As 5G era begins, Verizon continues strong momentum in 3Q

NEW YORK – Verizon Communications Inc. (NYSE, Nasdaq: VZ) today posted third-quarter results highlighted by continued growth at Verizon Wireless, strong cash flow and network innovations that led to the world’s first 5G commercial product offering.
“Verizon has posted a third quarter of strong operational and financial performance,” said CEO Hans Vestberg. “With the beginning of the 5G era in this fourth quarter, we expect that trend to continue. We are investing in networks, creating platforms to add value for customers and maintaining a focused, disciplined strategy. Verizon is best positioned to take full advantage of the opportunities offered by the new game-changing generation of technology.”

For third-quarter 2018, Verizon reported EPS of $1.19, compared with 89 cents in third-quarter 2017. The company’s reported earnings included a net impact of 3 cents per share from special items. Charges for early debt redemption and integration-related expenses (primarily pertaining to Oath) were partially offset by a pension and benefit re-measurement credit.

On an adjusted basis (non-GAAP), third-quarter 2018 EPS was $1.22, compared with 98 cents in third-quarter 2017. Verizon’s third-quarter 2018 EPS included approximately 21 cents due to the net effects of tax reform and accounting changes for revenue recognition.

Consolidated results

Total consolidated operating revenues in third-quarter 2018 were $32.6 billion, up 2.8 percent from third-quarter 2017. Excluding the impact of the revenue recognition standard, consolidated operating revenues were up approximately 2.6 percent year over year.

Year-to-date cash flow from operations totaled $26.2 billion through third-quarter 2018, up $9.8 billion year over year. In September 2018, Verizon’s Board of Directors declared a quarterly dividend increase for the 12th consecutive year, and the company’s cash dividend payments totaled $7.3 billion through third-quarter 2018.

Year-to-date capital expenditures were $12.0 billion through third-quarter 2018, including capital to support the increasing demand on Verizon’s industry-leading 4G network, the commercial launch of 5G Home, significant fiber deployment in markets nationwide and the pre-positioning for additional 5G services.

Strong operational cash flow and the benefits from tax reform have enabled Verizon to decrease total debt by $4.2 billion year to date. The company has also made discretionary contributions of $1.7 billion to employee benefit programs during this time.
Verizon is on track to deliver against a goal to achieve $10 billion in cumulative cash savings by 2021. This initiative includes zero-based budgeting, which has yielded approximately $1.3 billion of cumulative cash savings on a year-to-date basis, and the recently announced Voluntary Separation Program.

In Verizon’s media business, Oath revenues were $1.8 billion in third-quarter 2018, 6.9 percent below the same quarter last year. The company expects Oath revenues to be relatively flat in the near term and does not expect to meet the previous target of $10 billion in Oath revenues by 2020. In the telematics business, total Verizon Connect revenues, excluding the impact of the revenue recognition standard, were $241 million in third-quarter 2018. IoT (Internet of Things) revenues, including Verizon Connect, increased approximately 12 percent year over year, excluding the impact of the revenue recognition standard.

Net income was $5.1 billion in third-quarter 2018. EBITDA (non-GAAP, earnings before interest, taxes, depreciation and amortization) totaled $12.3 billion. For third-quarter 2018, consolidated operating income margin was 23.5 percent. Consolidated EBITDA margin (non-GAAP) was 37.6 percent in third-quarter 2018, compared with 34.5 percent in third-quarter 2017. Adjusted EBITDA margin (non-GAAP) in third-quarter 2018 was 37.4 percent. Excluding the impact of the revenue recognition standard, adjusted EBITDA margin (non-GAAP) was 36.3 percent.

Wireless results

- Total revenues were $23.0 billion, an increase of 6.5 percent year over year. Excluding the impact of the revenue recognition standard, total revenues were $22.9 billion in third-quarter 2018, an increase of 6.1 percent compared with third-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 2.6 percent year over year, driven by customer step-ups to higher access plans and increases in the average connections per account.

- In third-quarter 2018, approximately 83 percent of Verizon’s postpaid phone base were on unsubsidized plans, compared with 78 percent in the same period last year.

- Verizon reported 515,000 retail postpaid net additions in third-quarter 2018, consisting of net phone additions of 295,000, postpaid smartphone net additions of 510,000, tablet losses of 80,000 and 300,000 other connected devices additions, primarily wearables.

- Total retail postpaid churn was 1.04 percent in third-quarter 2018, compared with 0.97 percent year over year. Retail postpaid phone churn was 0.80 percent in third-quarter 2018. The company expects retail postpaid phone churn to increase seasonally during fourth-quarter 2018.
• Segment operating income in third-quarter 2018 was $8.5 billion, and segment operating income margin on total revenues was 37.0 percent.

• Segment EBITDA (non-GAAP) totaled $11.0 billion, an increase of 10.0 percent year over year, driven by a combination of service revenue growth and efficiencies gained within the business. Excluding the impact of the revenue recognition standard, segment EBITDA totaled $10.6 billion in third-quarter 2018. Segment EBITDA margin on total revenues (non-GAAP) was 47.7 percent, compared with 46.2 percent in third-quarter 2017. Excluding the impact of the revenue recognition standard, segment EBITDA margin was 46.4 percent.

Wireline results

• Total wireline revenues were $7.4 billion. Excluding the impact of the revenue recognition standard, total wireline revenues decreased 3.7 percent year over year in third-quarter 2018.

• Total Fios revenues were $3.0 billion. Excluding the impact of the revenue recognition standard, total Fios revenues increased 1.6 percent year over year in third-quarter 2018.

• In third-quarter 2018, Verizon added a net of 54,000 Fios Internet connections, indicative of continued strong customer demand for high quality internet connectivity. Verizon lost 63,000 Fios Video connections in third-quarter 2018, impacted by ongoing shifts away from linear video offerings.

• Wireline operating loss was $50 million in third-quarter 2018, and segment operating loss margin was 0.7 percent. Segment EBITDA (non-GAAP) was $1.5 billion in third-quarter 2018. Excluding the impact of the revenue recognition standard, segment EBITDA was $1.5 billion. Segment EBITDA margin (non-GAAP) was 20.4 percent in third-quarter 2018, compared with 21.1 percent in third-quarter 2017. Excluding the impact of the revenue recognition standard, segment EBITDA margin was 19.9 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.

• 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 in the range of $16.6 billion to $17.0 billion.

• 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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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.