Verizon builds on 2Q momentum with strong 3Q results

3Q 2017 highlights
- 89 cents in earnings per share (EPS), compared with 89 cents in 3Q 2016; adjusted EPS (non-GAAP), excluding special items, of 98 cents in 3Q 2017, compared with $1.01 in 3Q 2016.
- Wireless: 603,000 retail postpaid net additions, including 486,000 postpaid smartphone net adds; retail postpaid churn of 0.97 percent, with strong customer loyalty demonstrated by retail postpaid phone churn of 0.75 percent -- less than 0.90 percent for the 10th consecutive quarter.
- Wireline: Fios total revenue growth of 4.8 percent.

NEW YORK – Building on momentum from second-quarter 2017, Verizon Communications Inc. (NYSE, Nasdaq: VZ) delivered strong results in third-quarter 2017, both adding and retaining wireless customers, and generating significant cash flow.

Verizon reported EPS of 89 cents in the quarter, compared with 89 cents in third-quarter 2016. On an adjusted basis (non-GAAP), third-quarter 2017 EPS was 98 cents. This includes 7 cents per share in net losses primarily for early debt redemption costs, and 2 cents per share in acquisition and integration related charges in connection with Yahoo and other acquisitions. This compares with adjusted EPS of $1.01 in third-quarter 2016.

Verizon’s third-quarter 2017 earnings include a 1-cent-per-share impact as a result of the natural disasters in Florida and Texas.
“Verizon Wireless delivered another quarter of profitable growth combined with strong customer loyalty,” said Chairman and CEO Lowell McAdam. “This success is based on the strength of the Verizon network, and I share the pride of all Verizon employees that our network aided and served first-responders and customers when they needed it most following the recent natural disasters. While steadily investing to advance our network leadership and to build the Verizon Intelligent Edge Network, we have also maintained the financial flexibility to increase shareholder dividends for an 11th consecutive year.”

Consolidated results

Total consolidated operating revenues in third-quarter 2017 were $31.7 billion, up 2.5 percent from third-quarter 2016. On a comparable basis excluding divestitures and acquisitions (non-GAAP), consolidated revenues declined 2.3 percent.

Net income was $3.7 billion in third-quarter 2017. EBITDA (non-GAAP, earnings before interest, taxes, depreciation and amortization) totaled $11.5 billion. Consolidated operating income margin was 22.7 percent. Consolidated EBITDA margin (non-GAAP) was 36.2 percent in third-quarter 2017, compared with 33.9 percent in third-quarter 2016. Adjusted EBITDA margin (non-GAAP) was 36.7 percent and 36.5 percent in the same periods, respectively.

Verizon is focused on driving profitability through efficiencies across its business and in September announced it has targeted $10 billion in cumulative cash savings over the next four years.

Cash flow from operations totaled $17.2 billion during the first nine months of 2017, and year-to-date capital expenditures have totaled $11.3 billion.

In Verizon’s media business, Oath revenues were $2 billion in third-quarter 2017, and the integration of AOL and Yahoo is ahead of internal expectations. In telematics, revenues were more than $220 million in third-quarter 2017. Organic IoT (Internet of Things) revenues (non-GAAP) increased approximately 13 percent year over year.

Wireless results

- Verizon reported a net increase of 603,000 retail postpaid connections in third-quarter 2017. Net phone additions of 274,000 included 486,000 smartphones in the quarter, compared with 242,000 smartphone additions in third-quarter 2016. The 603,000 postpaid net adds included tablet net adds of 91,000 and net adds of other connected devices, led by wearables, of 238,000. The company had 109.7 million retail postpaid connections and 5.6 million retail prepaid connections at the end of the quarter.
• Verizon added 30,000 postpaid accounts in third-quarter 2017, compared with a loss of 107,000 postpaid accounts in third-quarter 2016.

• Total retail postpaid churn was 0.97 percent in third-quarter 2017, driven mainly by retail postpaid phone churn of 0.75 percent – the 10th consecutive quarter of retail postpaid phone churn of less than 0.90 percent.

• Revenue trends are improving. Total revenues were $21.6 billion in third-quarter 2017, a decline of 2.4 percent compared with third-quarter 2016. A year ago, quarterly total revenues had declined 3.9 percent year over year. On a year-over-year basis, service revenues declined 5.1 percent versus a 6.7 percent decrease in the second quarter. Sequentially, service revenues increased for the first time in 12 quarters.

