Verizon ends first-half 2018 with strong operating results

2Q 2018 highlights

Consolidated:
- $1.00 in earnings per share (EPS), compared with $1.07 in 2Q 2017; adjusted EPS (non-GAAP), excluding special items, of $1.20, compared with 96 cents in 2Q 2017.
- Total consolidated revenue growth of 5.4 percent year over year, or 2.6 percent on an adjusted basis (non-GAAP).

Wireless:
- 531,000 retail postpaid net additions, including 398,000 postpaid smartphone net adds.
- Strong customer loyalty with 0.75 percent retail postpaid phone churn, the fifth consecutive period of retail postpaid phone churn at 0.80 percent or better.
- Total revenue growth of 4.7 percent year over year, excluding the impact of the revenue recognition standard adopted on Jan. 1, 2018.

Wireline:
- 43,000 Fios Internet net adds; total Fios revenue growth of 2.3 percent year over year, excluding the impact of the revenue recognition standard.

NEW YORK – Strong revenue momentum and operating results at Verizon Wireless highlighted second-quarter 2018 performance at Verizon Communications Inc. (NYSE, Nasdaq: VZ), which today reported EPS of $1.00 for the quarter.
“Verizon is extremely well-positioned for the future,” said Chairman and CEO Lowell McAdam. “Our financial and operating results for the first half of 2018 were strong, as evidenced by service revenue, earnings and operating cash flow growth delivered in a highly competitive marketplace.”

For second-quarter 2018, Verizon reported EPS of $1.00, compared with $1.07 in second-quarter 2017. On an adjusted basis (non-GAAP), second-quarter 2018 EPS was $1.20, compared with 96 cents in second-quarter 2017. Verizon’s second-quarter 2018 EPS included approximately 21 cents due to the net effects of tax reform and accounting changes for revenue recognition.

Adjusted second-quarter 2018 earnings included a pre-tax charge for product realignment of $658 million, mainly related to the discontinuation of Verizon’s go90 platform and associated content, severance charges of $339 million, and acquisition and integration-related charges of $120 million, primarily pertaining to Oath. The net impact of these items, after tax, was approximately $0.9 billion, or 20 cents per share.

**Consolidated results**

Total consolidated operating revenues in second-quarter 2018 were $32.2 billion, up 5.4 percent from second-quarter 2017. On a comparable basis excluding the impacts of Oath, divested businesses and the revenue recognition standard (non-GAAP), consolidated revenues were $30.2 billion, up approximately 2.6 percent.

Net income was $4.2 billion in second-quarter 2018. EBITDA (non-GAAP, earnings before interest, taxes, depreciation and amortization) totaled approximately $11 billion. For second-quarter 2018, consolidated operating income margin was 20.5 percent. Consolidated EBITDA margin (non-GAAP) was 34.1 percent in second-quarter 2018, compared with 39.9 percent in second-quarter 2017. Adjusted EBITDA margin (non-GAAP) in second-quarter 2018 was 36.8 percent. Excluding the impact of the revenue recognition standard, adjusted EBITDA margin (non-GAAP) was 35.6 percent.

Cash flow from operations totaled $9.8 billion during second-quarter 2018, up $1.9 billion year over year. Total capital expenditures in the second quarter were $3.3 billion, bringing first-half capital spending to $7.8 billion. Verizon’s total debt balance declined by $4.4 billion sequentially in second-quarter 2018, as the company began to realize benefits from tax reform.

Last year Verizon announced a goal to achieve $10 billion in cumulative cash savings over the next four years. This initiative, which includes zero-based budgeting, has yielded approximately $500
million of cumulative cash savings on a year-to-date basis and is on track to deliver against the
company’s goals.

In Verizon’s media business, Oath revenues, excluding the impact of the revenue recognition
standard, were $1.9 billion in second-quarter 2018, which were relatively flat on a sequential basis. In the
telematics business, total Verizon Connect revenues, excluding the impact of the revenue recognition
standard, were $241 million in second-quarter 2018. IoT (Internet of Things) revenues, including Verizon
Connect, increased approximately 13 percent year over year, excluding the impact of the revenue
recognition standard.

