

# Verizon Stock Pitch

# Company Background

- Verizon Communiations is a multinational telecommunications conglomerate
- The company was formed on 30th June 2000, where it began trading on the NYSE under the symbol VZ
- The company provides voice, data and video services through both wired and wireless networks
- According to CNN Money, Verizon communications ranks 15th in the list of Fortune 500 companies, furthermore 2nd within its industry of telecommunications
- According to Yahoo Finance the TTM for the company's total revenue is \$136,835,000

## Product/Service Details

- Verizon communications offer an extensive array of products including mobile phones, apps, entertainment and streaming devices
- The company is leading the way with wireless connectivity, offering plans on the largest 4G LTE network. Furthermore, the company now offers "total wireless" providing smartphones on a nationwide 5G network
- Verizon connect (formerly Fleetmatics) provides GPS fleet management software
  - Their AI dashcams have help to reduce average driving speed to a safe level, improving dispatch and routing, and reduce costs of vehicle maintenance and fuel consumption

#### **STRENGTHS**

# SWOT ANALYSIS

- Verizon has a strong market presence. Verizon is one of the biggest telecommunication network companies in the US.
- They have a market share of around 31% from Q1 to Q3 in 2022, with only AT&T having a higher market share than them (Taylor, 2023).
- As of 2021, the company has a retail customer base of approximately 143m subscribers. (Statista Research Department, 2023)
- Verizon prides itself on innovation and advancement. They want to bring the best innovation to their customers. Verizon invested nearly \$4.6 billion dollars in the state of New York in 2021 (Verizon Source LLC, 2022).

#### **WEAKNESSES**

- Verizon has a dependency on their US customers.
- The company's activities in the USA is dependent on majority of its customers and sales, along with its network infrastructure being based there.
- Customers have raised concerns about the safety of their data with Verizon with regards to data security and the handling of customers' personal information.
- Airline bosses have also raised claims that the arrival of 5G could interfere with these aircraft instruments and cause disruption to flights (Thackray, 2022).

#### **OPPORTUNITIES**

# SWOT ANALYSIS

- As mentioned earlier, Verizon does have a dependency on their US customers. This can also be an opportunity for Verizon to expand their brand globally.
- Verizon can conduct market research to understand the unique needs and preferences of customers in various parts of the world.
- Verizon can diversify the services that it offers to customers such as improving their cloud services.
- According to a survey by Accenture, 79% of businesses agree that companies that don't embrace big data may lose their competitive advantage and might even go extinct (Mihalec, 2020).

#### **THREATS**

- There is a high level of competition in the telecommunication industry. Verizon's main rivals include AT&T, T-Mobile, KORE wireless, and Vodafone.
- Buyers in this industry have a medium bargaining power. This is because customers have the ability to switch the different providers if they deem their current costs to be high.
- This means that Verizon is always at risk of losing customers. They must devote their resources to keep their customers satisfied in terms of price and quality of their services.

# Upcoming Pipeline

- American Towers and Verizon communications have recently agreed a new long-term agreement, helping the company to push further forward with their 5G network deployment through American Tower's extensive range of communication sites.
- Verizon Business and KPMG LLP have collaborated through their strong alliance to deliver 5G networks to healthcare and life sciences sectors
- The company has also recently announced a brand-new, low-cost business internet plan for small local businesses in the local Boston area
  - The plan will cost \$39 a month and will help small business owners take advantage of Fios and all it's benefits

# ESG

Environmental	Social	Governance
Emissions: Aim for net zero operational emissions by 2035; this target is on track, with Verizon achieving a 6.3% reduction in 2021. This is being achieved by improving efficiency as opposed to carbon offsets.	Citizen Verizon: this is a framework that assesses how Verizon leverages its resources, technology, and employees to drive progress in three key areas: digital inclusion, climate protection, and human prosperity.	Diversity & Inclusion: Verizon's governing board consists of 45% racial/ethnic diversity and 36% women, with general staff consisting of 59.7% ethnic and gender diversity.
Plastic waste: Verizon are focusing on reducing plastic waste via reusing and recycling, approximately 35.5 million pounds of e-waste, including 1.79 million pounds of plastic in 2021.	Digital Responsibility: Verizon offer products and services that empower parents to guide their children's digital safety, and aspire to provide safe, sustainable products that improve customers' lives.	Human rights: Verizon's approach is guided by the human rights due diligence framework set forth in the UN Guiding Principles on Business and Human Rights, as well as conducting annual human rights assessments.
Enabling customers to reduce environmental impact: Since 2018, Verizon solutions have enabled the avoidance of 58 million+ metric tons of CO2e6.	Supply Chain: Verizon focuses on using diverse suppliers wherever possible, spending \$53billion over the past 10 years with suppliers that are owned by people of colour, with disabilities, and LGBT amongst others.	Ethics team: Verizon employ a dedicated ethics team committed to offering 24/7 service to allow staff to receive guidance/report concerns.

