S&P Global Ratings

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Tear Sheet:

Verizon Communications Inc.

March 16, 2023

PRIMARY CONTACT

Allyn Arden, CFA
New York
1-212-438-7832
allyn.arden
@spglobal.com

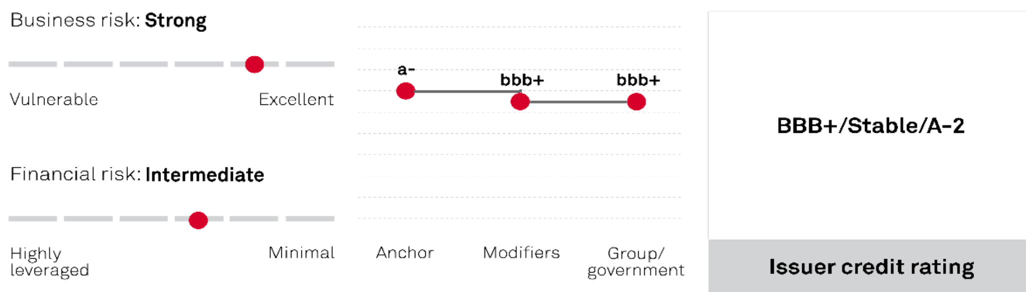
Verizon's leverage improvement will be limited in 2023 but should be more meaningful in 2024 as capital expenditure (capex) returns to more normalized levels. Our base-case forecast assumes leverage will be relatively flat at around 3.0x-3.1x in 2023. We expect aggressive competition will likely result in slower wireless service revenue growth of around 1%-2% while promotional expense, secular industry declines in business wireline, and inflationary cost pressures hurt profitability, leading to an EBITDA decline of 1% to 2% during the year. Despite our expectation for lower capex, higher interest and pension expense will constrain free operating cash flow (FOCF) improvement. Further, Verizon will owe about $4.9 billion for satellite relocation and incentive payments over the next 12 months, which will limit the company's ability to reduce leverage. That said, we expect more meaningful leverage improvement in 2024 to the 2.8x-3.0x area as capex declines to the $17 billion to $18 billion range, couple with modest earnings growth.

Verizon faces a challenging operating environment. We estimate Verizon derives about 90% of its revenue from wireless operations. The company faced several headwinds in 2022, which resulted in low postpaid phone net subscriber additions of about 201,000 in 2022 compared with 1.1 million net adds in the prior year. While it performed well in the mobile business segment, Verizon was hurt by aggressive competition in the consumer market from the other wireless carriers and cable operators through their wholesale agreements. T-Mobile continues to compete on price while AT&T has been aggressive with handset promotions. At the same time, the cable operators are bundling in-home broadband with mobile services at a discounted price to capture share.

In business wireline services, Verizon's revenue continues fall due to macroeconomic headwinds and customers migrating to less expensive, software defined technologies. As a result, we estimate Verizon's business wireline revenue declined 7% in 2022. We expect this trend to continue over the next year, especially if macroeconomic conditions deteriorate, which may push business customers to reduce IT budgets or delay IT decision-making.

Fixed wireless performed better than our expectations, but longer-term prospects are uncertain. Verizon is utilizing its 5G network to offer in-home broadband service and plans to cover to 50 million households by 2025. Subscriber momentum has been strong since the launch of the product. In 2022, the company added 1.2 million fixed wireless access (FWA) subscribers compared with 173,000 in the prior year. That said, we believe wireless technology for in-home high speed data usage is less reliable relative to wired broadband and subject to signal interference or degradation. While FWA could take share of digital subscriber line and lower-end cable customers, we do not view it as a meaningful threat to higher-end cable service or fiber to the home (FTTH), thereby limiting the longer-term market share opportunity.

Ratings Score Snapshot



Recent Research

- U.S. Telecom And Cable Sector Will Remain Calm Amid A Sea Of Recession Uncertainty In 2023, Jan. 9 2023

Company Description

Verizon is the largest provider of wireless services in the U.S. with about 143 million retail wireless connections as of Dec. 31, 2022. Wireless represents roughly 79% of the company's revenue. It acquired wireless service provider Tracfone in November 2021, increasing its presence in the prepaid market. Verizon's wireless margins are the highest in the industry, reflecting its substantial economies of scale.

The company is also the fourth-largest provider of broadband services in the U.S. with about 8.9 million broadband customers, including 7.1 million FTTH Fios customers and 1.5 fixed wireless customers.

Outlook

The outlook is stable and reflects our expectation that Verizon's improving FOCF will be offset by modest EBITDA declines and incentive payments to the satellite operators such that leverage remains flat but below our 3.25x threshold for the rating in 2023.

Downside scenario

We could lower the rating on Verizon if:

- Aggressive competition and macroeconomic headwinds hindered operating and financial performance, resulting in EBITDA declines;
- The company debt-financed additional spectrum purchases or acquisitions; or
- If it revised its financial policy to allocate excess cash flow to share repurchases such that leverage rose above 3.25x for a sustained period.

