

Verizon Communications (VZ)

\$56.85 (As of 07/24/20)

Price Target (6-12 Months): **\$60.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/29/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

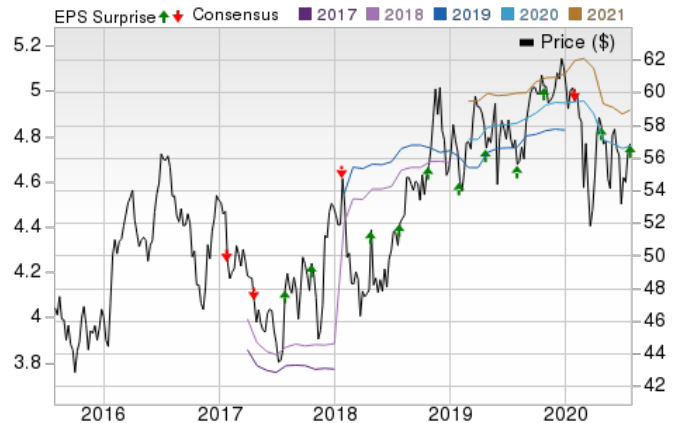
Growth: B

Momentum: A

Summary

Verizon reported healthy second-quarter 2020 results, with the bottom and the top line beating the Zacks Consensus Estimate. The wireless operator is likely to benefit from a disciplined network strategy, including accelerated 5G deployment despite economic uncertainties stemming from the COVID-19 crisis. It launched 35th 5G Ultra Wideband city in San Diego and intends to make 60 5G mobility cities this year. It is building the 5G home solution and mobile edge computing on the same network. Verizon expects to see strong momentum heading into the second half of 2020. However, it is facing headwinds in the media business due to sluggish advertising trends. The company operates in a fiercely-competitive U.S. wireless market. Also, Verizon is spending heavily on promotion and lucrative discounts to attract customers, which erodes profitability.

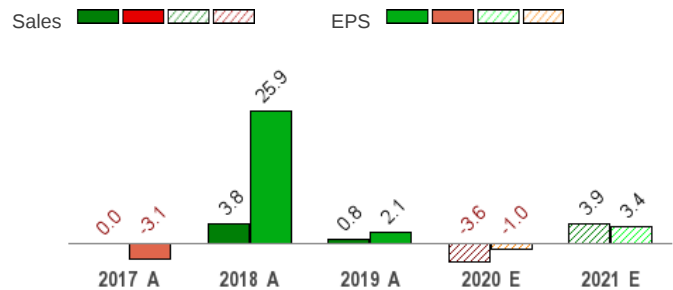
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$62.22 - \$48.84
20 Day Average Volume (sh)	14,417,035
Market Cap	\$235.2 B
YTD Price Change	-7.4%
Beta	0.45
Dividend / Div Yld	\$2.46 / 4.3%
Industry	Wireless National
Zacks Industry Rank	Top 40% (102 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.7%
Last Sales Surprise	1.8%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	NA
Earnings ESP	-0.6%
P/E TTM	11.8
P/E F1	11.9
PEG F1	3.8
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	32,333 E	31,923 E	32,982 E	34,860 E	132,065 E
2020	31,610 A	30,447 A	31,639 E	34,129 E	127,116 E
2019	32,128 A	32,071 A	32,894 A	34,775 A	131,868 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.27 E	\$1.23 E	\$1.25 E	\$1.16 E	\$4.92 E
2020	\$1.26 A	\$1.18 A	\$1.22 E	\$1.13 E	\$4.76 E
2019	\$1.20 A	\$1.23 A	\$1.25 A	\$1.13 A	\$4.81 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/24/2020. The reports text is as of 07/27/2020.