Source: Verizon ESG Report (2021) [Most current report available)



COMPREHENSIVE ?

18.5 Low Risk

 Negligible
 Low
 Medium
 High
 Severe

 0-10
 10-20
 20-30
 30-40
 40+

#### Ranking

Industry Group (1st = lowest risk)

**Telecommunication Services** 

22 out of 222

Universe

Global Universe

3097 out of 15136

#### **Industry Comparison**

Company	ESG Risk Rating	Industry Rank	
Verizon Communications, Inc.	18.5	Low	22 out of 222
AT&T, Inc.	21.9	Medium	43 out of 222
Comcast Corp.	23.2	Medium	57 out of 222
China Mobile Ltd.	24.6	Medium	74 out of 222
T-Mobile US, Inc.	25.8	Medium	91 out of 222

# ESG (Sustainalytics, 2022)

## Revenue Streams Breakdown

Revenue by Segment	2019	2020	2021	Revenue Mix by Segment for 2021
Small and Medium Business	\$11.46bn	\$11.13bn	\$11.77bn	37.93%
Global enterprise	\$10.82bn	\$10.41bn	\$10.22bn	32.94%
Public sector and other	\$5.92bn	\$6.36bn	\$6.32bn	20.37%
Wholesale	\$3.24bn	\$3.06bn	\$2.72bn	8.76%

## Balance Sheet

Ratios	Meaning	Verizon Result
Current Ratio (Current Assets / Current Liabilities)	A liquidity ratio that measures if a firm has enough capital to meet its short-term obligations.  As a general rule > 1.5 or above industry average is seen as strong	0.76
Current Ratio (Current Assets / Current Liabilities)	A ratio is used to evaluate a company's financial leverage Are they financing operations with debt or cash? A higher ratio is often interoperated as higher investment risk	1.653

Year	Current Ratio
2022	0.76
2021	1.02
2020	0.99
2019	0.87

Year	Debt/Equity Ratio		
2022	1.653		
2021	1.845		
2020	1.902		
2019	1.816		

> Current assets	37,857,000	36,728,000	54,594,000	37,473,000
> Current liabilities	50,171,000	47,160,000	39,660,000	44,868,000

## Income Statement

Breakdown	ттм	31/12/2022	31/12/2021	31/12/2020	31/12/2019
Total revenue	136,835,000	136,835,000	133,613,000	128,292,000	131,868,000
Cost of revenue	59,133,000	59,133,000	56,301,000	51,201,000	54,726,000
Gross profit	77,702,000	77,702,000	77,312,000	77,091,000	77,142,000
> Operating expenses	47,235,000	47,235,000	44,864,000	48,293,000	46,672,000
Operating income or loss	30,467,000	30,467,000	32,448,000	28,798,000	30,470,000
Interest expense	3,613,000	3,613,000	3,485,000	4,247,000	4,730,000
Total other income/expenses net	1,271,000	1,271,000	409,000	-649,000	-3,128,000
Income before tax	28,271,000	28,271,000	29,420,000	23,967,000	22,733,000
Income tax expense	6,523,000	6,523,000	6,802,000	5,619,000	2,945,000
Income from continuing operations	21,748,000	21,748,000	22,618,000	18,348,000	19,788,000
Net income	21,256,000	21,256,000	22,065,000	17,801,000	19,265,000

- Verizon Total revenue has been very stable throughout the years apart from 2020 where it had decreased by 3,576,00 most likely due to covid-19.
- But it had then increased back up and ever since has only been increasing. Making them a healthy and reliable company.
- Verizon has a consistent gross profit throughout the year staying consistently in the \$77,000,000 margins.
- Profit margin: 2019-58.5%, 2020-60.1%, 2021-57.9%, 2022-56.8%. From the profit margins it shows that Verizon had an increasing profit margin meaning the company was effectively reducing their cost.
- However, covid may have affected the company with products being more expensive during covid times meaning costs had increased for the firm.

