | \$ 118.52 | +1.48 | \$ 120.00 | 0.4% | 1.7% |
| Business | \$ 589.06 | \$ 559.60 | +17.67 | \$ 577.28 | -5.0% | -2.0% |
| Total Wireless | \$ 137.99 | \$ 140.29 | +1.69 | \$ 141.98 | 1.7% | 2.9% |
| Service Revenue | 16,330 | 16,445 | 128 | 16,573 | 0.7% | 1.5% |
| Equipment Revenue | 6,771 | 7,884 | (694) | 7,189 | 16.4% | 6.2% |
| Other Revenue | 2,171 | 2,109 | 20 | 2,129 | -2.8% | -1.9% |
| Total Wireless Revenue | 25,272 | 26,438 | (547) | 25,891 | 4.6% | 2.5% |
| Wireline | | | | | | |
| FiOS Video Net Adds | (51) | (60) | 8 | (52) | (9) | (1) |
| FiOS Internet Net Adds | 39 | 41 | 53 | 94 | 2 | 55 |
| FiOS Voice Net Adds | (52) | (60) | (10) | (70) | (8) | (18) |
| FiOS Revenue | 3,070 | 3,079 | 41 | 3,120 | 0.3% | 1.6% |

Source: Company data, Credit Suisse estimates

Figure 3: Verizon annual estimate changes

| Subs 000s, \$MMs ex per share | 2019 | | | | 2020E | | | | 2021E | | | | 2022E | | | |
|-------------------------------|----------------|----------------|--------------|----------------|--------------|--------------|----------------|--------------|----------------|--------------|--------------|----------------|----------------|----------------|--------------|--------------|
| | Reported | Old | Change | New | Old | New | Old | Change | New | Old | New | Old | Change | New | Old | New |
| Total Company | | | | | | | | | | | | | | | | |
| Consumer | 91,056 | 90,285 | (866) | 89,419 | -0.8% | -1.8% | 93,457 | (104) | 93,353 | 3.5% | 4.4% | 96,769 | (2,301) | 94,468 | 3.5% | 1.2% |
| Business | 31,443 | 30,735 | 199 | 30,934 | -2.3% | -1.6% | 30,658 | 568 | 31,227 | -0.2% | 0.9% | 30,518 | 605 | 31,124 | -0.5% | -0.3% |
| Corp, Other & Elims | 9,369 | 8,534 | 76 | 8,611 | -8.9% | -8.1% | 9,135 | (175) | 8,960 | 7.0% | 4.1% | 9,147 | (167) | 8,980 | 0.1% | 0.2% |
| TOTAL REVENUE | 131,868 | 129,554 | (591) | 128,963 | -1.8% | -2.2% | 133,250 | 289 | 133,539 | 2.9% | 3.5% | 136,434 | (1,862) | 134,572 | 2.4% | 0.8% |
| Consumer EBITDA | 40,314 | 39,855 | 429 | 40,284 | -1.1% | -0.1% | 40,756 | 436 | 41,192 | 2.3% | 2.3% | 41,848 | 545 | 42,393 | 2.7% | 2.9% |
| % of revenue | 44.3% | 44.1% | +91 bps | 45.1% | -13 bps | +78 bps | 43.6% | +52 bps | 44.1% | -53 bps | -93 bps | 43.2% | +163 bps | 44.9% | -36 bps | +75 bps |
| % of rev ex-equipment | 55.2% | 54.5% | +42 bps | 54.9% | -71 bps | -29 bps | 54.4% | +29 bps | 54.7% | -10 bps | -23 bps | 54.8% | +58 bps | 55.4% | +36 bps | +66 bps |
| Business EBITDA | 7,867 | 7,493 | 209 | 7,702 | -4.8% | -2.1% | 7,341 | 391 | 7,732 | -2.0% | 0.4% | 7,040 | 413 | 7,453 | -4.1% | -3.6% |
| % of revenue | 25.0% | 24.4% | +52 bps | 24.9% | -64 bps | -12 bps | 23.9% | +82 bps | 24.8% | -44 bps | -14 bps | 23.1% | +88 bps | 23.9% | -88 bps | -81 bps |
| % of rev ex-equipment | 28.2% | 27.3% | +37 bps | 27.7% | -86 bps | -49 bps | 27.2% | +71 bps | 27.9% | -9 bps | +26 bps | 26.5% | +79 bps | 27.3% | -74 bps | -66 bps |
| Corp, Other & Elims | (992) | (1,012) | (134) | (1,146) | NM | NM | (875) | (175) | (1,050) | NM | NM | (850) | (100) | (950) | NM | NM |
| Adj. TOTAL EBITDA | 47,189 | 46,336 | 503 | 46,840 | -1.8% | -0.7% | 47,221 | 652 | 47,874 | 1.9% | 2.2% | 48,038 | 859 | 48,896 | 1.7% | 2.1% |
| % of revenue | 35.8% | 35.8% | +55 bps | 36.3% | -2 bps | +54 bps | 35.4% | +41 bps | 35.8% | -33 bps | -47 bps | 35.2% | +113 bps | 36.3% | -23 bps | +48 bps |
| % of rev ex-equipment | 42.8% | 42.5% | +19 bps | 42.7% | -30 bps | -11 bps | 42.5% | +22 bps | 42.8% | +6 bps | +10 bps | 42.8% | +47 bps | 43.3% | +30 bps | +55 bps |
| Adj. EPS | \$ 4.81 | \$ 4.76 | +0.07 | \$ 4.83 | -1.0% | 0.4% | \$ 4.80 | +0.07 | \$ 4.87 | 0.8% | 0.8% | \$ 4.95 | +0.08 | \$ 5.03 | 3.1% | 3.3% |