Upside scenario

While unlikely over the next couple of years, an upgrade would be predicated on the company achieving leverage of 2.5x, maintaining wireless service revenue growth and stable EBITDA margins. Given our expectation for flat earnings growth this year, we believe this could be a multiyear effort and that Verizon would need to allocate most of its post-dividend free cash flow to debt reduction while limiting share repurchases and future spending in spectrum auctions over the next three to four years.

Key Metrics

Assumptions

Our base case includes the following assumptions:

- Wireless service revenue growth of 1%-2% in 2023 and 1%-3% in 2024 due to very modest postpaid customer growth, rate increases, and higher penetration of premium unlimited plans, which should drive higher ARPA.
- Consumer revenue increases 0-2% in 2023 and 1%-3% in 2024 due to growth in FWA and Fios broadband customers as well as modest wireless service revenue growth.
- Business revenue declines 1%-3% in 2023 and 2024 due to declining global enterprise and wholesale revenue, partially offset by modest low-to-mid-single digit percent revenue growth from SMB customers.
- We expect some margin degradation because of cost input inflation and device promotional expense, leading toa 1%-2% EBITDA decline in 2023. In 2024, we expect low-single digit percent earnings growth due to benefits from the company's expense reduction program and less inflationary pressure.
- Capital expenditures of $18.25 billion to $19.25 billion in 2023, declining to $17 billion to $18 billion in 2024 as C-band capex winds down.
- Satellite relocation costs and incentive payments of $4.9 billion over the next 12 months.
- An annual common dividend of around $11 billion.

Verizon--Key Metrics*

Mil. $	2021a	2022a	2023e	2024f	2025f
Revenue growth (%)	4.1	2.4	0-1	1-3	1-3
EBITDA growth (%)	2.6	(1.7)	(2)-(1)	1-3	1-3
Capital expenditure	20,286	23,087	18,250-19,250	17,000-18,000	17,000-18,000
Free operating cash flow (FOCF)	19,253	14,054	17,000-18,000	19,500-20,500	19,500-20,500
Dividends	10,455	10,805	11,000	11,200	11,400
Debt to EBITDA (x)	3.2	3.1	3.0-3.1	2.8-3.0	2.7-2.9
FFO to debt (%)	25.9	26.7	23-25	24-26	26-28
FOCF to debt (%)	13.7	11.3	13-15	15-17	15-17

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Financial Summary

Verizon Communications Inc.--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	$	$	$	$	$	$
Revenues	125,356	130,121	131,092	127,543	132,828	135,885
EBITDA	45,198	48,220	52,215	52,233	53,759	52,844
Funds from operations (FFO)	34,712	39,616	42,396	43,778	44,691	43,918
Interest expense	6,333	6,816	6,409	5,557	6,078	6,487
Cash interest paid	6,054	6,391	6,236	5,730	6,028	6,190
Operating cash flow (OCF)	30,976	36,022	38,970	45,474	42,194	39,612
Capital expenditure	16,569	15,918	17,283	17,637	18,445	21,057
Free operating cash flow (FOCF)	14,407	20,104	21,687	27,837	23,749	18,555
Discretionary cash flow (DCF)	4,935	10,332	11,671	17,605	13,304	7,750
Cash and short-term investments	2,079	2,745	2,594	22,171	2,921	2,605
Gross available cash	2,079	2,745	2,594	22,171	2,921	2,605
Debt	138,600	133,886	130,966	132,568	172,767	164,497
Common equity	43,069	52,954	61,063	67,639	81,263	90,082
Adjusted ratios						
EBITDA margin (%)	36.1	37.1	39.8	41.0	40.5	38.9
Return on capital (%)	14.2	14.4	16.1	15.4	14.2	12.1
EBITDA interest coverage (x)	7.1	7.1	8.1	9.4	8.8	8.1
FFO cash interest coverage (x)	6.7	7.2	7.8	8.6	8.4	8.1
Debt/EBITDA (x)	3.1	2.8	2.5	2.5	3.2	3.1
FFO/debt (%)	25.0	29.6	32.4	33.0	25.9	26.7
OCF/debt (%)	22.3	26.9	29.8	34.3	24.4	24.1
FOCF/debt (%)	10.4	15.0	16.6	21.0	13.7	11.3
DCF/debt (%)	3.6	7.7	8.9	13.3	7.7	4.7

Peer Comparison

Verizon Communications Inc.--Peer Comparisons

	Verizon Communications Inc.	AT&T Inc.	Comcast Corp.	Deutsche Telekom AG	Walt Disney Co. (The)
Foreign currency issuer credit rating	BBB+/Stable/A-2	BBB/Stable/A-2	A-/Stable/A-2	BBB/Positive/A-2	BBB+/Positive/A-2
Local currency issuer credit rating	BBB+/Stable/A-2	BBB/Stable/A-2	A-/Stable/A-2	BBB/Positive/A-2	BBB+/Positive/A-2
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31	2022-12-31	2022-10-01
Mil.	$	$	$	$	$
Revenue	135,885	120,145	121,427	122,047	82,722

