Credit Memo

**Executive Summary**

**Business Overview**

|  |  |
| --- | --- |
| Business Name | Verizon Communications Inc. |
| Business Structure/Public or Private | Corporation/Public (NYSE: VZ) |
| Industry | Communication |
| Headquarters | New York |
| Year Established | 1983 |

***Citation:*** *Annual Report 10K and Certificate of Incorporation*

**Risk Assessment**

**Overall Risk Assessment Summary**

* Verizon’s financial profile is underpinned by sound profitability along with its leadership position in the wireless communications segment. Its attractive margins and robust business model support favorable risk assessment.
* These positives are offset by a highly competitive industry, constant requirement of capital expenditure owing to nature of business and moderate leverage profile.
* Free cash flows are expected to improve in coming quarters owing to lower capital expenditure requirements as compared to previous years after its 5G rollout, along with focus on improving operational efficiency.
* The Company also has good liquidity profile owing to a decent cash balance and ample access to various credit facilities, if needed.

**Credit Limit**

We recommend renewing credit limit of Verizon based on its resilient business model and market leadership.

**Borrower Information:**

**Business Profile:**

Verizon Communications Inc. (“Verizon”) is one of the world’s leading providers of communications, technology, information and entertainment products and services to consumers, businesses and government entities. With a presence around the world, it offers data, video and voice services and solutions on networks and platforms that are designed to meet customers’ demand for mobility, reliable network connectivity and security. The company had a customer base of 144.7 million as of Sep 2024 within the wireless segment, with about 86% being postpaid customers. Average revenue per account (ARPA) from postpaid has been steadily rising and the company accounts for approximately 40% of the market share within the total wireless segment, with its direct competitors (namely, AT&T and T-Mobile) accounting for majority of the rest.

Verizon's operating segments are as below:

**Verizon Consumer Group**: Consumer segment provides consumer-focused wireless and wireline communications services and products. For 9M ended Sep 2024, the Consumer segment revenues were $75.3 billion, representing approximately 76% of Verizon’s consolidated revenues. It also includes fixed wireless access (FWA) broadband through 5G or 4G LTE networks as an alternative to traditional landline internet access. As of Sep 2024, Consumer segment had approximately 114.2 million wireless retail connections. In addition, as of Sep 2024, Consumer segment had approximately 9.7 million total broadband connections (which includes Fios internet, Digital Subscriber Line (DSL) and FWA connections), and approximately 2.8 million Fios video connections.

**Verizon Business Group:** The Business segment provides wireless and wireline communications services and products. These products and services are provided to businesses, government customers and wireless and wireline carriers across the U.S. and a subset of these products and services to customers around the world. The Business segment's operating revenues for 9M ended Sep 2024, totaled $22.1 billion, a decrease of 3.1%, compared to same period in previous year. The business segment accounted for approximately 22.2% of Verizon’s consolidated revenues for the same period.

**Corporate and Other:** Corporate and other primarily includes device insurance programs, investments in unconsolidated businesses and development stage businesses that support strategic initiatives, as well as unallocated corporate expenses, certain pension and other employee benefit related costs and interest and financing expenses.

***Citation:*** Annual Report 10K. 3Q Earnings Presentation, 3Q Earnings Infographic, [Verizon points to FWA as mobile service revenues grow](https://www.telecoms.com/5g-6g/verizon-points-to-fwa-as-mobile-service-revenues-grow)

**Operating Segments:**

|  |
| --- |
| Verizon Consumer Group |
| Verizon Business Group |
| Corporate and other |

***Citation:*** *Annual Report 10K and FS\_3Q24*

**Shareholding Structure:**

* Institutional Investors – 63.20%
* Public and others – 36.80%

***Citation:***[*Verizon Communications Inc. Common Stock (VZ) Institutional Holdings | Nasdaq*](https://www.nasdaq.com/market-activity/stocks/vz/institutional-holdings)

