Strong wireless customer growth and loyalty highlight Verizon’s 4Q results

4Q 2018 highlights

Consolidated:
• 47 cents in earnings per share (EPS), compared with $4.56 in 4Q 2017; adjusted EPS (non-GAAP), excluding special items, of $1.12, compared with 86 cents in 4Q 2017.

Wireless:
• 1.2 million retail postpaid net additions, including 653,000 phone net additions and 873,000 postpaid smartphone net additions.
• Retail postpaid churn of 1.08 percent, and retail postpaid phone churn of 0.82 percent.
• Service revenue growth of 1.9 percent year over year, excluding the impact of the revenue recognition standard adopted on Jan. 1, 2018.
• Total revenue growth of 2.1 percent year over year, excluding the impact of the revenue recognition standard, to $24.3 billion.

Wireline:
• 54,000 Fios Internet net additions; Fios total revenue growth of 2.9 percent year over year.

2018 highlights

Consolidated:
• Full year EPS of $3.76, compared with $7.36 in 2017; adjusted EPS (non-GAAP), excluding special items, of $4.71, compared with 2017 adjusted EPS of $3.74.
• Full-year 2018 operating cash flow of $34.3 billion, an increase of $10 billion year over year.
• Unsecured debt is lower by $5.2 billion and total net debt is lower by $4.7 billion from year-end 2017.
NEW YORK – Verizon Communications Inc. (NYSE, Nasdaq: VZ) closed 2018 with fourth-quarter results highlighted by strong growth and retention at Verizon Wireless, increased cash flow and momentum leading into the 5G era.

“Verizon finished 2018 by delivering solid financial and operational performance, as evidenced by our strong wireless service revenue and earnings growth,” said CEO Hans Vestberg. “2018 was a remarkable year full of 5G firsts, including being first in the world to commercially deploy 5G with our 5G Home product. As we head into 2019 and the 5G era, we’re beginning a period of transformational change. We are laser focused on delivering customers a best-in-class and game-changing experience on our networks.”

For fourth-quarter 2018, Verizon reported EPS of 47 cents, compared with $4.56 in fourth-quarter 2017. On an adjusted basis (non-GAAP), fourth-quarter 2018 EPS, excluding special items, was $1.12, compared with adjusted EPS of 86 cents in fourth-quarter 2017. Verizon’s fourth-quarter 2018 EPS included a 9 cent impact due to the effects of accounting changes for revenue recognition.

Fourth-quarter 2018 adjusted EPS included a net pre-tax loss from special items of about $4.9 billion, which consisted of a previously announced goodwill impairment for Verizon Media of $4.6 billion, acquisition and integration charges of $189 million, and severance and annual mark-to-market for pension and OPEB (other post-employment benefits) charges of $165 million. Adjusted EPS also included a deferred tax benefit of $2.1 billion related to an internal reorganization.

For full-year 2018, Verizon reported $3.76 in EPS, compared with $7.36 in full-year 2017. On an adjusted basis (non-GAAP), 2018 EPS was $4.71, compared with 2017 EPS of $3.74.

Consolidated results

Total consolidated operating revenues in fourth-quarter 2018 were $34.3 billion, up 1.0 percent from fourth-quarter 2017. Full-year 2018 consolidated operating revenues were $130.9 billion, up 3.8 percent year over year. Excluding the impact of the revenue recognition standard, fourth-quarter 2018 consolidated operating revenues were $34.1 billion, an increase of 0.5 percent year over year.

Cash flow from operations totaled $34.3 billion in 2018, an increase of $10 billion year over year. This increase was driven by strong operating results, tax reform benefits, reduced impacts from the wireless device payment plan model, and lower discretionary pension and benefit contributions.
Full-year 2018 capital expenditures totaled $16.7 billion. In 2018, Verizon made $9.8 billion in cash dividend payments to shareholders. The company’s unsecured debt decreased by $5.2 billion and its total net debt decreased by $4.7 billion during 2018.

Verizon is on track to deliver against its goal to achieve $10 billion in cumulative cash savings by 2021. This initiative includes zero-based budgeting and has yielded approximately $2.3 billion of cumulative cash savings by year-end 2018, of which a majority has been derived from capital efficiencies.

For fourth-quarter 2018, Verizon Media revenues were $2.1 billion, down 5.8 percent year over year. Revenue trends were up sequentially from third-quarter 2018 due to seasonal advertising spending.

In the telematics business, total Verizon Connect revenues, excluding the impact of the revenue recognition standard, were $242 million in fourth-quarter 2018. IoT (Internet of Things) fourth-quarter revenues, including Verizon Connect, increased approximately 9.5 percent year over year, excluding the impact of the revenue recognition standard.