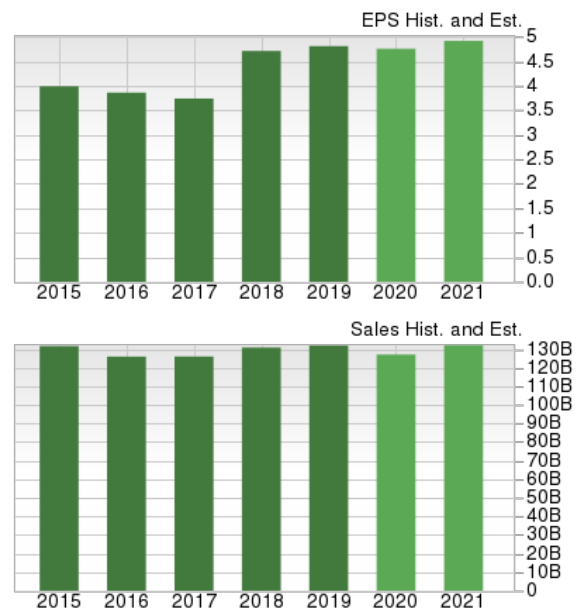
Overview

Based in New York, Verizon Communications Inc. was formed through the merger of Bell Atlantic and GTE Corp. The company offers communication services in the form of local phone service, long distance, wireless and data services. In Jan 2006, Verizon completed its merger with MCI Corporation, a leader in long distance and data networking. With the acquisition of Alltel Wireless Corp. in early 2009, Verizon has surpassed AT&T Inc. as the largest wireless carrier in the North America, serving millions of customers nationwide.

Verizon has teamed up with Amazon Web Services to create and deploy low latency applications to mobile devices using 5G and became the first telecom carrier in the world to offer such service. The company has launched a free consumer search engine dubbed OneSearch with enhanced privacy options to add a new dimension to the search ecosystem. It has also announced a pricing breakthrough in the cable industry with the launch of Mix & Match on its FiOS platform, enabling viewers to combine TV with Internet plans effectively without any hidden charges and annual contracts. Focus on online content delivery, mobile video and online advertising will likely stoke future growth.

With the ramp-up of 5G service across the country, Verizon is likely to retain its lead in promulgating 5G mobile networks nationwide by using virtualized machines, advanced levels of operational automation and adaptability. Effective second-quarter 2019, the company has reorganized its operating segments under its new operating structure dubbed Verizon 2.0. Under this operating structure, the new segments of the company are Consumer, Business and Media Group.

- **Consumer** (69.3% of aggregate revenues in second-quarter 2020): This segment includes the retail wireline and wireless businesses.
- **Business** (24.6%): This segment includes the wireless and wireline operations of Wholesale, Public Sector and Other, Small and Medium Business, and Global Enterprise.
- **Media Group** (6.1%): This segment includes assets gained through the Yahoo acquisition, media verticals and the ad platform.



Reasons To Buy:

- ▲ Verizon is likely to benefit from a disciplined network strategy, including accelerated 5G deployment despite economic uncertainties stemming from the COVID-19 crisis. The wireless operator launched 35th 5G Ultra Wideband city in San Diego and intends to make 60 5G mobility cities this year. It is building the 5G home solution and mobile edge computing on the same network. Verizon expects to see strong momentum heading into the second half of 2020. Furthermore, the company acquired San Jose, CA-based video conferencing company, BlueJeans Network, expanding its unified communications portfolio. BlueJeans' products complement Verizon's mobile-first business solutions like One Talk and will be integrated into its 5G product roadmap.
- ▲ Despite coronavirus-induced challenges, Verizon completed Dynamic Spectrum Sharing ("DSS") trial to accelerate the pace of 5G network evolution. The trial underscores Verizon's commitment to introduce nationwide 5G coverage with the deployment of Ultra Wideband network services by the end of 2020. DSS will help Verizon to deploy lower-frequency bands, including mid-band and low-band spectrum, to deliver an optimum combination of 5G coverage and speed to its customers. Moreover, in the enterprise and wholesale business, Verizon is changing its revenue mix toward newer growth services like cloud, security and professional services. Verizon is looking forward to capitalize on the countless innovative technology solutions being developed in the Internet of Things and telematics ecosystem across multiple industries. The company's focus on online content delivery, mobile video and online advertising should drive growth.
- ▲ Verizon has upped the ante by launching the 5G Ultra Wideband network in multiple cities across the country. The 5G Ultra Wideband network uses a millimeter-wave spectrum and is designed to provide customers significantly faster download speed and greater bandwidth compared with 4G. Verizon's 5G mobility service offers an unparalleled experience that impacts industries as diverse as public safety, health care, retail and sports. The company's 5G network hinges on three fundamental drivers to deliver the full potential of next-generation wireless technology. These include massive spectrum holdings, particularly in the millimeter-wave bands for faster data transfer, end-to-end deep fiber resources and the ability to deploy a large number of small cells.
- ▲ Verizon is systematically diversifying itself as a major player in the digital content and online advertising space. The company wrote off a majority of its media business — Oath — which includes Yahoo and AOL, due to lower-than-expected performance. Verizon Media replaced the Oath brand. Over the years, the largest U.S. wireless carrier (by subscribers), has spurred technological innovation and economic development, including introduction of mobile data and making the ecosystem more pervasive with 4G LTE. The company has now embarked on a new operating structure under Verizon 2.0, with the operating model closely aligned with the evolving customer needs. The business transformation is likely to propel the growth engine of the company as the industry witnesses a major upheaval.
- ▲ With one of the most efficient wireless networks in the United States, Verizon continues to deploy the latest 4G LTE Advanced technologies to deliver faster peak data speeds and capacity for customers, driven by customer-focused planning, disciplined engineering and constant strategic investment. Verizon has been aggressively forging ahead to expand its fiber optics networks to support 4G LTE and upcoming 5G wireless standards as well as wireline connections. The company remains focused on making necessary capital expenditures in order to support increased demand for network traffic. At the same time, Verizon is focusing on build-out of its 5G Ultra Wideband network, deployment of fiber assets across the country and shift toward Intelligent Edge Network architecture.
- ▲ As of Jun 30, 2020, Verizon had \$7,882 million in cash and cash equivalents with \$106,190 million of long-term debt compared with the respective tallies of \$7,047 million and \$124,678 million at the end of the previous quarter. Verizon has been looking to slash costs through employee reduction, active management of its near-term maturities, and optimization of overall funding footprint and lowering of cost of capital. To date, the company achieved more than \$6.3 billion of cumulative cash savings and is on track to achieve savings of \$10 billion by 2021. Verizon currently has a debt-to-capital ratio of 0.69 compared with 0.52 of the industry. The times interest earned (TIE) ratio has improved steadily over the past quarters to 6.1 at present relative to 3.9 of industry. This suggests that the company is more likely to meet its debt obligations. Verizon has a dividend payout rate of 50.8%. The rate has remained steady over the past quarters, indicating that the company is sharing more of its earnings with stockholders. It is to be seen whether Verizon can maintain the momentum in the coming days amid disruptions stemming from the COVID-19 crisis.

Verizon launched 35th 5G Ultra Wideband city in San Diego and intends to make 60 5G mobility cities this year. It is building the 5G home solution and mobile edge computing on the same network.

Reasons To Sell:

- ▼ In the second quarter of 2020, Verizon's aggregate operating revenues declined 5.1% year over year to \$30,447 million. This was the result of substantial declines in wireless equipment revenues in the Consumer and Business segments, primarily due to limited in-store engagement and the impact of COVID-19 on customer behavior. Verizon is facing headwinds in the media business due to sluggish advertising trends. For 2020, the company expects adjusted earnings per share growth between -2% and 2%.
- ▼ Verizon continues to struggle in a competitive and almost saturated U.S. wireless market with incumbents like AT&T and T-Mobile. The industry is likely to witness stiff competition in 2020 and beyond with the entry of cable MSOs (multi service operators). Comcast has already entered this space with Xfinity Mobile offering. Charter Communications also reiterated its plans of launching wireless service. Adoption of several unlimited data plans has resulted in reduction of wireless service revenues and lower average revenue per user.
- ▼ Spectrum crunch has become a major issue in the U.S. telecom industry. Most of the carriers are finding it increasingly difficult to manage mobile data traffic, which is growing by leaps and bounds. The situation has become even more acute with the growing popularity of iPhone and Android smartphones as well as rising online mobile video streaming, cloud computing and video conferencing services.
- ▼ In a bid to expand its customer base, Verizon is spending heavily on promotion and is also offering lucrative discounts, which is weighing on margins. The company's wireline division is struggling with persistent losses in access lines owing to competitive pressure from voice-over-Internet protocol (VoIP) service providers and aggressive triple-play (voice, data and video) offerings by cable companies. These are likely to weigh on the company's revenues in the future. The company recorded high capital expenditures in order to support the launch and continued build-out of its 5G Ultra Wideband network, deployment of significant fiber assets across the country and upgrade to Intelligent Edge Network architecture. It remains unclear if and when a reasonable return can be achieved from such investments.