**Key Management Personnel**

|  |  |
| --- | --- |
| Chairman and Chief Executive Officer | Hans Vestberg |
| Executive Vice President and Chief Human Resources Office | Samantha Hammock |
| Executive Vice President and Group CEO - Verizon Business | Kyle Malady |
| Executive Vice President and President - Global Networks and Technology | Joseph Russo |
| Executive Vice President and Group CEO - Verizon Consumer | Sowmyanarayan Sampath |
| Executive Vice President and President - Verizon Global Services | Craig Silliman |
| Executive Vice President and Chief Financial Officer | Anthony Skiadas |
| Senior Vice President and Controller | Mary-Lee Stillwell |
| Executive Vice President and Chief Legal Officer | Vandana Venkatesh |

***Citation:*** *Annual report 10K Verizon*

**External Credit Rating**

|  |  |  |  |
| --- | --- | --- | --- |
| Rating Agency | Rating | Outlook | Latest Rating Date |
| Moody’s | LT - Baa1 | Stable | September 5, 2024 |
| S&P | LT - BBB+ | Stable | June 5, 2024 |
| Fitch | LT - A- | Stable | July 24, 2024 |

***Citation:*** *Fitch.com; Moodys.com; spglobal.com;* [*https://www.verizon.com/about/investors/fixed-income*](https://www.verizon.com/about/investors/fixed-income)

**External Credit Rating Summary**

* Verizon has the largest wireless subscriber base among U.S. carriers with nearly 145 million subscribers as of June 2024, vast majority of which were postpaid customers. The company has a long history of market leadership, although this is balanced against an intensely competitive wireless environment.
* Verizon bolstered its wireless network with the 2021 C-Band spectrum auction, in which the company acquired wireless licenses with a total value of $45.5 billion out of just over $81 billion spent by operators. The large spectrum purchases increased leverage materially over the past few years, but Verizon more than doubled its existing license holdings, which bodes well for sustaining its market position over time.
* Verizon's credit profile benefits from solid margins and profitability historically, although FCF is more volatile due to significant capital spending required in the telecom industry. Consolidated adjusted EBITDA margins have ranged between 35%-38% from 2020-2024 and are projected to remain relatively stable in the next few years, benefiting from the subscription nature of its business and Verizon's strong market position. FCF generation was negatively affected in recent years by increased spending related to Verizon's 5G network buildout.
* Verizon's liquidity is supported by: (i) a sizeable cash balance of $5.0 billion at Sep 2024, (ii) an undrawn $12.0 billion (at Jun 2024) revolving credit facility that matures in 2028, (iii) positive FCF that was weaker in 2022-2023 due to 5G buildout spending, but still positive in the $3.0 billion to $7.4 billion range, (iv) access to a $8.0 billion CP program, among other sources of capital.
* Verizon's end markets are highly competitive, but the company is well positioned as the U.S. market leader in wireless and with strong presence in the wireline markets it provides services. The U.S. wireless market is heavily concentrated among the nation's three primary national operators - AT&T, T-Mobile US, and Verizon - which have nearly 400 million postpaid and prepaid subscribers combined. Cable providers are also growing in wireless, but the potential effect on Verizon is relatively neutral, given the two largest U.S. cable companies, Comcast Corp. and Charter Communications, Inc., have a mobile virtual network operator (MVNO) arrangement with Verizon. These operators could increase their investments in wireless network infrastructure in the future, diminishing Verizon's revenue from the arrangements.
* The wireless and communications industry is capital intensive in nature. According to Fitch, Capex of the company is expected to decline in 2024 as peak C-band spending subsides. Capital spending was elevated over the past two years as the initial 5G network was being deployed but declined YoY in 2023, before including spend on spectrum clearing costs. Reduced capex spending combined with EBITDA growth projected in 2024-2025 should bolster near-term FCF generation, but capital intensity will remain relatively high over time given the nature of the industry.