Net income was $2.1 billion in fourth-quarter 2018. EBITDA (non-GAAP, earnings before interest, taxes, depreciation and amortization) totaled approximately $6.9 billion. Consolidated operating income margin was 1.9 percent. Consolidated EBITDA margin (non-GAAP) was 20.2 percent in fourth-quarter 2018, compared with 25.4 percent in fourth-quarter 2017. Adjusted EBITDA margin (non-GAAP) in fourth-quarter 2018 was 33.8 percent. Excluding the impact of the revenue recognition standard, adjusted EBITDA margin (non-GAAP) was 32.2 percent.

**Wireless results**

- Verizon reported 1.2 million retail postpaid net additions in fourth-quarter 2018, consisting of 653,000 phone net additions, 11,000 tablet additions and 556,000 other connected devices, primarily wearables. Postpaid smartphone net additions were 873,000, compared with 647,000 in fourth-quarter 2017, a 34.9 percent increase.

- Verizon reported full-year 2018 postpaid net additions of 2.5 million, consisting of phone net additions of 1.1 million, tablet losses of 181,000 and 1.6 million other connected device additions. Postpaid smartphone net additions for full-year 2018 were 2 million, up 13 percent year over year.

- Total revenues were $24.4 billion, an increase of 2.7 percent year over year. For full-year 2018, operating revenues totaled $91.7 billion, an increase of 4.8 percent year over year. Excluding the impact of the revenue recognition standard, total revenues grew 2.1 percent year over year in fourth-quarter 2018 and 4.4 percent for the full year, compared with 2017, to $24.3 billion and $91.3 billion, respectively.

- Service revenues increased 0.1 percent in fourth-quarter 2018, driven by ongoing customer growth, step-ups to unlimited plans and the benefits of customers customizing their experience through mix-and-match plans. Full-year service revenues decreased 0.2 percent year over year.
Excluding the impact of the revenue recognition standard, service revenues increased 1.9 percent in fourth-quarter 2018 and 1.7 percent for the full year, on a year over year basis.

- Total retail postpaid churn was 1.08 percent in fourth-quarter 2018, and retail postpaid phone churn was 0.82 percent.

- Segment EBITDA (non-GAAP) totaled $10.4 billion in fourth-quarter 2018, an increase of 9.7 percent year over year. Excluding the impact of the revenue recognition standard, segment EBITDA totaled $9.8 billion in fourth-quarter 2018. Segment EBITDA margin on total revenues (non-GAAP) was 42.5 percent. Excluding the impact of the revenue recognition standard, segment EBITDA margin was 40.5 percent. For the full year, segment EBITDA margin was 46.4 percent in 2018, compared with 44.1 percent in 2017.

Wireline results

- Total wireline revenues decreased 3.2 percent year over year in fourth-quarter 2018 and 3.0 percent for the full year, compared with 2017, to $7.4 billion and $29.8 billion, respectively.

- Total Fios revenues grew 2.5 percent year over year, excluding the impact of the revenue recognition standard. In fourth-quarter 2018, Verizon added a net of 54,000 Fios Internet connections and lost a net of 46,000 Fios Video connections, continuing to reflect the shift from traditional linear video to over-the-top offerings. At year-end 2018, Verizon had 6.1 million Fios Internet connections and 4.5 million Fios Video connections.

- Wireline operating loss was $273 million in fourth-quarter 2018, and segment operating loss margin was 3.7 percent. Full-year 2018 segment operating loss was $273 million, and segment operating loss margin was 0.9 percent.

- Segment EBITDA (non-GAAP) was $1.3 billion in fourth-quarter 2018. Excluding the impact of the revenue recognition standard, segment EBITDA was $1.2 billion. Segment EBITDA margin (non-GAAP) was 17.6 percent in fourth-quarter 2018, compared with 20.9 percent in fourth-quarter 2017. Excluding the impact of the revenue recognition standard, segment EBITDA margin was 16.9 percent. For the full year, segment EBITDA margin was 19.9 percent in 2018, compared with 21.1 percent in 2017.

Outlook and guidance

For 2019, Verizon expects the following:

- Low single-digit percentage growth in full-year consolidated revenues on a GAAP reported basis.

- Adjusted EPS excluding the impact of the new lease accounting standard to be similar to 2018 adjusted EPS. The new lease accounting standard is expected to have an approximately 1 to 2 cent per quarter headwind impact on EPS for full-year 2019.

- The effective tax rate for full-year 2019 to be in the range of 24 to 26 percent.

- Cash taxes to be $2 billion to $3 billion higher than in 2018 due to benefits that were realized in 2018 that are not expected to repeat in 2019.

- Capital spending for 2019 to be in the range of $17 billion to $18 billion, including the expanded commercial launch of 5G.
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 revenues of $130.9 billion in 2018. The company operates America’s most reliable wireless network and the nation’s premier all-fiber network, and delivers integrated solutions to businesses worldwide. With brands like Yahoo, TechCrunch and HuffPost, the company’s media group helps consumers stay informed and entertained, communicate and transact, while creating new ways for advertisers and partners to connect. Verizon’s corporate responsibility prioritizes the environmental, social and governance issues most relevant to its business and impact to society.

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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.