## Cash Flow

Breakdown	ттм	31/12/2022	31/12/2021	31/12/2020	31/12/2019
> Cash flows from operating activ	37,141,000	37,141,000	39,539,000	41,768,000	35,746,000
> Cash flows from investing activi	-28,662,000	-28,662,000	-67,153,000	-23,512,000	-17,581,000
> Cash flows from financing activ	-8,529,000	-8,529,000	8,277,000	1,325,000	-18,164,000
Net change in cash	-50,000	-50,000	-19,337,000	19,581,000	1,000
Cash at beginning of period	4,161,000	4,161,000	23,498,000	3,917,000	3,916,000
Cash at end of period	4,111,000	4,111,000	4,161,000	23,498,000	3,917,000
> Free cash flow	10,401,000	10,401,000	-28,343,000	21,450,000	16,909,000

- Verizon's operating cash flow has remained positive for the past 5 years.
- The consistent negative investing cash flow indicates that Verizon have been investing more than they can afford.
- Verizon's financing cash flow has been mixed over recent years, most recently being negative indicating difficulties raising capital.
- Verizon have seen a relatively healthy free cash flow over recent years, remaining consistently positive other than 2021.

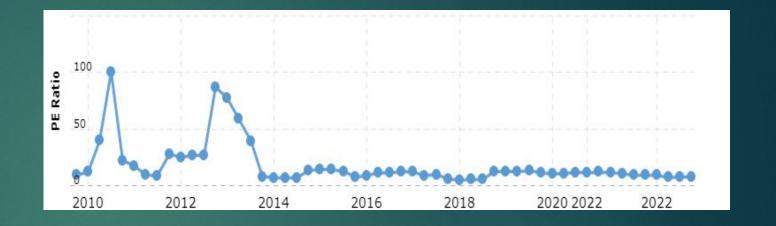
## Valuation Metrics

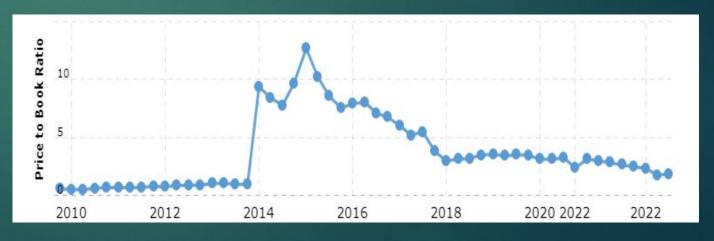
#### P/E Ratio:

- Verizon's P/E ratio is 7.6, compared to the Wireless National industry currently has a P/E average of 31.58
- Competitors (P/E Ratio)
  - AT&T (7.15)
  - T-Mobile (41.15)

#### P/B Ratio:

- Verizon's P/B ratio is 1.70
- Competitors Ratio
  - AT&T (1.3)
  - T-Mobile (2.63)





Source: Macro Trends

# Competitor Analysis

- The year 2018 produced the merge between T-Mobile and Sprint with forecast to surpass to surpass Verizon in IoT (Kapko, 2018)
- As of 2022, Verizon has the best coverage in the country, but T-Mobile has faster data speeds (Abbott, 2022).



# Biggest competitor: - AT&T

- Verizon is now cheaper than AT&T, with a similar 7.4x P/E and a higher 6.8% Dividend Yield (Capital, 2022) As of currently, Verizon is slightly more attractive at this moment in time.
- That said, AT&T's slightly cheaper plans are much weaker when it comes to perks and inclusions. For that extra \$5-10/month, Verizon includes up to six streaming services (Disney+, Hulu, etc.) for free. AT&T, meanwhile, doesn't offer any entertainment perks

## Threat of new Entrants?

- Even if a new player can bear the cost and get past the regulations, next comes the process of building a brand name that can compete.
- Verizon has been around since the early days of the industry and has spent years building its name. It is unlikely that a new company can arrive on the scene and clear the necessary hurdles to compete with Verizon.



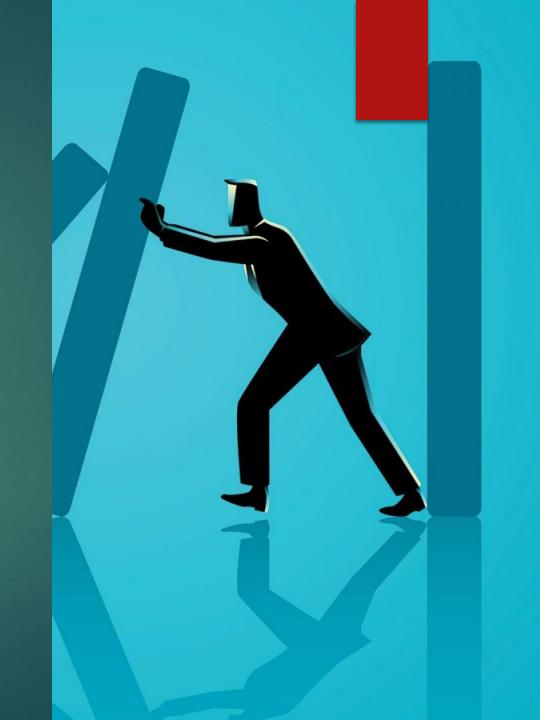
## Risk

- Verizon stock retreated 24% in 2022, while the S&P 500 fell more than 19%. If the company were not able to retire its existing debt, it would lead to consequences such as: dedicating significant amounts of cashflows from operations to pay off debts.
- At the end of 2022, the company had \$150.6 billion in debt, and it paid \$3.6 billion in interest last year.