| CapEx | 17,939 | 18,160 | 322 | 18,482 | 1.2% | 3.0% | 18,122 | (94) | 18,028 | -0.2% | -2.5% | 18,146 | (315) | 17,831 | 0.1% | -1.1% |
| % of revenue | 13.6% | 14.0% | +31 bps | 14.3% | +41 bps | +73 bps | 13.6% | -10 bps | 13.5% | -42 bps | -83 bps | 13.3% | -5 bps | 13.3% | -30 bps | -25 bps |
| FCF | 17,807 | 19,086 | (86) | 19,000 | 7.2% | 6.7% | 18,066 | 309 | 18,375 | -5.3% | -3.3% | 17,970 | 720 | 18,690 | -0.5% | 1.7% |
| Dividends | 10,016 | 10,231 | 1 | 10,232 | 2.1% | 2.2% | 10,440 | | 10,440 | 2.0% | 2.0% | 10,649 | | 10,649 | 2.0% | 2.0% |
| Net Debt | 101,124 | 111,485 | (508) | 110,977 | 10.2% | 9.7% | 117,609 | 4,798 | 122,407 | 5.5% | 10.3% | 110,289 | 5,407 | 115,696 | -6.2% | -5.5% |
| Net Leverage | 2.14x | 2.41x | -0.04x | 2.37x | 0.26x | 0.23x | 2.49x | 0.07x | 2.56x | 0.08x | 0.19x | 2.30x | 0.07x | 2.37x | -0.19x | -0.19x |
| Wireless | | | | | | | | | | | | | | | | |
| Postpaid Accounts | | | | | | | | | | | | | | | | |
| Consumer | 33,875 | 33,930 | (205) | 33,724 | 0.2% | -0.4% | 33,857 | (246) | 33,611 | -0.2% | -0.3% | 33,785 | (323) | 33,462 | -0.2% | -0.4% |
| Business | 1,526 | 1,611 | 12 | 1,623 | 5.6% | 6.4% | 1,733 | 28 | 1,761 | 7.6% | 8.5% | 1,860 | 41 | 1,901 | 7.3% | 8.0% |
| Total Wireless | 35,401 | 35,541 | (193) | 35,348 | 0.4% | -0.2% | 35,590 | (219) | 35,371 | 0.1% | 0.1% | 35,645 | (282) | 35,363 | 0.2% | 0.0% |
| Postpaid Phone Net Adds | | | | | | | | | | | | | | | | |
| Consumer | 737 | 725 | (276) | 449 | (12) | (288) | 560 | (236) | 324 | (165) | (125) | 419 | (215) | 205 | (141) | (119) |
| Business | 698 | 604 | 2 | 606 | (94) | (92) | 590 | (7) | 584 | (13) | (22) | 581 | (6) | 574 | (10) | (9) |
| Postpaid Phone Adds | 1,435 | 1,329 | (274) | 1,055 | (106) | (380) | 1,151 | (243) | 907 | (178) | (148) | 1,000 | (221) | 779 | (151) | (128) |
| Prepaid Net Adds | (591) | (110) | 115 | 6 | 481 | 597 | (266) | 32 | (234) | (157) | (240) | (142) | (15) | (157) | 124 | 76 |
| Postpaid ARPA | | | | | | | | | | | | | | | | |
| Consumer | \$ 118.10 | \$ 117.76 | +0.54 | \$ 118.29 | -0.3% | 0.2% | \$ 119.36 | +1.16 | \$ 120.52 | 1.4% | 1.9% | \$ 120.56 | +1.17 | \$ 121.72 | 1.0% | 1.0% |
| Business | \$ 605.36 | \$ 570.89 | +7.73 | \$ 578.62 | -5.7% | -4.4% | \$ 542.33 | +13.14 | \$ 555.47 | -5.0% | -4.0% | \$ 520.64 | +12.62 | \$ 533.25 | -4.0% | -4.0% |
| Total Wireless | \$ 137.79 | \$ 139.85 | +0.76 | \$ 140.61 | 1.5% | 2.0% | \$ 140.96 | +2.38 | \$ 143.34 | 0.8% | 1.9% | \$ 142.16 | +2.18 | \$ 144.34 | 0.9% | 0.7% |
| Service Revenue | 65,044 | 64,997 | 313 | 65,310 | -0.1% | 0.4% | 66,525 | 789 | 67,315 | 2.4% | 3.1% | 67,618 | 742 | 68,360 | 1.6% | 1.6% |
| Equipment Revenue | 21,563 | 20,472 | (1,287) | 19,185 | -5.1% | -11.0% | 22,242 | (653) | 21,589 | 8.6% | 12.5% | 24,298 | (2,625) | 21,673 | 9.2% | 0.4% |
| Other Revenue | 7,616 | 8,215 | 43 | 8,258 | 7.9% | 8.4% | 8,759 | (51) | 8,708 | 6.6% | 5.4% | 9,071 | (68) | 9,003 | 3.6% | 3.4% |
| Total Wireless Revenue | 94,223 | 93,683 | (930) | 92,753 | -0.6% | -1.6% | 97,526 | 85 | 97,611 | 4.1% | 5.2% | 100,987 | (1,951) | 99,036 | 3.5% | 1.5% |
| Wireline | | | | | | | | | | | | | | | | |
| FIOS Video Net Adds | (222) | (299) | 18 | (281) | (77) | (59) | (240) | (3) | (243) | 59 | 38 | (225) | | (225) | 15 | 18 |
| FIOS Internet Net Adds | 161 | 148 | 160 | 308 | (13) | 147 | 165 | | 165 | 17 | (143) | 170 | | 170 | 5 | 5 |
| FIOS Voice Net Adds | (182) | (284) | (22) | (306) | (102) | (124) | (182) | (48) | (230) | 102 | 76 | (180) | (20) | (200) | 2 | 30 |
| FIOS Revenue | 12,192 | 12,214 | 17 | 12,231 | 0.2% | 0.3% | 12,330 | (9) | 12,321 | 0.9% | 0.7% | 12,540 | (44) | 12,496 | 1.7% | 1.4% |