***Citation:*** *Verizon Fitch Report*

**Financial Analysis**

**Filing Details**

|  |  |
| --- | --- |
| Annual Report | Audited |
| Quarterly Financial Report | Unaudited |

**Key Insights**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Financial Highlights in USD Millions: | **FYE (12/31/2023)** | **FYE (12/31/2022)** | **FYE (12/31/2021)** | **Interim (9/30/2024)** | **Interim (9/30/2023)** |
|
| Total Revenue ($) | $133,974 | $136,835 | $133,613 | $99,107 | $98,844 |
| Gross Profit ($) | $79,087 | $77,702 | $77,312 | $60,524 | $59,139 |
| EBITDA ($) | $46,342 | $47,566 | $48,654 | $34,651 | $35,385 |
| Net Income ($) | $11,614 | $21,256 | $22,065 | $12,730 | $14,546 |
| Cash Flow from Operations ($) | $36,994 | $36,649 | $38,986 | $26,375 | $28,676 |
| Capital Expenditure ($) | ($18,767) | ($23,087) | ($20,286) | ($12,019) | ($14,164) |
| Free Cash Flow ($) | $7,202 | $2,757 | $8,255 | $5,957 | $6,281 |
| Total Assets ($) | $380,255 | $379,680 | $366,596 | $381,164 | $384,830 |
| Cash ($) | $2,065 | $2,605 | $2,921 | $4,987 | $4,210 |
| Total Debt ($) | $174,942 | $176,331 | $177,930 | $174,200 | $171,299 |
| Tangible Net Worth ($) | ($97,137) | ($98,784) | ($106,109) | ($93,673) | ($97,318) |
| Total Capitalization ($) | $268,741 | $268,794 | $261,130 | $271,868 | $270,387 |
| Working Capital ($) | ($16,409) | ($12,314) | ($10,432) | ($21,175) | ($21,464) |

**Ratios**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Financial Ratios | **FYE (12/31/2023)** | **FYE (12/31/2022)** | **FYE (12/31/2021)** | **Interim (9/30/2024)** | **Interim (9/30/2023)** |
|
| Gross Profit Margin (%) | 59.0% | 56.8% | 57.9% | 61.1% | 59.8% |
| Operating Margin (%) | 21.4% | 22.3% | 24.3% | 21.5% | 22.5% |
| EBITDA Margin (%) | 34.6% | 34.8% | 36.4% | 35.0% | 35.8% |
| Net Profit Margin (%) | 8.7% | 15.5% | 16.5% | 12.8% | 14.7% |
| Return on Assets (ROA) (%) | 3.1% | 5.6% | 6.0% | 3.3% | 3.8% |
| Return on Equity (ROE) (%) | 12.6% | 23.3% | 27.0% | 10.2% | 21.4% |
| Cash Ratio (%) | 0.5% | 0.7% | 0.8% | 1.3% | 1.1% |
| Quick Ratio (x) | 0.5 | 0.5 | 0.6 | 0.5 | 0.5 |
| Current Ratio (x) | 0.7 | 0.8 | 0.8 | 0.7 | 0.6 |
| Debt to Capital (%) | 65.1% | 65.6% | 68.1% | 64.1% | 63.4% |
| Debt to Net Worth (%) | 189.3% | 193.5% | 217.5% | 180.8% | 175.3% |
| Debt to LTM EBITDA (x) | 3.8 | 3.7 | 3.7 | 3.8 | 3.7 |
| EBITDA Int. Coverage (x) | 8.4 | 13.2 | 14.0 | 6.9 | 9.0 |
| Debt Service Coverage (x) | 2.0 | 2.7 | 3.3 | 1.5 | 2.3 |
| AR Turnover (x) | 5.3 | 5.6 | 5.6 | 3.8 | 4.2 |
| A/R Turnover (days) | 68.3 | 65.4 | 65.1 | 70.7 | 64.5 |
| AP Turnover (x) | 5.5 | 6.8 | 7.0 | 1.7 | 1.5 |
| A/P Turnover (days) | 66.6 | 54.0 | 52.1 | 155.5 | 177.8 |
| Inventory Turnover (x) | 60.3 | 50.3 | 47.9 | 41.6 | 44.1 |
| Inventory Turnover (days) | 6.1 | 7.3 | 7.6 | 6.5 | 6.1 |