Verizon is facing headwinds in the media business due to sluggish advertising trends. It operates in a fiercely-competitive U.S. wireless market.

Last Earnings Report

Verizon Beats Q2 Earnings Estimates Despite COVID-19 Woes

Verizon reported healthy second-quarter 2020 results, with the bottom and the top line beating their respective Zacks Consensus Estimate. This highlights the company's disciplined network strategy for long-term growth along with strong operational performance. Verizon expects to see strong momentum heading into the second half of 2020.

Net Income

On a GAAP basis, net income in the June-end quarter was \$4,700 million or \$1.13 per share compared with \$3,944 million or 95 cents per share in the prior-year quarter. The improvement can be attributable to lower other expenses and interest payments. Non-GAAP net income per share came in at \$1.18 compared with \$1.23 in the year-ago quarter. The bottom line beat the Zacks Consensus Estimate by 2 cents.

Revenues

Quarterly aggregate operating revenues declined 5.1% year over year to \$30,447 million. This was the result of substantial declines in wireless equipment revenues in the Consumer and Business segments, primarily due to limited in-store engagement and the impact of COVID-19 on customer behavior. Nevertheless, the top line surpassed the consensus estimate of \$29,910 million.

Segment Results

Consumer: Total revenues fell 4% year over year to \$21,113 million. This was caused by a significant fall in wireless equipment revenues due to low activation levels. Service revenues declined 2.8% to \$15,900 million due to reduced roaming, usage and waived fees on account of COVID-19. Wireless equipment revenues fell 17.8% to \$3,209 million due to closed company-operated retail stores. Other revenues totaled \$2,004 million, up 15% year over year.

During the quarter, Verizon recorded 72,000 wireless retail postpaid net additions. This comprised 97,000 phone net additions and 97,000 tablet net losses, offset by 72,000 other connected device net additions. Postpaid smartphone net additions were 199,000. The total retail postpaid churn was 0.69% and the retail postpaid phone churn was 0.51%. The company saw 10,000 Fios Internet net additions, as installations were limited due to restrictions on working inside customers' homes.

The segment's operating income declined 3.7% year over year to \$7,064 million. The operating margin was 33.5%, slightly up from 33.4%. EBITDA came in at \$9,913 million, reflecting a margin of 47% compared with the respective tallies of \$10,217 million and 46.5% in the prior-year quarter.

Business: Revenues were \$7,482 million, down 3.7% year over year. Verizon responded to the challenges of COVID-19, handling increased traffic needs while meeting a surge in demand for connectivity and devices. The company recorded 280,000 wireless retail postpaid net additions in the quarter. This comprised 76,000 phone net additions, 61,000 tablet net additions and 143,000 other connected device additions.

The segment's operating income was \$946 million compared with \$1,071 million in the year-ago quarter for respective margins of 12.6% and 13.8%. EBITDA declined 7.4% to \$1,960 million for a margin of 26.2% compared with 27.3% in the prior-year quarter.

Revenues from Verizon Media were \$1.4 billion, down 24.5% year over year. This was primarily as a result of COVID-19 related impacts. Verizon Media continued to drive increased customer engagement on its owned and operated properties.

Other Details

Total operating expenses reduced 4.7% year over year to \$23,086 million. Overall, operating income declined 6.2% year over year to \$7,361 million. Adjusted EBITDA was \$11.5 billion with a margin of 37.9%.

Cash Flow & Liquidity

In the first half of 2020, Verizon generated \$23,552 million of net cash from operating activities compared with \$15,836 million in the year-ago period. It ended first-half 2020 with free cash flow (non-GAAP) of \$13.7 billion, up 74.1% year over year. As of Jun 30, the company had \$7,882 million in cash and cash equivalents with \$106,190 million of long-term debt.

Guidance Reiterated

Verizon has reiterated its previously-provided outlook for 2020. The company continues to expect adjusted earnings per share growth between -2% and 2%. Capital spending is likely to be in the range of \$17.5-\$18.5 billion.