Source: Company data, Credit Suisse estimates

Figure 4: Verizon long-term estimate changes

| \$MMs ex per share | | 2020E | 2021E | 2022E | 2023E | 2024E | 2025E | '20-'25 CAGR |
|----------------------|--------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| Consumer Revenue | Old | 90,285 | 93,457 | 96,769 | 96,889 | 96,115 | 94,557 | 0.9% |
| | Change | -866 | -104 | -2,301 | -1,564 | -489 | +862 | +38 bps |
| | New | 89,419 | 93,353 | 94,468 | 95,324 | 95,626 | 95,418 | 1.3% |
| Business Revenue | Old | 30,735 | 30,658 | 30,518 | 30,429 | 30,380 | 30,371 | -0.2% |
| | Change | +199 | +568 | +605 | +594 | +584 | +576 | +25 bps |
| | New | 30,934 | 31,227 | 31,124 | 31,023 | 30,965 | 30,947 | 0.0% |
| Total Revenue | Old | 129,554 | 133,250 | 136,434 | 136,474 | 135,652 | 134,070 | 0.7% |
| | Change | -591 | +289 | -1,862 | -1,140 | -77 | +1,261 | +28 bps |
| | New | 128,963 | 133,539 | 134,572 | 135,334 | 135,574 | 135,330 | 1.0% |
| Consumer EBITDA | Old | 39,855 | 40,756 | 41,848 | 42,899 | 43,082 | 42,665 | 1.4% |
| | Change | +429 | +436 | +545 | +331 | +563 | +997 | +25 bps |
| | New | 40,284 | 41,192 | 42,393 | 43,229 | 43,645 | 43,661 | 1.6% |
| Business EBITDA | Old | 7,493 | 7,341 | 7,040 | 6,977 | 6,953 | 6,965 | -1.5% |
| | Change | +209 | +391 | +413 | +401 | +393 | +387 | +53 bps |
| | New | 7,702 | 7,732 | 7,453 | 7,378 | 7,346 | 7,352 | -0.9% |
| Adj EBITDA | Old | 46,336 | 47,221 | 48,038 | 49,026 | 49,185 | 48,780 | 1.0% |
| | Change | +503 | +652 | +859 | +682 | +956 | +1,384 | +35 bps |
| | New | 46,840 | 47,874 | 48,896 | 49,708 | 50,140 | 50,164 | 1.4% |
| Adj EPS | Old | \$ 4.76 | \$ 4.80 | \$ 4.95 | \$ 5.16 | \$ 5.23 | \$ 5.19 | 1.7% |
| | Change | \$ 0.07 | \$ 0.07 | \$ 0.08 | \$ 0.04 | \$ 0.07 | \$ 0.16 | +32 bps |
| | New | \$ 4.83 | \$ 4.87 | \$ 5.03 | \$ 5.20 | \$ 5.30 | \$ 5.35 | 2.1% |
| Capex | Old | 18,160 | 18,122 | 18,146 | 17,742 | 17,635 | 17,429 | -0.8% |
| | Change | +322 | -94 | -315 | +190 | +532 | +841 | +59 bps |
| | New | 18,482 | 18,028 | 17,831 | 17,932 | 18,167 | 18,270 | -0.2% |
| FCF | Old | 19,086 | 18,066 | 17,970 | 18,964 | 19,959 | 20,955 | 1.9% |
| | Change | -86 | +309 | +720 | +10 | -169 | -123 | -3 bps |
| | New | 19,000 | 18,375 | 18,690 | 18,975 | 19,791 | 20,832 | 1.9% |

