

Verizon Communications Inc. (VZ) Company Report

Descriptive:

Verizon Communications Inc. is a multinational vertically integrated telecommunications conglomerate, incorporated in Delaware, but headquartered in New York City (Burton). Verizon officially started doing business on June 30, 2000 as Verizon Communications, following a merger from Bell Atlantic Corp (one of the original Baby Bells) and GTE Corporation (the largest independent telephone company during the Bell era) (Verizon Communications History). Verizon, a major leader in the telecommunications industry, operates in an oligopoly environment, due to the extremely high barriers to entry that include expensive infrastructure and marketing costs (Major Companies).

Verizon Communications focuses on providing services to consumers, carriers, businesses and government (Hoovers). “Verizon offers a wide range of telecom, managed network, and IT services to commercial and government clients in more than 150 [nations]” (Green). Verizon Communications operates in domestic wireless and wireline services. “The company's core mobile business, Verizon Wireless, serves more than 146 million connections, while Verizon's wireline unit serves more than 18 million” (Hoovers). Wireless services include voice, data, other services and equipment (Hoovers). The wireline segment, generates about a quarter of the company’s revenue. Wireline provides voice, data, video communications products, and enhanced services, including broadband video and data, corporate networking services, data center and cloud services, security and managed network services, FiOS services, and local and long-distance voice services (Green.). Currently the Verizon Wireless sector maintains top market share at 35.8%, and top competitors in the industry include AT&T, Deutsche Telekom AG (operator behind T-Mobile in the US marketplace) and Sprint

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(Major Companies). Verizon is ranked the #1 wireless phone service in the US, ahead of top rival AT&T and the #2 US overall telecom services provider, after AT&T (Green).

Verizon Communications has remained a top competitor due to its constant innovation and strategic mergers, especially in their wireless sector. Verizon Wireless operates one of the most extensive wireless networks in the US and the largest 4G LTE and third-generation Evolution-Data Optimized (EV-DO) network (IBISWorld Industry Report 51721). The 4G LTE network is available to more than 98% of the US population (IBISWorld Industry Report 51721). Currently Verizon Wireless has been focused on developing a 5G network, by 2020. They have committed \$1.4 billion over the next 3 years to the project (Verizon 2016 Annual Report.). A 5G network will differentiate their services from their competitors. “5G will open new market opportunities in fixed broadband and the Internet of Things (IoT). 5G technology will eventually impact industry sectors across the global economy and create an estimated \$12.3 trillion in market opportunity by 2035” (Verizon 2016 Annual Report.).

Recently Verizon Communications has aggressively pursued Merger and Acquisition (M&A) strategies, to aid in the development of their innovating products and services. The acquisition of AOL and Yahoo, which the company merged this year to create the subsidiary Oath, has been their most impactful consolidation. In 2015, Verizon completed the acquisition of AOL for \$4.4 billion to drive the Long-Term Evolution (LTE) wireless video and Over the Top (OTT) video strategy. This brought approximately one billion users to the network, including 600 million on mobile devices. Oath’s focus will be to serve as a digital advertising and media company. As a diverse house of more than 50 media and technology brands that engages more than a billion people around the world, Oath’s reach is impactful (Oath). With competitors

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Google and Facebook taking up over 2/3 of the online ad market it might be tough, but by developing the right strategy they could be a serious competitor. Younger demographics have been in search of new platforms, and if Oath delivers they could dominate.

In 2016, Verizon bought Fleetmatics, a telematics company, for about \$2.4 billion (Green). Fleetmatics will focus on fleet management, mobile workforce services, and IoT (Green). In 2017, apart from finishing their Yahoo acquisition, they also acquired approximately 2 more companies, Straight Path Communications and XO Holdings. They purchased Straight Path Communications for more than \$3 billion, in order to gain spectrum for the development of 5G technology (Green). To extend their FiOS fiber optic internet service, they acquired XO Holdings' wireline business on February 2017 for about \$1.8 billion. XO owns and operates one of the largest fiber-based IP and Ethernet networks (Green).

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Financials:

Verizon Communications is expected to achieve industry-specific revenue growth at an annualized rate of 4.9% (IBISWorld Industry Report 51721). The Verizon Wireless segments' strong performance was driven by its aggressive expansion strategy and early adoption of 3G and 4G infrastructure (IBISWorld Industry Report 51721). They have initiated a strong advertising/marketing strategy with a coordinated program of TV, print, radio, outdoor signage, Internet, and point-of-sale media promotions (Green). Their extremely high budget of approximately \$2.7 billion a year for Verizon ads, commercials, and other promotional techniques, has also been a contributor to their market success. As an entity Verizon is working on becoming the most innovative communication technology company. If successful, their potential earnings will outweigh any losses they may be facing at the moment. Overall the company is doing fairly well, and investors should not be worried about current revenue decreases.