Verizon Communications Inc.--Peer Comparisons

EBITDA	52,844	49,556	38,706	42,598	15,119
Funds from operations (FFO)	43,918	38,921	29,750	34,280	11,978
Interest	6,487	8,275	4,446	6,113	1,908
Cash interest paid	6,190	9,939	3,691	7,354	2,044
Operating cash flow (OCF)	39,612	43,240	27,335	38,492	6,439
Capital expenditure	21,057	18,332	14,097	25,638	4,682
Free operating cash flow (FOCF)	18,555	24,908	13,238	12,854	1,757
Discretionary cash flow (DCF)	7,750	11,494	(4,831)	9,236	1,757
Cash and short-term investments	2,605	3,701	4,749	6,169	11,615
Gross available cash	2,605	3,701	4,845	8,118	11,615
Debt	164,497	189,177	102,024	154,925	51,010
Equity	90,082	94,366	81,627	93,323	98,879
EBITDA margin (%)	38.9	41.2	31.9	34.9	18.3
Return on capital (%)	12.1	7.1	11.8	5.4	5.6
EBITDA interest coverage (x)	8.1	6.0	8.7	7.0	7.9
FFO cash interest coverage (x)	8.1	4.9	9.1	5.7	6.9
Debt/EBITDA (x)	3.1	3.8	2.6	3.6	3.4
FFO/debt (%)	26.7	20.6	29.2	22.1	23.5
OCF/debt (%)	24.1	22.9	26.8	24.8	12.6
FOCF/debt (%)	11.3	13.2	13.0	8.3	3.4
DCF/debt (%)	4.7	6.1	(4.7)	6.0	3.4

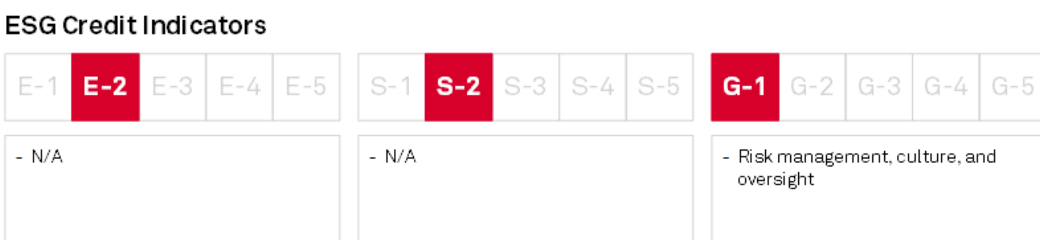
Verizon Communications Inc.--Peer Comparisons

	Verizon Communications Inc.	T-Mobile US Inc.
Foreign currency issuer credit rating	BBB+/Stable/A-2	BBB-/Positive/--
Local currency issuer credit rating	BBB+/Stable/A-2	BBB-/Positive/--
Period	Annual	Annual
Period ending	2022-12-31	2022-12-31
Mil.	$	$
Revenue	135,885	79,571
EBITDA	52,844	28,194
Funds from operations (FFO)	43,918	23,288
Interest	6,487	4,774
Cash interest paid	6,190	4,830
Operating cash flow (OCF)	39,612	26,868
Capital expenditure	21,057	13,909
Free operating cash flow (FOCF)	18,555	12,959
Discretionary cash flow (DCF)	7,750	9,716
Cash and short-term investments	2,605	4,507

Verizon Communications Inc.--Peer Comparisons

Gross available cash	2,605	4,507
Debt	164,497	110,727
Equity	90,082	69,656
EBITDA margin (%)	38.9	35.4
Return on capital (%)	12.1	4.9
EBITDA interest coverage (x)	8.1	5.9
FFO cash interest coverage (x)	8.1	5.8
Debt/EBITDA (x)	3.1	3.9
FFO/debt (%)	26.7	21.0
OCF/debt (%)	24.1	24.3
FOCF/debt (%)	11.3	11.7
DCF/debt (%)	4.7	8.8

Environmental, Social, And Governance



N/A—Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Governance factors are a positive consideration in our credit rating analysis of Verizon. We view its governance favorably based on its strong and deep management team with a consistent strategy and good history of execution. The company is the industry leader in wireless services with a track record of market leadership and effective innovation. We believe this consistent strategy and focus on wireless has led to a reputation for strong network capabilities and wireless margins, which we estimate are in the mid- to high-40% area, and are stronger than peers'. Additionally, Verizon's management has maintained a consistent strategy and has not made any sizable acquisitions outside of its core expertise.

Rating Component Scores

Foreign currency issuer credit rating	**BBB+/Stable/A-2**
Local currency issuer credit rating	**BBB+/Stable/A-2**
Business risk	**Strong**
Country risk	Very Low
Industry risk	Intermediate
Competitive position	Strong
Financial risk	**Intermediate**
Cash flow/leverage	Intermediate
Anchor	**a-**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Strong (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	**bbb+**

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011