Quarter Ending	06/2020
Report Date	Jul 24, 2020
Sales Surprise	1.80%
EPS Surprise	1.72%
Quarterly EPS	1.18
Annual EPS (TTM)	4.82

Recent News

On Jul 23, 2020, Verizon Business announced that it has joined forces with Microsoft to enable the quick deployment of end-to-end IoT solutions. Verizon's ThingSpace IoT platform and 5G/LTE network connectivity have been integrated with Microsoft Azure IoT Central to accelerate time-to-market and save costs for IoT solutions.

On Jun 29, Verizon announced that it has inked a deal with Cooler Screens to extend its digital advertising footprint to enhance the in-store shopping experiences of brick and mortar retail stores. Cooler Screens is a Chicago-based startup firm that combines retail product merchandising with digital technology to deliver relevant in-store shopping experiences by embedding smart screens into glass cooler doors.

On Jun 22, Verizon announced the completion of Dynamic Spectrum Sharing ("DSS") trial to accelerate the pace of 5G network evolution. DSS will help Verizon deploy lower-frequency bands, including mid-band and low-band spectrum, to deliver an optimum combination of 5G coverage and speed to its customers. The DSS technology enables the deployment of both 4G and 5G in the same band and proactively allocates spectrum resources between them, based on user demand.

On May 28, Verizon announced that San Diego is the 35th city to have its 5G Ultra Wideband mobility service. The service is initially available in parts of Mission Valley near Westfield Mission Valley and SDCCU Stadium, Linda Vista along Linda Vista Road, Kensington near El Cajon Blvd and in Banker's Hill on 1st Avenue. If customers move outside Verizon's 5G Ultra Wideband coverage area, the 5G-enabled device transitions to a 4G LTE network. The 5G Ultra Wideband network uses a millimeter-wave spectrum and is designed to provide customers significantly faster download speed and greater bandwidth compared with 4G.

On May 18, Verizon announced that it has officially completed the acquisition of San Jose, CA-based video conferencing company — BlueJeans Network. Through this deal, Verizon Business welcomed 390 new employees. BlueJeans' founders and key management team have joined Verizon as they work together to lead growth and innovation of the business. BlueJeans' products complement Verizon's mobile-first business solutions like One Talk and will be integrated into the wireless carrier's 5G product roadmap.

Valuation

Verizon shares are down 0.9% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 2.3% over the past year, and stocks in the Zacks Computer and Technology sector are up 21.5% in the same period.

The S&P 500 Index is up 6.9% in the past year.

The stock is currently trading at 7.92X trailing 12-month EV/EBITDA, which compares to 6.08X for the Zacks sub-industry, 12.89X for the Zacks sector and 11.95X for the S&P 500 Index.

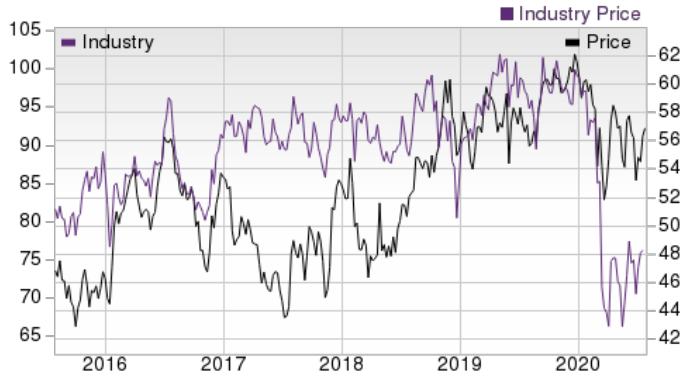
Over the past five years, the stock has traded as high as 11.96X and as low as 6.06X, with a 5-year median of 7.55X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$60 price target reflects 5.12X forward 12-month earnings.