Income Statement Analysis (in millions)

	2014	2015	2016	Positive/Negative +/-
Revenue	\$127,079	\$131,620	\$125,980	2014-2015: + 2015-2016: -
Total Debt	\$112,764	\$109,729	\$108,078	-
Total Profit	\$14,315	\$21,891	\$17,902	2014-2015: + 2015-2016: -

Source: (WSJ- Verizon Communications Inc.)

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Verizon maintained financial stability, regardless of revenue decreases. Though Verizon's total liabilities in debt went down, the lower revenue has caused total profit to decrease. Revenue dropped about 4% from \$126 billion in 2016 to about \$132 billion in 2015 (WSJ- Verizon Communications Inc.). Verizon's Wireless segment is its most important, accounting for 70% of revenue. When they made changes in 2016 with their pricing plan, their financial performance stumbled (Green). Customers switched over from Verizon's postpaid services, to other competitors unsubsidized service planning (Green). According to Green, revenue from the wireline business also decreased by about 2% in 2016 from declines in Global Enterprise and Global Wholesale as well as a reduction in FiOS marketing activities during a month-and-a-half long union work stoppage.

Cash Flow Margin (in millions)

	2014	2015	2016	Positive/Negative (+/-)
Operating Activities	\$30,631	\$38,930	\$22,715	2014-2015: + 2015-2016: -
Net Sales	\$127,079	\$131,620	\$125,980	2014-2015: + 2015-2016: -
Total Margin	24.1%	29.58%	18.03%	2014-2015: + 2015-2016: -

Source: (Verizon 2016 Annual Report.)

Cash flow from operations was about \$23 billion in 2016, down from about \$39 billion in 2015. Verizon reported lower cash flow from operations, but it did not reduce the cash available to run the business (Green). Cash flow differences came from a change in how Verizon monetized device payments. They changed from receivables to asset-backed securitizations due

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to Verizon's strategy of acquiring new companies. Securitizing allowed Verizon to convert accounts receivables into immediate cash, which it in turn used for the purchases.

Debt Ratio (in millions)

	2014	2015	2016	Positive/Negative (+/-)
Total Liabilities	\$219,032	\$226,333	\$220,148	2014-2015: + 2015-2016: -
Total Assets	\$232,708	\$244,175	\$244,180	+
Debt Ratio	94.12%	92.69%	90.16%	-

Source: (WSJ- Verizon Communications Inc.)

The debt ratio in the last 3 years has decreased. Even with all the acquisitions, Verizon has been able to lower the debt ratio. 90.16% is still a high percentage, but Verizon's financials are headed in the right track. Amidst all these new financial commitments, they have managed to lower their liabilities. Verizon has also stated that is working on "slashing \$10 billion in costs across its operations by 2021, potentially allowing it to improve margins further" (Trefis Team).

Evaluation:

Verizon's current strategy of focusing on developing new and innovative products and services, has considerable potential. According to the New York Times article by Jennifer Saba, Verizon Communications is the No. 1 carrier in the United States. Though competitors may provide services at lower prices, Verizon still offers the largest and most reliable 4G LTE network. Constant investments to improve and fortify the network have doubled 4G LTE network bandwidth in cities coast to coast, creating faster speeds and greater capacity than ever before (Verizon 2016 Annual Report). Their most recent endeavor Oath, will provide Verizon

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with advertising technology and content development that will open up new revenue streams (Green). With the Oath portfolio including brands like- Yahoo News, HuffPost, Engadget, TechCrunch, Yahoo Finance, Yahoo Sports, Flickr and Tumblr, digital content produced will reach various marketplaces. In addition to Verizon's IoT and Smart City initiatives (through their telematics segment), their current efforts to develop and deploy 5G capability will also distinguish them.

The vertical integration of Verizon with these newly acquired companies has allowed for convergence to occur across their different communications technologies. Though it may have seen lower revenues in the early acquisition stages, numbers do show potential- 4.29% sales growth and 4.6% FiOS growth in revenue (Verizon 2016 Annual Report). Shareholders may be feeling uncertain about Verizon due to current debt and competitor M&A strategies, but they shouldn't be too worried. According to the company report "total return to shareholders in 2016 was 20.7%, which includes [their] 10th consecutive dividend increase". Verizon understands where the industry is going, and is delivering results that prove it is a company headed in the right direction. With their new subsidiary Oath, their 5G developments, telematics projects... they are attempting to reach new heights. Verizon Communications is only getting bigger and if success continues, they are on track to becoming unstoppable.

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