Telecommunications
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COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics	
VZ - NYSE (Price as of 4/19/17)	$48.94
Price Target	NA
52-Week Range	$56.95 - $46.01
Shares Outstanding (mm)	4,087.0
Market Cap. ($mm)	$200,017
3-Mo. Average Daily Volume	15,608,000
Institutional Ownership	65.0%
Debt/Total Capital	87.0%
ROE	15.8%
Book Value/Share	$4.70
Price/Book Value	11.1x
Dividend Yield	4.7%
LTM EBITDA Margin	27.2%

EPS FY 12/31

	2015	2016	Prior 2017E	Curr. 2017E
1Q			--	
2Q			--	
3Q			--	
4Q			--	
Year	$3.99	$3.87	$3.89	$3.80
P/E	12.3x	12.6x		12.9x

Revenue ($mm)

	2015	2016	Prior 2017E	Curr. 2017E
1Q			--	--
2Q			--	--
3Q			--	--
4Q			--	--
Year	$131,620	$125,980	--	$124,500

Company Description: *Verizon Communications is a leader in delivering broadband and other wireline and wireless communications services to mass market, business, government and wholesale customers. Verizon owns 100% of Verizon Wireless, which serves over 114 million customers nationwide and is the nation's largest wireless provider. VZ also continues to deploy a fiber-optic network consumers can utilize for communications, information, and entertainment.*

Verizon Communications

VZ -- NYSE – Neutral -- 2

Company reports disappointing first quarter results

Investment Highlights

- **Verizon reported first quarter adjusted earnings of $0.95 per share versus $1.06 per share in 2016's first quarter.** Earnings were below the consensus estimate of $0.96 per share. Total revenues were $29.84 billion compared to $32.17 billion in the first quarter of 2016. Revenues were significantly below a consensus expectation of $30.49 billion. Excluding acquisitions and divested assets, revenues declined by 4.5% year-over-year. Total wireless revenue declined by 5.1% in the first quarter. The company cited decreased overage revenue, lower postpaid customers and continued promotional activity as reasons for the pressure on revenues. Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) was $11.2 billion versus $11.9 billion in last year's first quarter.
- **Wireless results remain under pressure.** Service revenue of $15.8 billion declined by 6.1% in the first quarter. Wireless operating income fell to $7.07 billion from $7.88 billion in the same period last year. Wireless remains a mature and extremely competitive industry, made even more so by the telecoms, including Verizon, offering new unlimited data plans during the quarter. The company reported a net decline of 307,000 retail postpaid connections, including 289,000 phone losses. Moreover, VZ's churn rate of 1.15% was higher than the 1.3% consensus estimate.
- **Management reaffirmed previous guidance.** Verizon continues to expect 2017 revenue, on an organic basis, to be fairly consistent with 2016's level. Consolidated earnings trends are expected to be similar to revenue trends. We believe earnings may be less than last year.
- **We maintain our Neutral rating.** We continue to remain on the sidelines with Verizon due to the continued pressure on its core wireless business. The stock does offer an attractive dividend yield, however.

Note Important Disclosures on Pages 3 - 4.
Note Analyst Certification on Page 3.

First Quarter Results

First quarter adjusted earnings were $0.95 per share versus $1.06 per share in 2016's first quarter. Earnings were slightly below the consensus estimate of $0.96 per share. However, the company's revenues proved to be a bigger miss in the first quarter. Revenue totaled $29.84 billion compared to $32.17 billion in the same period last year. Revenues were well below the consensus estimate of $30.49 billion. Excluding acquisitions and divested assets, revenues declined by 4.5% year-over-year. The biggest reason for the pressure on revenues stems from the ongoing weakness in wireless revenues, which declined by 5.1% to $20.1 billion from last year's first quarter. Verizon cited a decrease in overage revenue, lower postpaid customers and continued promotional activity as reasons for the revenue declines. We believe VZ is being negatively impacted by both the slow growth in wireless and intensely competitive environment. A variety of new unlimited data plans were introduced in recent months including one from Verizon. We feel Verizon has been hurt by the even greater competitive pressure although management indicated it saw improvement from the middle of the quarter on following the release of its new unlimited data plan.

The first quarter marked the first ever quarter in which the company posted a quarterly net loss of wireless subscribers. Verizon saw a decline of 307,000 retail postpaid connections, including 289,000 phone losses. The company also experienced a significant decline in wireless tablet connections in the period. The wireless revenue pressure also negatively impacted wireless operating income, which declined from $7.88 billion last year to $7.07 billion in this year's first quarter. Verizon's churn rate of 1.15% was also considerably higher than the projected 1.03% rate as consumers opted to move to other carriers. However, wireless margins remained strong with a segment EBITDA margin of 45.1% compared to 46.2% in last year's first quarter. This was a result of a continued emphasis on managing expenses.