Source: Company data, Credit Suisse estimates

Figure 6: Verizon Discounted Cash Flow analysis

| Verizon Discounted Cash Flow Analysis | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|-----------------|-------------------------------|-----------------------|-------------------------------------|-------------------------|-------------------|-------|----------------------------|-------|---------|---------|--------------------------|----------------|------------------------------------|--------|---------------|--------|---------------------------------|--------------|------------------------|----------|-------------------------------|-----------------|---------------------------|----------|-----------------------|---------|-----------------------------|---------|---------------------------|--------------|---------|---------|---------|---|-----------------------|---------------|---------------|---------------|---------------|---------------|----------------|--------|--------|--------|--------|--------|--------------------|--|--|--|--|--|--|--|--|-----------------------|--------|--|--|--|--|-----------------------|---------|--|
| \$MMs, except per share data | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Equity | | Cost of Equity | | Sum of Free Cash Flow at PV 93,549 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Target Price | \$61.00 | Risk Free Rate | 1.77% | Terminal Value (6.4% discount rate) | 275,143 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Fully Diluted Shares | 4,141 | Equity Risk Premium | 6.50% | Enterprise Value | 368,692 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Equity Value | 252,601 | Beta | 0.9 | Enterprise Value / '20E EBITDA | 7.9x | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Equity Weight | 69% | Cost of Equity | 7.9% | Debt, Year End '20E | (112,384) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Debt | | Cost of Debt | | Cash, Year End '20E | 1,407 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Debt (Year End '20E) | 112,384 | Wtd Avg Interest Rate | 4.00% | Other | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pension | 1,791 | Cost of Debt after tax | 3.04% | Net Asset Value | 257,715 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Debt Value | 114,175 | WACC | | 6.4% | Non-consolidated assets | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Debt Weight | 31% | | | | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <table border="1"> <thead> <tr> <th>Calendar Year</th> <th>2021E</th> <th>2022E</th> <th>2023E</th> <th>2024E</th> <th>2025E</th> </tr> </thead> <tbody> <tr> <td>Adj. EBITDA</td> <td>47,874</td> <td>48,896</td> <td>49,708</td> <td>50,140</td> <td>50,164</td> </tr> <tr> <td>Less: CapEx</td> <td>(18,028)</td> <td>(17,831)</td> <td>(17,932)</td> <td>(18,167)</td> <td>(18,270)</td> </tr> <tr> <td>Less: Cash Taxes</td> <td>(5,149)</td> <td>(5,630)</td> <td>(6,114)</td> <td>(6,543)</td> <td>(7,655)</td> </tr> <tr> <td>Less: Working Capital Chg</td> <td>(3,316)</td> <td>(3,567)</td> <td>(3,363)</td> <td>(2,508)</td> <td>-</td> </tr> <tr> <td>Free Cash Flow</td> <td>21,381</td> <td>21,869</td> <td>22,299</td> <td>22,923</td> <td>24,239</td> </tr> <tr> <td>2020 PV of FCF</td> <td>20,092</td> <td>19,312</td> <td>18,505</td> <td>17,876</td> <td>17,764</td> </tr> <tr> <td>Discounted at 6.4%</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td>Sum of discounted FCF</td> <td>93,549</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td>Terminal value @ 2025</td> <td>375,443</td> <td></td> </tr> </tbody> </table> | | | | | | Calendar Year | 2021E | 2022E | 2023E | 2024E | 2025E | Adj. EBITDA | 47,874 | 48,896 | 49,708 | 50,140 | 50,164 | Less: CapEx | (18,028) | (17,831) | (17,932) | (18,167) | (18,270) | Less: Cash Taxes | (5,149) | (5,630) | (6,114) | (6,543) | (7,655) | Less: Working Capital Chg | (3,316) | (3,567) | (3,363) | (2,508) | - | Free Cash Flow | 21,381 | 21,869 | 22,299 | 22,923 | 24,239 | 2020 PV of FCF | 20,092 | 19,312 | 18,505 | 17,876 | 17,764 | Discounted at 6.4% | | | | | | | | | Sum of discounted FCF | 93,549 | | | | | Terminal value @ 2025 | 375,443 | |