Wireless results

- Total revenues were $22.4 billion, an increase of 5.5 percent year over year. Excluding the
  impact of the revenue recognition standard, total revenues were $22.3 billion in second-quarter
  2018, an increase of 4.7 percent compared with second-quarter 2017.

- Service revenues for the quarter on a reported basis grew 0.8 percent year over year. Excluding
  the impact of the revenue recognition standard, service revenues grew 2.5 percent year over
  year, driven by customer step-ups to higher access plans and increases in the average
  connections per account. Sequentially, service revenues increased 1.5 percent, excluding the
  impact of the revenue recognition standard.

- In second-quarter 2018, approximately 82 percent of Verizon’s postpaid phone base were on
  unsubsidized plans, compared with 81 percent in first-quarter 2018 and 75 percent in the same
  period last year.

- Verizon reported a net increase of 531,000 retail postpaid net additions in second-quarter 2018,
  consisting of net phone additions of 199,000, tablet losses of 37,000 and 369,000 other
  connected devices additions, primarily wearables. Postpaid smartphone net additions for the
  quarter were 398,000.

- Total retail postpaid churn was 0.97 percent in second-quarter 2018, slightly up year-over-year.
  Retail postpaid phone churn of 0.75 percent in second-quarter 2018 was the fifth consecutive
  quarter of retail postpaid phone churn of 0.80 percent or better.

- Segment operating income in second-quarter 2018 was $8.3 billion, and segment operating
  income margin on total revenues was 36.9 percent.

- Segment EBITDA (non-GAAP) totaled $10.7 billion. Excluding the impact of the revenue
  recognition standard, segment EBITDA totaled $10.3 billion in second-quarter 2018. Segment
  EBITDA margin on total revenues (non-GAAP) was 47.8 percent, compared with 45.8 percent in
  second-quarter 2017. Excluding the impact of the revenue recognition standard, segment
  EBITDA margin was 46.2 percent, an improvement of 40 basis points year over year.

Wireline results

- Total wireline revenues were $7.5 billion. Excluding the impact of the revenue recognition
  standard, total wirelines revenues decreased 3.4 percent year over year in second-quarter 2018.
• Total Fios revenues were $3.0 billion, an increase of 2.0 percent year over year. Excluding the impact of the revenue recognition standard, total Fios revenues grew 2.3 percent year over year, driven by Verizon’s broadband offerings.

• In second-quarter 2018, Verizon added a net of 43,000 Fios Internet connections, indicative of strong demand as customers value broadband connections more than ever. Verizon lost 37,000 Fios Video connections in second-quarter 2018 amid pressures from cord-cutting of video bundles.

• Wireline operating loss was $19 million in second-quarter 2018, and segment operating loss margin was 0.3 percent. Segment EBITDA (non-GAAP) was $1.5 billion in second-quarter 2018. Excluding the impact of the revenue recognition standard, segment EBITDA was $1.5 billion. Segment EBITDA margin (non-GAAP) was 20.2 percent in second-quarter 2018, compared with 20.7 percent in second-quarter 2017. Excluding the impact of the revenue recognition standard, segment EBITDA margin was 19.6 percent.

Outlook and guidance

Verizon expects the following:

• Full-year consolidated revenue growth at low-to-mid single-digit percentage rates on a GAAP reported basis. This update to full-year guidance is due to better-than-expected equipment revenue trends.

• The impact of revenue recognition on EPS for full-year 2018 to be between 27 and 31 cents. The accretive benefit to full-year 2018 consolidated operating income is expected to moderate in 2019 and become insignificant in 2020, as the timing impacts to revenues and commission costs converge.

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

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

• The effective tax rate for full-year 2018 to be at the low end of 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 people around the world with a dynamic house of media and technology brands.

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