## Risk

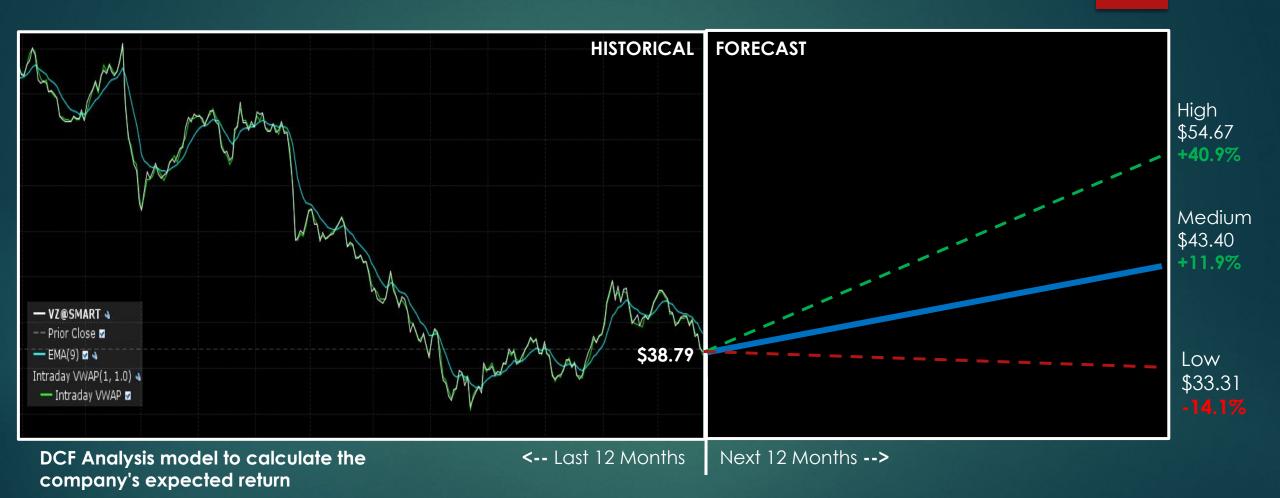
- Unfavorable economic conditions, such as a recession or economic slowdown in the U.S. or elsewhere, or inflation in the markets.
- The company's products and services are not seen as a necessity by many consumers, so in the event of an economic collapse, demand may highly decrease. This was seen with the Covid-19 pandemic that occurred in 2020. Consumer behavior was impacted by the pandemic, causing the company to record lower wireless service revenue along with less instore engagement.



# Market Reaction to Earnings and News



## Forecast



# Other Analyst Forecasts

- ► High \$51
- Medium \$44.00
- ► Low \$37.00
- Rating Small Buy Position/Hold

#### Yahoo Finance:

- ► High \$64.00
- Medium \$44.84
- ► Low \$33.00
- Rating Small Buy Position/Hold

#### Wallstreet Zen:

- ► High \$52.00
- Medium \$44.80
- ► Low \$37.00
- Rating Small Buy Position/Hold

CNN Money

# Recommendation – Moderate Buy/Hold, small position size

- Verizon's current P/E ratio is 7.6 compared to its industry average of 31.58, showing its potential growth which in return reflects potential profits
- Although Verizon isn't likely to become a strong growth stock, it's a
  defensive company with a well-funded and high-yielding dividend
- A 6.6% dividend yield, and if Verizon can deliver the 4% earnings growth analysts expect, investors could see close to 10% annual returns.
- We recommend either buying a small position or holding until there is clear evidence of a rebound.

# Summary

- We recommend Verizon as an investing opportunity due to their strong ESG, in addition to sound financials and opportunity for growth.
- Heavy investment in 5G reflects Verizon's ambitions and therefore provides a positive outlook for the firm's future.
- Investing in Verizon is unlikely to provide the rapid growth that can be found with younger tech firms; however, the minimal threat of new entrants and Verizon's control of the US market make it a safe investment that is likely to provide consistent growth over the coming years.

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