**Profitability Analysis**

* Revenue decreased by 2.1% y-o-y during FY’23 as a result of decline in Wireless equipment revenue, driven by a lower volume of wireless devices sold primarily related to a decrease in upgrades. By product segment, revenues were largely obtained through services and allied activities (81.8%) with the rest being formed by wireless equipment sales. By business segment, Verizon consumer contributed 75.8% towards total revenue, followed by Verizon Business (22.4%) and Corporate & Other (1.8%).
  + Revenue remained largely stable y-o-y during 9ME’24 as growth in service revenue (+1.7% y-o-y) was largely cancelled out by decline in wireless equipment revenue (-6.8% y-o-y). By product segment, revenues were chiefly derived from services provided (84.2%).
* However, gross profit increased by 1.7% y-o-y during FY'23 and 2.3% y-o-y during 9ME’24, driven by lower access costs primarily as a result of pricing changes and usage declines largely related to the shutdown of 3G networks. Gross margins marginally improved in both FY'23 and 9M'24 as ARPA (average retail postpaid service revenue per account) for postpaid increased helped by FWA (Fixed Wireless Access) expansion and targeted price actions.
* EBITDA marginally declined y-o-y to $46.3 billion in FY'23 largely owing to higher SG&A expenses (+8.7% y-o-y) driven by higher provisions for bad debt and personnel costs. Consolidated adjusted EBITDA (adjusted by excluding effects of the following non-operational items: equity in earnings and losses of unconsolidated businesses and other income and expense, net, as well as the effect of certain special items) showed an improving trend and amounted to $47.8 billion with adjusted EBITDA margin reaching 35.7% in FY'23, aided by better margins in Consumer segment. EBITDA margin hovered around 35% in 9ME'24.
* Net profit declined by 44.4% y-o-y to $12.1 billion in FY'23, owing to aforementioned reasons as well as higher interest costs owing to rising interest rates as effective interest rates on debt rose to 4.9% as compared to 3.7% in FY'22. This caused all profitability ratios to decline on y-o-y basis. Similar trend can be observed for 9ME'24 period.

**Capital Structure and Leverage Analysis**

* The large spectrum purchase increased leverage materially over the past few years, but Verizon more than doubled its existing license holdings of low- and mid-band spectrum, which bodes well for sustaining its market position over time. Verizon's debt-to-capitalization has ranged between 65-68% over a three year period. Debt-to-LTM EBITDA has also remained stable for the past three years.
* As of Sep 2024, total debt remained stable and stood at $174.2 billion, primarily consisting of long term debt (85.0%). Gross unsecured debt amounted to $126.4 billion, while net unsecured debt was $121.4 billion. Unsecured debt to net income (LTM) was 12.3x as of Sep 2024. Net unsecured debt to EBITDA was 2.6x. If adjusted EBITDA is considered, the ratio was 2.5x, which is considered acceptable.
* EBITDA Interest coverage ratio fell owing to higher interest costs amid higher reference rates in 2024. This is expected to improve as the company focuses on operational efficiencies to improve EBITDA, while interest costs are also expected to drop as the Federal reserve recently announced a 50 basis cut, an aggressive start to its expected rate cuts. Further, the company has guided to de-lever its balance sheet considerably by FY'26 as capex tapers down, which should also aid leverage profile.

