



COMPANY UPDATE / ESTIMATE CHANGE

VZ - NYSE (Price as of 10/18/17)	\$48.65
Price Target	NA
52-Week Range	\$54.83 - \$42.80
Shares Outstanding (mm)	4,088.0
Market Cap. (\$mm)	\$198,881
3-Mo. Average Daily Volume	14,571,000
Institutional Ownership	65.0%
Debt/Total Capital	87.0%
ROE	15.8%
Book Value/Share	\$6.17
Price/Book Value	7.9x
Dividend Yield	4.9%
LTM EBITDA Margin	26.8%

EPS FY 12/31

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q				--	
2Q				--	
3Q				--	
4Q				--	
Year	\$3.87		\$3.77	\$3.80	\$3.82
P/E	12.6x		12.9x		12.7x

Revenue (\$mm)

	2016	Prior 2017E	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 115 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 solid third quarter results, helped by better than expected wireless growth

Investment Highlights

- **Verizon reported third quarter adjusted earnings of \$0.98 per share versus \$1.01 per share in 2016's third quarter.** Earnings were in line with consensus expectations. Total third quarter revenues were \$31.7 billion, and above expectations of \$31.4 billion. However, excluding acquisitions and divestitures, revenues declined by 2.3%. The drop was due to a decline in service revenues although they improved sequentially from this year's second quarter. Consolidated adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) rose to \$11.6 billion from \$11.2 billion in 3Q'16.
- **The company continues to experience postpaid wireless customer growth.** Verizon added 603,000 customers in the third quarter, which was above expectations. This included phone additions of 274,000. The strength appears to reflect success with its unlimited plans. This marked the second straight quarter in which the company has added wireless customers after a disappointing first quarter in which VZ lost phone customers. We are encouraged by the trend and expect it to continue. Wireless segment EBITDA margin rose to 46.2% from 44.9% in last year's third quarter. Also, churn remained low. Total wireline revenues declined by 2.7% to \$7.7 billion, although margins increased.
- **Management reaffirmed previous guidance.** Verizon continues to expect 2017 revenue, on an organic basis, to be fairly consistent with 2016's level. This year's earnings are expected to be similar to revenue trends.
- **We maintain our Neutral rating.** While we regard Verizon as a high quality holding, we continue to believe that the near-term earnings outlook remains challenging. Yet we feel VZ remains a suitable holding for income oriented investors seeking modest capital appreciation. The stock carries an attractive 4.9% dividend yield.

**Note Important Disclosures on Pages 2 - 3.
Note Analyst Certification on Page 2.**

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 11 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-\$60.68), AT&T (T-\$35.71) and Sprint (S-\$7.05).

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.

Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 2017

Other Disclosures

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