Verizon begins 2018 with strong momentum

1Q 2018 highlights

Consolidated:
- $1.11 in earnings per share (EPS), compared with 84 cents in 1Q 2017; adjusted EPS (non-GAAP), excluding special items, of $1.17, compared with 95 cents in 1Q 2017.
- Total consolidated revenue growth of 6.6 percent, or 3.2 percent on an adjusted basis (non-GAAP).

Wireless:
- 260,000 retail postpaid net additions, including 220,000 postpaid smartphone net adds.
- Strong customer loyalty with 0.80 percent retail postpaid phone churn, the fourth consecutive period of customer retention at 0.80 percent or better.
- Total revenue growth of 4.7 percent, excluding the impact of the revenue recognition standard adopted on January 1, 2018.

Wireline:
- 66,000 Fios Internet net adds.
- Total Fios revenue growth of 1.9 percent, excluding the impact of the revenue recognition standard.

NEW YORK – Verizon Communications Inc. (NYSE, Nasdaq: VZ) today reported first-quarter 2018 results highlighted by consolidated revenue growth and strong Verizon Wireless customer loyalty.

“We began 2018 with strong momentum, and we expect it to continue throughout the year,” said Chairman and CEO Lowell McAdam. “We are positioning Verizon for long-term growth while executing our strategy today and leading the way for the next cycle of growth for the industry.”
For first-quarter 2018, Verizon reported EPS of $1.11, compared with 84 cents in first-quarter 2017. On an adjusted basis (non-GAAP), first-quarter 2018 EPS was $1.17, compared with 95 cents in first-quarter 2017. Verizon’s first-quarter 2018 EPS included approximately 21 cents due to tax reform and accounting changes for revenue recognition.

First-quarter 2018 earnings also included a pre-tax charge of about $249 million related to early debt extinguishment and approximately $107 million of acquisition and integration costs related primarily to Oath. The net impact of these items, after tax, was approximately 6 cents per share.

Consolidated results

Total consolidated operating revenues in first-quarter 2018 were $31.8 billion, up 6.6 percent from first-quarter 2017. On a comparable basis excluding the impact of Oath and divested businesses and the impact of the revenue recognition standard (non-GAAP), consolidated revenues were $29.9 billion, which grew approximately 3.2 percent. The primary driver was solid performance in the wireless business with improved service revenue results.

Net income was $4.7 billion in first-quarter 2018. EBITDA (non-GAAP, earnings before interest, taxes, depreciation and amortization) totaled approximately $11.7 billion. Consolidated operating income margin was 23.1 percent. Consolidated EBITDA margin (non-GAAP) was 36.7 percent in first-quarter 2018, compared with 37.0 percent in first-quarter 2017. Adjusted EBITDA margin (non-GAAP) in first-quarter 2018 was 37.1 percent. Excluding the impact of the revenue recognition standard, adjusted EBITDA margin (non-GAAP) was 35.8 percent, which was down 70 basis points year over year due to higher wireless equipment revenue and the inclusion of Yahoo in the year’s results. Adjusted EBITDA, excluding the impact of the revenue recognition standard, improved by $0.5 billion year over year due to steady improvement in operating efficiencies and increased penetration across the company’s high-quality customer base.

Cash flow from operations totaled $6.6 billion during first-quarter 2018, up $5.3 billion year over year. Total capital expenditures in the first quarter were $4.6 billion.

As part of its commitment to strengthening the balance sheet and providing financial flexibility to grow the business, Verizon made a discretionary contribution of $1.0 billion to improve the funded status
of its pension plans. As a result, Verizon does not project to have any mandatory pension contributions until approximately 2026.

Last year Verizon announced a goal to achieve $10 billion in cumulative cash savings from the business over the next four years. The company’s business excellence initiative, which includes implementing zero-based budgeting, yielded positive results in the first quarter, realizing approximately $200 million of savings so far. The program is on track to deliver against Verizon’s goals over the four-year period.

In Verizon’s media business, Oath, gross revenues, excluding the impact of the revenue recognition standard, decreased sequentially, as expected, about 13 percent from fourth-quarter 2017, to $1.9 billion, due to seasonally lower display advertising performance. The integration of the Oath assets is accelerating Verizon’s mobile-first media strategy and positioning it for global reach and future growth from premium content distribution and programmatic advertising capabilities across key verticals.

In the telematics business, as part of the ongoing integration of the Fleetmatics and Telogis acquisitions, Verizon has created the new Verizon Connect organization. Total Verizon Connect revenues, excluding the impact of the revenue recognition standard, were $234 million in first-quarter 2018. IoT (Internet of Things) revenues, including Verizon Connect, increased approximately 13 percent year over year.

Wireless results

- Total revenues, excluding the impact of the revenue recognition standard, were $21.9 billion in first-quarter 2018, an increase of 4.7 percent compared with first-quarter 2017.