**Liquidity and Cash Flows Analysis**

* Strong liquidity profile is supported by cash and cash equivalents (excluding restricted) of $5.0 billion as of Sep 2024 and an undrawn facility of $12.0 billion that has a maturity in 2028 (as of June 2024) under the revolving credit facility and access to commercial papers and other sources of capital through markets. In addition, Verizon had various export credit facilities worth $11.0 billion (as of June 2024) which was partially drawn and utilized to fund purchase of equipment.
* Verizon has reported positive but volatile free cash flow (FCF) surplus over the last three years, Further, its FCF as a percentage of revenue has declined post 2021 owing to large capex incurred by the company related to scaling of 5G network. FCF is expected to improve as the company's capex is expected to decline in the near term. However, given the capital intensive nature of the industry, capital requirements is expected to remain relatively high.
  + The Company reported free cash flow (dividend adjusted) surplus of $6.1 billion during 9ME’24 (vs. surplus of $6.4 billion during 9ME'23) on account of lower cash from operation, offset by lower capex. During FY'23, FCF surplus amounted to $7.7 billion (vs. surplus of $3.2 billion in FY'22) owing to lower capex and dividend payout.
* Projected Capex: Verizon expects FY'2024 capex to be in the range of $17-$17.5 billion.

**Company’s Earnings Guidance:** Verizon maintained its earning guidance for FY24 with both wireless service revenue and Adjusted EBITDA growth trending at or above the midpoint of guided ranges. Verizon reiterated a 2.0%–3.5% wireless service revenue growth and maintained an adjusted EPS of $4.50 – $4.70. Full-year guidance for capital expenditure also remained unchanged at a range of $17 - $17.5 billion. Sequential growth is expected in Q4 within wireless service segment, driven by volume improvements, increased contributions from FWA (fixed wireless access), and recently targeted pricing actions. This will partially be offset by the continued promo amortization headwind. Further, the company has implemented its voluntary separation program and over 50 percent of the approximately 4,800 impacted employees have already exited the business. The savings from the program are expected to begin to materialize in fourth quarter results and beyond

***Citation:*** *Annual report 10K Verizon,* Verizon Financials 3QFY24, *Transcript 3Q24VZ. verizon.com/about/news/verizon-delivers-strong-third-quarter-results-customer-growth-mobility-extending-industry*

**Industry Analysis**

* According to Deloitte telecom industry report published recently telecom is already being impacted by generative AI. Communication service providers are evaluating and experimenting to understand what it takes to implement generative AI. Generative AI offers communication service providers (CSP) pathways to make sense of the unstructured data they have across various parts of the business. This can help potentially empower productivity across data-driven parts of the business.
* CSPs have large cost burdens and larger responsibilities to deliver reliable connectivity and quality of service. In 2024, their investments could be challenged to pay off, and the businesses they once held dominion over will likely face strong competition from multiple quarters, especially in home broadband.
* Households in the United States are adopting more wireless solutions. Deloitte’s 2023 Connected Consumer Survey reported that 12% of home internet users said they have a fixed wireless connection, up from 6% in the 2022 survey. The majority of these surveyed (52%) indicated that their fixed wireless connection is powered by 5G technology. This represents a considerable increase from 2022, when only 32% of the fixed wireless access (FWA) users in the survey reported 5G connections. Indeed, 5G FWA has been capturing broadband share rapidly, accounting for 90% of net additional broadband internet subscribers in 2022, and is expected to continue at 80% to 90% through 2024.
* Both low earth orbit (LEO) satellite and fixed wireless access (FWA) are adding subscribers (millions of homes per year in the United States), but they may be gaining more share from additional markets than was originally thought at the expense of Digital subscriber line (DSL), which have lower speeds.
* The shape of enterprise connectivity has evolved, calling for more integration across provider ecosystems and yielding more connectivity offerings from cloud providers. Cloud providers have taken a stronger role in providing connectivity solutions that reinforce performance for their cloud offerings, drawing them into closer competition with CSPs. As some buyers of connectivity services could see cloud companies as alternatives to CSPs, 2024 may add more pressure on CSPs to further differentiate their offerings while reinforcing their strengths in the modern enterprise.
* Although 5G networks are still being launched in new geographies, and networks are being made denser with more towers and antennas, the bulk of CSP spending on 5G equipment and spectrum seems to be over, and there are few signs that the trend will reverse. This has positive implications for CSPs that may have higher free cash flow as 5G build-out settles.