The table below shows summary valuation data for VZ

Valuation Multiples - VZ					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	7.92	6.08	12.89	11.95
	5-Year High	11.96	11.55	13.35	12.86
	5-Year Low	6.06	5.41	7.59	8.25
	5-Year Median	7.55	6.71	10.89	10.88
P/E F12M	Current	11.73	12.85	25.42	22.51
	5-Year High	14.19	15	25.58	22.51
	5-Year Low	10.02	10.1	16.72	15.25
	5-Year Median	12.02	12.25	19.33	17.52
P/S F12M	Current	1.81	1.6	3.88	3.55
	5-Year High	1.93	1.67	3.88	3.55
	5-Year Low	1.31	1.17	2.32	2.53
	5-Year Median	1.66	1.46	3.14	3.02

As of 07/24/2020

Industry Analysis Zacks Industry Rank: Top 40% (102 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
TMobile US, Inc. (TMUS)	Outperform	1
ATN International, Inc. (ATNI)	Neutral	3
DISH Network Corporation (DISH)	Neutral	3
GCI Liberty, Inc. (GLIBA)	Neutral	3
Liberty Latin America Ltd. (LILA)	Neutral	4
ATT Inc. (T)	Neutral	3
United States Cellular Corporation (USM)	Neutral	3
CenturyLink, Inc. (CTL)	Underperform	4

Industry Comparison Industry: Wireless National				Industry Peers		
	VZ	X Industry	S&P 500	T	TMUS	USM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	1	3
VGM Score	A	-	-	B	D	A
Market Cap	235.25 B	298.70 M	22.16 B	212.40 B	146.00 B	2.58 B
# of Analysts	20	5	14	19	6	4
Dividend Yield	4.33%	0.00%	1.81%	7.03%	0.00%	0.00%
Value Score	A	-	-	A	D	A
Cash/Price	0.03	0.10	0.06	0.05	0.01	0.09
EV/EBITDA	7.99	7.99	13.07	5.50	14.72	4.71
PEG Ratio	3.82	2.90	3.03	1.69	4.11	NA
Price/Book (P/B)	3.82	1.43	3.11	1.10	3.12	0.61
Price/Cash Flow (P/CF)	6.42	6.94	12.27	3.37	8.92	3.15
P/E (F1)	11.94	27.64	21.88	9.32	80.61	20.25
Price/Sales (P/S)	1.81	1.05	2.38	1.21	3.24	0.64
Earnings Yield	8.37%	1.21%	4.34%	10.72%	1.24%	4.96%
Debt/Equity	2.02	0.56	0.76	0.79	1.27	0.56
Cash Flow (\$/share)	8.85	2.47	7.01	8.77	11.77	9.62
Growth Score	B	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	6.14%	6.20%	10.82%	8.17%	57.71%	25.38%
Proj. EPS Growth (F1/F0)	-1.10%	-6.06%	-9.01%	-11.13%	-67.62%	3.82%
Curr. Cash Flow Growth	-0.75%	3.99%	5.47%	14.11%	7.57%	4.94%
Hist. Cash Flow Growth (3-5 yrs)	4.16%	2.65%	8.55%	15.33%	16.70%	10.62%
Current Ratio	0.99	1.72	1.31	0.81	0.64	2.18
Debt/Capital	66.91%	44.22%	44.41%	44.22%	56.02%	35.81%
Net Margin	14.00%	3.56%	10.46%	6.84%	7.80%	3.56%
Return on Equity	33.26%	1.61%	15.13%	13.03%	13.96%	3.40%
Sales/Assets	0.46	0.49	0.54	0.32	0.52	0.49
Proj. Sales Growth (F1/F0)	-3.60%	0.00%	-2.06%	-5.67%	51.09%	-2.95%
Momentum Score	A	-	-	D	F	B
Daily Price Chg	1.79%	0.00%	-0.65%	-1.10%	0.40%	-1.75%
1 Week Price Chg	3.32%	0.18%	3.82%	0.40%	-1.59%	3.02%
4 Week Price Chg	4.73%	-2.26%	4.96%	-0.50%	-4.77%	-2.26%
12 Week Price Chg	-1.04%	0.00%	9.30%	-2.95%	19.51%	-4.90%
52 Week Price Chg	0.87%	-17.11%	-2.82%	-12.54%	31.31%	-36.71%
20 Day Average Volume	14,417,035	206,813	2,026,477	35,518,464	6,567,844	151,695
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.08%	-4.02%	0.00%
(F1) EPS Est 4 week change	0.06%	-0.07%	0.15%	-0.75%	-9.16%	-2.13%
(F1) EPS Est 12 week change	-1.29%	-4.30%	-3.24%	-3.17%	-55.74%	30.57%
(Q1) EPS Est Mthly Chg	-0.48%	0.00%	0.00%	-0.94%	3.40%	-0.87%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	B
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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