Outlook

Management expects full-year 2017 revenues, on an organic basis, to be fairly consistent with 2016, with improvement in wireless service revenue and equipment trends. Full-year 2017 consolidated adjusted EPS trends are expected to be similar to revenue trends. However, given the difficult start to the year we are trimming our 2017 EPS estimate by $0.09 to $3.80. The company anticipates that both its service revenue and equipment revenue will begin to pick up in the second half of the year. Absent this, we believe it may prove difficult for the company to match last year's earnings. It will be interesting to see if the company becomes more aggressive in pursuing other possible business combinations outside of its core wireless business.

Rating

We maintain our Neutral rating on Verizon. The disappointing first quarter results reinforce what a challenging period it is for a traditional telecom company right now. A company like Verizon has to contend with both a mature, slow growing wireless industry along with smaller, more aggressive competitors such as T-Mobile and Sprint seeking to expand their market share. Thus, while we continue to regard Verizon as a high quality telecom, we see little near-term earnings growth visibility or new significant growth drivers. It continues to appear that 2017 will mark the third consecutive year in which earnings have been in a narrow $3.80 per share to $3.99 per share range. With seemingly little earnings growth potential as of now, we remain on the sidelines with Verizon. However, the stock carries an attractive 4.7% dividend yield, making it a solid holding for income oriented accounts.

Suitability

We assign a 2 suitability rating to Verizon. While the company operates in a very competitive industry, it generally generates consistent earnings. In addition, its lucrative wireless business generates large cash flows which support the dividend. Dividends have been increased for 10 consecutive years. We believe Verizon is most suitable for conservative income oriented investors seeking modest capital appreciation.

Risks
There are a variety of factors that could impact Verizon's stock price. These include the ongoing effects of slow economic growth, sustained intense competition, access line losses and the resulting pressure on Verizon's wireline business. These factors could potentially adversely impact margins and profitability levels. In addition, the wireless industry is becoming increasingly mature, with slower growth rates. There is also the potential of new acquisitions, which could prove either dilutive or provide integration challenges. Higher interest rates and inflation could also potentially impact performance negatively. Along with economic concerns, Verizon is also subject to possible new regulations or legislation.

Additional information is available upon request.

Prices of other stocks mentioned: T-Mobile (TMUS-$65.13), Sprint (S-$8.57).

Analyst Certification

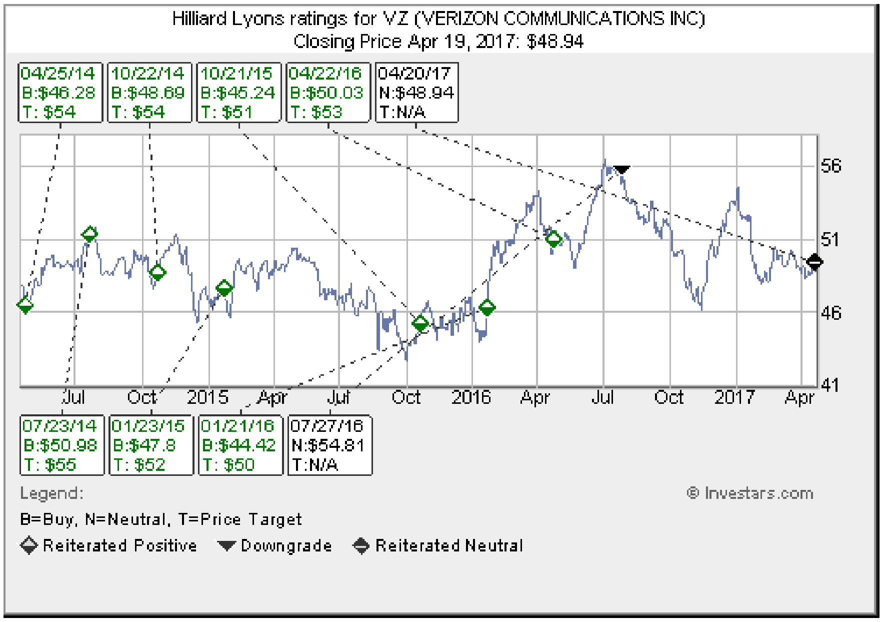
I, David B. Burks, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Investment Ratings
Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.
Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings
1 - A large cap, core holding with a solid history
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Note: Price targets accompanying Buy ratings reflect a one year time period while price targets accompanying Long-term Buy ratings reflect a two to three year time period.

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 2017

Other Disclosures

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