



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

VZ - NYSE (Price as of 7/27/17)	\$47.81
Price Target	NA
52-Week Range	\$55.82 - \$42.80
Shares Outstanding (mm)	4,088.0
Market Cap. (\$mm)	\$195,447
3-Mo. Average Daily Volume	14,775,000
Institutional Ownership	65.0%
Debt/Total Capital	87.0%
ROE	15.8%
Book Value/Share	\$4.70
Price/Book Value	10.2x
Dividend Yield	4.8%
LTM EBITDA Margin	27.2%

EPS FY 12/31

	Prior 2016	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q			--	
2Q			--	
3Q			--	
4Q			--	
Year	\$3.87	\$3.80	\$3.77	\$3.80
P/E	12.3x		12.7x	12.6x

Revenue (\$mm)

	Prior 2016	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q			--	--
2Q			--	--
3Q			--	--
4Q			--	--
Year	\$125,980	\$124,500	--	\$126,100

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 better than expected wireless customer additions

Investment Highlights

- **Verizon reported second quarter adjusted earnings of \$0.96 per share versus \$0.94 per share in 2016's second quarter.** Earnings were in line with consensus expectations. Total second quarter revenues were \$30.5 billion and declined by 2.0% from last year's second quarter. However, revenues were considerably above the consensus estimate of \$29.9 billion. Consolidated adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) rose to \$11.3 billion from \$11.0 billion from 2Q'16.
- **The company experienced a rebound in postpaid wireless customer growth.** Verizon added 358,000 customers in the second quarter, well above expectations. The number may reflect some success with its new unlimited plans. Second quarter results marked a turnaround from the disappointing first quarter in which the company lost 289,000 customers. In addition, VZ indicated that it expects service revenue trends to improve in the second half of the year. Total wireline revenues declined by 2.8% to \$7.8 billion. Wireline margins declined following VZ's divestiture of its data center business. Consumer market revenue rose.
- **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. Our 2017 and 2018 EPS estimates are \$3.77 and \$3.80, respectively.
- **We maintain our Neutral rating.** We would maintain positions in the stock for income oriented investors. While we were encouraged by second quarter results, it appears that sustained earnings growth remains a challenge for VZ. Yet the stock carries an attractive 4.8% dividend yield and we expect a dividend increase in August for the 11th consecutive year.

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

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 from T-Mobile, AT&T and Sprint, 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-\$61.62), AT&T (T-\$39.41) and Sprint (S-\$8.20).

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	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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