| Calendar Year | 2021E | 2022E | 2023E | 2024E | 2025E | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Adj. EBITDA | 47,874 | 48,896 | 49,708 | 50,140 | 50,164 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Less: CapEx | (18,028) | (17,831) | (17,932) | (18,167) | (18,270) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Less: Cash Taxes | (5,149) | (5,630) | (6,114) | (6,543) | (7,655) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Less: Working Capital Chg | (3,316) | (3,567) | (3,363) | (2,508) | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Free Cash Flow | 21,381 | 21,869 | 22,299 | 22,923 | 24,239 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2020 PV of FCF | 20,092 | 19,312 | 18,505 | 17,876 | 17,764 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Discounted at 6.4% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | Sum of discounted FCF | 93,549 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | Terminal value @ 2025 | 375,443 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <table border="1"> <tbody> <tr> <td>Investments / JVs</td> <td>-</td> </tr> <tr> <td>Options / Warrant Proceeds</td> <td>-</td> </tr> <tr> <td>Pension</td> <td>(1,791)</td> </tr> <tr> <td>Total Asset Value</td> <td>255,924</td> </tr> <tr> <td>Shares Outstanding (Year End '20E)</td> <td>4,138</td> </tr> <tr> <td>Option Shares</td> <td>38</td> </tr> <tr> <td>Fully Diluted Shares Out</td> <td>4,176</td> </tr> <tr> <td>Market Value per Share</td> <td>\$ 61.29</td> </tr> <tr> <td>Target Price per Share</td> <td>\$ 61.00</td> </tr> <tr> <td>Closing Price on 10/21/20</td> <td>\$ 56.75</td> </tr> <tr> <td>Difference vs. Target</td> <td>7.5%</td> </tr> <tr> <td>Plus: annual dividend yield</td> <td>4.3%</td> </tr> <tr> <td>Total Return</td> <td>11.8%</td> </tr> </tbody> </table> | | | | | | Investments / JVs | - | Options / Warrant Proceeds | - | Pension | (1,791) | Total Asset Value | 255,924 | Shares Outstanding (Year End '20E) | 4,138 | Option Shares | 38 | Fully Diluted Shares Out | 4,176 | Market Value per Share | \$ 61.29 | Target Price per Share | \$ 61.00 | Closing Price on 10/21/20 | \$ 56.75 | Difference vs. Target | 7.5% | Plus: annual dividend yield | 4.3% | Total Return | 11.8% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Investments / JVs | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Options / Warrant Proceeds | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pension | (1,791) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Asset Value | 255,924 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Shares Outstanding (Year End '20E) | 4,138 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Option Shares | 38 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Fully Diluted Shares Out | 4,176 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Market Value per Share | \$ 61.29 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Target Price per Share | \$ 61.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Closing Price on 10/21/20 | \$ 56.75 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Difference vs. Target | 7.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Plus: annual dividend yield | 4.3% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Return | 11.8% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Price Target Sensitivity Analysis | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2020 Equity Value Per Share | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Terminal Growth | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| -1.0% 0.0% 1.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| W 5.4% | \$64 | \$78 | \$97 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A 6.4% | \$52 | \$61 | \$74 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| C 7.4% | \$42 | \$49 | \$58 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Terminal Value EBITDA Multiple | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Terminal Growth | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| -1.0% 0.0% 1.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| W 5.4% | 7.4x | 8.9x | 11.0x | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A 6.4% | 6.4x | 7.5x | 8.9x | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| C 7.4% | 5.7x | 6.5x | 7.6x | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Terminal Value FCF Multiple | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Terminal Growth | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| -1.0% 0.0% 1.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| W 5.4% | 15.3x | 18.3x | 22.7x | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A 6.4% | 13.3x | 15.5x | 18.5x | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| C 7.4% | 11.7x | 13.4x | 15.6x | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Source: Company data, Credit Suisse estimates, FactSet