- Service revenues for the quarter on a reported basis were down 2.4 percent. Excluding the impact from the revenue recognition standard, service revenues were flat. Service revenues improved year over year throughout the quarter, with results turning positive in the month of March when excluding the impact from the revenue recognition standard.

- Verizon now has 81 percent of its postpaid phone base on unsubsidized plans, compared with 72 percent for the same period last year.

- Verizon reported a net increase of 260,000 retail postpaid connections in first-quarter 2018, consisting of net phone losses of 24,000 and tablet losses of 75,000, offset by 359,000 other connected devices gains, primarily wearables. Postpaid smartphone net additions for the quarter were 220,000.

- Total retail postpaid churn was 1.04 percent in first-quarter 2018, a year-over-year improvement. Retail postpaid phone churn of 0.80 percent was the fourth consecutive quarter of retail postpaid phone churn of 0.80 percent or better.
• Segment operating income in first-quarter 2018 was $8.0 billion, and segment operating income margin on total revenues was 36.8 percent. Segment EBITDA (non-GAAP) totaled $10.5 billion in first-quarter 2018. Segment EBITDA margin on total revenues (non-GAAP) was 47.8 percent, compared with 45.1 percent in first-quarter 2017. Excluding the impact of the revenue recognition standard, segment EBITDA margin was 46.3 percent, an improvement of 120 basis points year over year.

Wireline results

• Total wireline revenues, excluding the impact of the revenue recognition standard, decreased 1.8 percent year over year in first-quarter 2018. Total Fios revenues, excluding the impact of the revenue recognition standard, grew 1.9 percent year over year, driven by growing demand for high-quality broadband service.

• In first-quarter 2018, Verizon added a net of 66,000 Fios Internet connections and lost 22,000 Fios Video connections, indicative of the continued cord-cutting trend regarding traditional linear video bundles.

• Wireline operating income was $69 million in first-quarter 2018, and segment operating income margin was 0.9 percent. Segment EBITDA (non-GAAP) was $1.6 billion in first-quarter 2018. Segment EBITDA margin (non-GAAP) was 21.2 percent in first-quarter 2018, compared with 21.9 percent in first-quarter 2017. Excluding the impact of the revenue recognition standard, segment EBITDA margin was 20.4 percent.

Outlook and guidance

Verizon expects the following:

• Full-year consolidated revenue growth at low single-digit percentage rates on a GAAP reported basis. Verizon expects service revenue growth on a GAAP reported basis to turn positive by the end of 2018.

• Low single-digit percentage growth in adjusted EPS in 2018 before the impact of tax reform and the revenue recognition standard.

• Capital spending for 2018 will be in the range of $17.0 billion to $17.8 billion, including the commercial launch of 5G.

• The expected savings from tax reform will generate a net $3.5 billion to $4 billion uplift to cash flow from operations in 2018. This is expected to yield a 55 to 65 cent increase in 2018 EPS, net of impacts from employee and Verizon Foundation initiatives. The resulting 2018 effective tax rate is projected to be in the range of 24 to 26 percent.

NOTE: See the accompanying schedules and www.verizon.com/about/investors for reconciliations to generally accepted accounting principles (GAAP) for non-GAAP financial measures cited in this document.

Verizon Communications Inc. (NYSE, Nasdaq: VZ), headquartered in New York City, generated $126 billion in 2017 revenues. The company operates America’s most reliable wireless network and the nation’s premier all-fiber network, and delivers integrated solutions to businesses worldwide. Its Oath subsidiary reaches about one billion people around the world with a dynamic house of media and technology brands.

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Forward-looking statements
In this communication we have made forward-looking statements. These statements are based on our estimates and assumptions and are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed future results of operations. Forward-looking statements also include those preceded or followed by the words “anticipates,” “believes,” “estimates,” “expects,” “hopes” or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. The following important factors, along with those discussed in our filings with the Securities and Exchange Commission (the “SEC”), could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements: adverse conditions in the U.S. and international economies; the effects of competition in the markets in which we operate; material changes in technology or technology substitution; disruption of our key suppliers’ provisioning of products or services; changes in the regulatory environment in which we operate, including any increase in restrictions on our ability to operate our networks; breaches of network or information technology security, natural disasters, terrorist attacks or acts of war or significant litigation and any resulting financial impact not covered by insurance; our high level of indebtedness; an adverse change in the ratings afforded our debt securities by nationally accredited ratings organizations or adverse conditions in the credit markets affecting the cost, including interest rates, and/or availability of further financing; material adverse changes in labor matters, including labor negotiations, and any resulting financial and/or operational impact; significant increases in benefit plan costs or lower investment returns on plan assets; changes in tax laws or treaties, or in their interpretation; changes in accounting assumptions that regulatory agencies, including the SEC, may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings; the inability to implement our business strategies; and the inability to realize the expected benefits of strategic transactions.