***Citation:*** *2024 Telecom Industry Outlook*

**Peer Analysis:**

Verizon has a mixed leverage profile; reflected by debt-to-capitalization ratio of 64% (vs. industry average of 61%). Operating metrics was in line with its peers as evidenced by operating margin of 16% (vs. peer group average of 17.7%) and EBITDA margin of 34% (vs. peer group average of 34%). Given its position as a market leader, its revenue, operating profit, and EBITDA in absolute terms was the highest amongst its peers.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Figures in USD (Millions) | Verizon (NYSE: VZ) | AT&T (NYSE: T) | T Mobile Us Inc (NASDAQ: TMUS) | Peer Group Average |
| Moody's/S&P Ratings | Moody's: Baa1/Stable;  S&P: BBB+/Stable;  Fitch: A-/Stable | Moody's: Baa2/Stable;  S&P: BBB/Stable;  Fitch: BBB+/Stable | Moody's: Baa2/Stable;  S&P: BBB/Stable;  Fitch: BBB+/Stable |  |
| Revenues ($M) | $134,237 | $122,060 | $80,006 | $112,101 |
| Y-o-Y Growth (%) | 0.11% | 0.26% | 2.11% | 0.82% |
| Operating Profit ($) | $21,865 | $18,994 | $16,904 | $19,254 |
| Operating Margin (%) | 16% | 16% | 21% | 17.66% |
| EBITDA ($) | $45,608 | $38,966 | $29,992 | $38,189 |
| EBITDA Margin (%) | 34% | 32% | 37% | 34% |
| Total Debt/Capitalization (%) | 64% | 56% | 64% | 61% |
| Total Debt/LTM EBITDA (x) | 3.8 | 3.8 | 3.7 | 3.8 |
| Operating Cash Flows ($) | $35,157 | $38,253 | $21,603 | $31,671 |
| Cash & Cash Equivalents ($) | $4,987 | $2,586 | $9,754 | $5,776 |

***Citation:*** Verizon Financials (3QFY24, FY’23), AT&T and TMobile

**Collateral Details**

Collateral Details

Appraised Value

Lien Position

**ESG Initiatives**

In its 2023 ESG report, Verizon highlighted several key ESG initiatives: -

Environmental Initiatives

* 3.3% reduction in scopes 1 and 2 emissions and 15.1% reduction in scope 3 emissions (2019 – 2022).
* Completed enterprise climate risk assessment and expanded bottomup client review for evaluation of climate-related risks and opportunities $6 billion in green bonds issued as of February 2024.
* 20+ million trees planted since 2009.

Social Initiatives

* 2.1+ million hours volunteered since 2019.
* 7+ million youths provided with digital skills training since 2012.
* 45,000+ individuals prepared for jobs of the future since 2019.
* 273,000+ small businesses provided with resources to thrive in the digital economy since 2021.
* $173.8 million invested in learning and development initiatives for its employees.
* 60.3% of U.S.-based workforce composed of women and minorities.
* $2.6 billion invested in healthcare benefits and services.

**Governance Initiatives**

* 100% pay equity in salary for women and men globally and with respect to race/ethnicity in the U.S.
* 15+ years of publishing our Data Breach InvestigationsReport
* 100% of employees trained on Code of Conduct
* $54.3 billion spent with diverse suppliers over the past 10 years.
* 728 key suppliers assessed through EcoVadis since 2013

**Reporting and Transparency**

* Sustainability Reporting: Committed to transparent reporting of ESG performance to stakeholders.

***Citation:*** *Verizon 2023-ESG-Report*