Figure 7: Verizon Valuation analysis

| Calendar Year (MMs, ex per sh) | 2020E | 2021E | 2022E | 2023E | 2024E | 2025E | '20-'25 |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------|
| Closing price on 10/21/20 | \$56.75 | \$56.75 | \$56.75 | \$56.75 | \$56.75 | \$56.75 | |
| Common Share, EOP | 4,132 | 4,140 | 4,142 | 4,144 | 4,146 | 4,148 | |
| Option Dilution | 38 | 38 | 38 | 38 | 38 | 38 | |
| Fully Diluted Shares, EOP | 4,170 | 4,178 | 4,180 | 4,182 | 4,184 | 4,186 | |
| Public Equity Value | 236,620 | 237,074 | 237,188 | 237,301 | 237,415 | 237,528 | |
| Debt, EOP | 112,384 | 126,318 | 123,672 | 120,612 | 117,152 | 114,661 | |
| Less: Cash, EOP | (1,407) | (3,911) | (7,976) | (8,546) | (13,787) | (20,811) | |
| Net Debt, EOP | 110,977 | 122,407 | 115,696 | 112,066 | 103,365 | 93,851 | -3.3% |
| Gross Leverage | 2.40x | 2.64x | 2.53x | 2.43x | 2.34x | 2.29x | |
| Net Leverage | 2.37x | 2.56x | 2.37x | 2.25x | 2.06x | 1.87x | |
| Unfunded Pension Liability | (1,791) | (1,791) | (1,791) | (1,791) | (1,791) | (1,791) | |
| Total Hidden Value | (1,791) | (1,791) | (1,791) | (1,791) | (1,791) | (1,791) | |
| Enterprise Value | 349,388 | 361,272 | 354,674 | 351,158 | 342,571 | 333,170 | -0.9% |
| EBITDA, CS | 46,840 | 47,874 | 48,896 | 49,708 | 50,140 | 50,164 | 1.4% |
| EV / EBITDA Multiple | 7.5x | 7.5x | 7.3x | 7.1x | 6.8x | 6.6x | |
| At CS Target Price | 7.8x | 7.9x | 7.6x | 7.4x | 7.2x | 7.0x | |
| CapEx | 18,482 | 18,028 | 17,831 | 17,932 | 18,167 | 18,270 | -0.2% |
| EBITDA less CapEx | 28,357 | 29,846 | 31,065 | 31,776 | 31,974 | 31,894 | 2.4% |
| Unlevered CF Multiple | 12.3x | 12.1x | 11.4x | 11.1x | 10.7x | 10.4x | |
| Adj. EPS | \$4.83 | \$4.87 | \$5.03 | \$5.20 | \$5.30 | \$5.35 | 2.1% |
| P/E Multiple | 11.7x | 11.6x | 11.3x | 10.9x | 10.7x | 10.6x | |
| At CS Target Price | 12.6x | 12.5x | 12.1x | 11.7x | 11.5x | 11.4x | |
| Free Cash Flow | 19,000 | 18,375 | 18,690 | 18,975 | 19,791 | 20,832 | 1.9% |
| FCF per Share | \$4.59 | \$4.44 | \$4.51 | \$4.58 | \$4.77 | \$5.02 | 1.8% |
| FCF Yield | 8.0% | 7.8% | 7.9% | 8.0% | 8.3% | 8.8% | |
| FCF Multiple | 12.4x | 12.8x | 12.6x | 12.4x | 11.9x | 11.3x | |
| Dividends | 10,232 | 10,440 | 10,649 | 10,868 | 11,090 | 11,318 | 2.0% |
| Dividends as % of FCF | 53.9% | 56.8% | 57.0% | 57.3% | 56.0% | 54.3% | |
| Dividends per Share | \$2.45 | \$2.50 | \$2.55 | \$2.60 | \$2.65 | \$2.70 | |
| Dividend Yield | 4.3% | 4.4% | 4.5% | 4.6% | 4.7% | 4.8% | |