• The company expects its service revenue trend to continue to improve in fourth-quarter 2017, exiting the year with a year-over-year decline of less than 4 percent.

• Verizon now has approximately 78 percent of its postpaid phone base on unsubsidized service pricing plans, compared with 60 percent in third-quarter 2016.

• The percentage of phone activations on device payment plans was about 77 percent in third-quarter 2017, consistent with second-quarter 2017. Verizon expects a seasonal increase in this rate in fourth-quarter 2017. Approximately 49 percent of postpaid phone customers had a device payment plan at the end of third-quarter 2017, consistent with second-quarter 2017.

• Segment operating income in third-quarter 2017 was $7.6 billion, and segment operating income margin on total revenues was 35.2 percent. Segment EBITDA (non-GAAP) totaled nearly $10.0 billion in third-quarter 2017. Segment EBITDA margin on total revenues (non-GAAP) was 46.2 percent, compared with 44.9 percent in third-quarter 2016.

Wireline results

• Total wireline revenues increased 1.1 percent, to $7.7 billion, comparing third-quarter 2017 with third-quarter 2016. On an organic basis, excluding revenues from acquired operations (non-GAAP), total wireline revenues declined 2.7 percent year over year in third-quarter 2017, consistent with second-quarter 2017.

• Total Fios revenues grew 4.8 percent, and consumer Fios revenues grew 4.6 percent, comparing third-quarter 2017 with third-quarter 2016 and including the impact of two marquee pay-per-view events in the current quarter. Fios Gigabit Connection, which offers symmetrical high-speed broadband, continues to gain traction with customers.

• In third-quarter 2017, Verizon added a net of 66,000 Fios Internet connections and lost a net of 18,000 Fios Video connections, reflecting the ongoing shift from traditional linear video to over-the-top offerings. At the end of the quarter, Verizon had 5.8 million Fios Internet connections and 4.6 million Fios Video connections.

• Wireline operating income was $65 million in third-quarter 2017, compared with $73 million in third-quarter 2016. Segment operating income margin was 0.8 percent in third-quarter 2017. Segment EBITDA (non-GAAP) was $1.6 billion in third-quarter 2017. Segment EBITDA margin (non-GAAP) was 21.1 percent in third-quarter 2017, compared with 20.3 percent in third-quarter 2016.

• In the quarter, Verizon was named an Enterprise Infrastructure Solutions contract provider by the U.S. General Services Administration. Verizon Enterprise Solutions (VES) released its 2017
Payment Security Report, which demonstrated a link between payment card security standard compliance and an organization’s ability to defend itself against cyberattacks. On the product front, Check Point Software Technologies Ltd. embedded its security offering within Verizon’s Virtual Network Services (VNS) solution; VNS was made available on the Amazon Web Services cloud; and VES introduced mid-market and enterprise capabilities for its One Talk solution. In addition, Verizon announced plans to develop a dedicated network core for public safety.

Network and Technology highlights

- As expected, the introduction of unlimited wireless pricing plans has increased LTE network usage. Verizon has network capabilities and pricing plan features to handle this increase while maintaining a high-quality experience for customers, evidenced by awards in third-party studies that test coverage, speed and reliability. Just over 50 percent of Verizon’s available low- and mid-band spectrum portfolio is being used for 4G LTE.

- Through prior investment, planning, network redundancy and rapid response, Verizon’s network maintained a high level of performance, despite widespread power outages, during natural disasters in Texas, Florida and Northern California. Although the company is not a wireless operator in Puerto Rico, Verizon has offered assistance to local carriers and government officials working to recover from hurricane damage there.

- The Verizon Intelligent Edge Network, the company’s future network architecture designed to meet the demands of new types of applications, has many components that lead to a multi-use, software-driven network at scale. Verizon’s pre-commercial 5G fixed wireless broadband trials are continuing, and the company is on track to share trial results later in the fourth quarter.

Outlook and forward-looking items

Verizon expects the following:

- Full-year 2017 consolidated revenues, on an organic basis, to be fairly consistent with 2016, with improvement in wireless service revenue and equipment revenue trends; also, full-year 2017 consolidated adjusted EPS trends to be similar to consolidated revenue trends;

- Consolidated capital spending for 2017 to be at the lower end of the range of $16.8 billion to $17.5 billion; and

- The 2017 effective tax rate to be around 34 percent, excluding impacts from potential tax reform.

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.
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," "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. 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.