Verizon Communications, Inc. (VZ)

Please refer to Appendix - Important Disclosures and Analyst Certification.

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<tr>
<td>52WK H-L ($) : 62 - 49</td>
<td>Price Target ($) :</td>
<td>5B</td>
<td>Q1</td>
<td>1.20A</td>
<td>1.26A</td>
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<td>Market Cap (mil): 230,737</td>
<td>L-Term Rev. Gr Rate Est:</td>
<td>Q2</td>
<td>1.23A</td>
<td>1.12E</td>
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<td>Shares Out (mil): 4,141.0</td>
<td>L-Term EPS Gr Rate Est:</td>
<td>Q3</td>
<td>1.25A</td>
<td>1.25E</td>
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<td>Float (mil): 4,137.0</td>
<td>Debt/Cap:</td>
<td>Q4</td>
<td>1.13A</td>
<td>1.16E</td>
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<td>Dividend ($) : 2.42</td>
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<td>Yield (%): 4.3</td>
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**Company Description**

Headquartered in NYC, Verizon is the largest wireless carrier in the U.S. Verizon was formed on June 30, 2000, with the merger of Bell Atlantic, one of the original seven RBOCs, and GTE, the largest independent phone company at the time. The company has over 115 million retail postpay wireless customers and serves roughly 10 million wireline access lines.

**Revenue Profile**

Source: Company Data and Baird & Co. Estimates

**Competition**

Wireless: AT&T, T-Mobile, Charter, Comcast
Wireline: Comcast, Charter, AT&T, other CLECs and ILECs

**Quick Summary**

We rate the stock Neutral based on the following factors:

- **Stiff wireless competition.** VZ continues to compete with two or more wireless carriers in every market, which could create revenue and margin pressure.
- **Valuation fair.** Based on historical trading levels and competitive threats, we view valuation as fair.
- **COVID-19 impacts.** We expect Verizon's subscription driven wireless business to hold up well overall, though it will also be subject to economic pressures, particularly in SMB, and also called out increasing advertising pressure in its media business.
- **Strong dividend.** VZ currently boasts a 4.3% dividend yield, which should enhance total returns.
- **Wireless margins strong.** Despite competitive pressures, VZ still generates the highest wireless EBITDA margins, with 45.7% in 2019.
Investment Thesis

Industry competition intense. Service revenue growth has improved, and although Verizon continues to lead the industry on some metrics, the highly competitive wireless environment is likely to continue.

Valuation fair. Based on historical trading levels and competitive threats, we view valuation as fair.

Strong dividend. VZ currently boasts a 4.3% dividend yield, which should enhance total returns.

Wireless margins strong. Despite competitive pressures, VZ still generates the highest wireless EBITDA margins.

Initiatives in content and advertising slowing. Oath, which combines Verizon's acquisitions of Yahoo and AOL, has faced pressure in recent quarters.

Risks & Caveats

Regulatory. The regulatory environment remains difficult to forecast, and can significantly impact results.

Wireless competition intense. We expect wireless competitive pressure to continue.

Wireline under pressure. Enterprise revenue is being pressured by continued competition from other ILECs and CLECs. In addition, VZ's consumer Fios business faces competition from Comcast, Charter and others.

Supplemental Information

VZ is currently trading at 6.7x our 2021E EBITDA, compared to T and TMUS at 6.0x and 8.7x.

Our $58 target price is based on 7x our 2021 EBITDA forecast, putting it roughly in line with historical averages of around 7x.
Appendix - Important Disclosures and Analyst Certification

Covered Companies Mentioned
All stock prices below are the 5/18/2020 closing price.

AT&T, Inc. (T - $29.45 - Neutral)
T-Mobile US, Inc. (TMUS - $101.90 - Neutral)
(See recent research reports for more information)
Verizon Communications, Inc.
May 19, 2020

1 Robert W. Baird & Co. Incorporated makes a market in the securities of VZ, T and TMUS.

3 Robert W. Baird & Co. Incorporated and/or its affiliates have received investment banking compensation from AT&T, Inc. in the past 12 months.

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