Source: Company data, Credit Suisse estimates, FactSet

Valuation, Methodology and Risks

Target Price and Rating

Valuation Methodology and Risks: (12 months) for Verizon Communications (VZ.N)

Method: Our \$61 target price for VZ is derived via DCF, using an 8% cost of equity, 4% pre-tax cost of debt and no terminal growth, and we rate the stock Neutral based on its expected total return relative to peers

Risk: Risks to our \$61 target price and Neutral rating for VZ are level of wireless competition, timing and quantity of 5G-based capital expenditures and revenue; deployment of capital, including quantity and timing of spectrum and stock purchases and any shift in M&A discipline; the health of the economy; and any impactful shifts in regulations

Companies Mentioned (Price as of 21-Oct-2020)

AT&T (T.N, \$26.72)

Dish Network (DISH.OQ, \$26.83)

T-Mobile US (TMUS.OQ, \$112.42)

Verizon Communications (VZ.N, \$56.75, NEUTRAL, TP \$61.0)

Disclosure Appendix

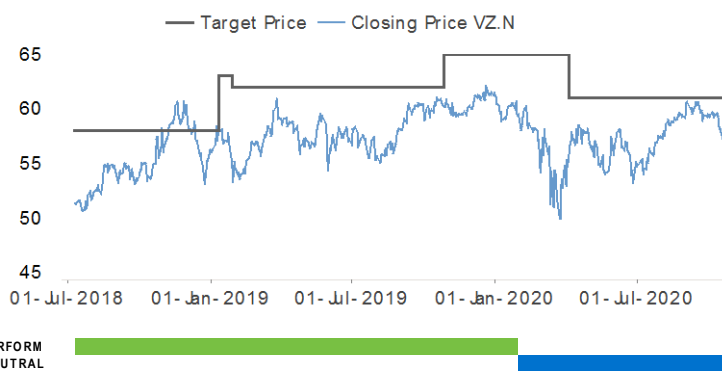
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3-Year Price and Rating History for Verizon Communications (VZ.N)

| VZ.N | Closing Price | Target Price | |
|-----------|---------------|--------------|--------|
| Date | (US\$) | (US\$) | Rating |
| 10-Jul-18 | 51.34 | 58.00 | O * |
| 11-Jan-19 | 58.02 | 63.00 | |
| 29-Jan-19 | 53.28 | 62.00 | |
| 27-Oct-19 | 60.37 | 65.00 | |
| 03-Feb-20 | 58.05 | 65.00 | N |
| 05-Apr-20 | 54.70 | 61.00 | |

* Asterisk signifies initiation or assumption of coverage.


As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European (excluding Turkey) ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin America, Turkey and Asia (excluding Japan and Australia), stock ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.

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