

COMPANY PROFILE

Verizon Communications Inc.

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COMPANY OVERVIEW

Verizon Communications Inc. (Verizon or "the company") is involved in providing wireless communications services, including voice and data services and equipment sales; and wireline communications services, including broadband data and video, corporate networking solutions, data center and cloud services, security and managed network services and local and long distance voice services and global internet protocol (IP) networks. It offers products and services to retail and wholesale customers including enterprise businesses, government entities and telecommunications carriers. The company primarily operates in the US. Verizon is headquartered in New York City, New York, the US.

The company reported revenues of (US Dollars) US\$126,034 million for the fiscal year ended December 2017 (FY2017), an increase of 0% over FY2016. In FY2017, the company's operating margin was 20.2%, compared to an operating margin of 20.1% in FY2016. In FY2017, the company recorded a net margin of 23.9%, compared to a net margin of 10.4% in FY2016.

The company reported revenues of US\$32,203.0 million for the second quarter ended June 2018, an increase of 1.4% over the previous quarter.

KEY FACTS

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|---------------------------------------|---|
| Head Office | Verizon Communications Inc. 1095 Avenue of the Americas New York New York New York New York USA |
| Phone | 1 212 3951000 |
| Fax | 1 302 6555049 |
| Web Address | www.verizon.com |
| Revenue / turnover (USD Mn) | 126,034.0 |
| Financial Year End | December |
| Employees | 154,700 |
| New York Stock Exchange Ticker | VZ |

SWOT ANALYSIS

Verizon Communications Inc. (Verizon or "the company") is provider of communications, information and entertainment products and services to consumers, businesses and governmental agencies. Extensive wireless network, strong performance of Wireline, and Corporate and other segments, and growth in FiOS business are the company's major strengths, whereas substantial debt remains the cause for concern. Launch of 5G network, increasing adoption of cloud computing services and strategic acquisitions are likely to offer growth opportunities to the company. However, intense competition, stringent regulatory environment and rapid technological changes could affect its business operations.

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| <p>Strength</p> <p>Extensive wireless network FiOS success driving positive revenue growth in the consumer segment Segmental performance: Wireline, and Corporate and other</p> | <p>Weakness</p> <p>Substantial debt</p> |
| <p>Opportunity</p> <p>Launch of 5G network Increasing adoption of cloud computing services Strategic acquisitions</p> | <p>Threat</p> <p>Intense competition Rapid technological changes Stringent regulatory environment</p> |

Strength

Extensive wireless network

Verizon has an extensive wireless network, with licensed and operational coverage in all of the 100 most populous metropolitan areas in the US. It provides wireless communications services across one of the most extensive wireless networks in the US and has the largest fourth-generation (4G) Long-Term Evolution (LTE) technology and third-generation (3G) network. The rapidly growing demand for mobile data is the biggest growth driver for innovations in wireless network. In FY2017, the company's 4G LTE network is available to over 98% of the US population in more than 500 markets covering approximately 319 million people, including those in areas served by its LTE in Rural America partners. The company has 22 LTE in Rural America partners that provide 4G LTE coverage to an area covering approximately three million people. Furthermore, the company provides a range of international wireless voice and data services to the customers through roaming arrangements with wireless service providers outside of the US. The company's extensive wireless network enables it to attract new customers, thus enhancing its financial position.

FiOS success driving positive revenue growth in the consumer segment

Verizon has transformed its consumer wireline business around video and broadband. The company's residential broadband network FiOS is driving positive revenue growth. Verizon has been replacing high-maintenance portions of its residential copper network with fiber optics to provide enhanced services and to reduce ongoing repair costs. Fios Internet and video services give allows its subscribers to upload their photos, music and videos to their personal Fios on Demand Library, which gives them access to this content via various data-capable devices. At the end of FY2017, the company had a total of approximately 5.9 million FiOS internet subscribers and 4.6 million FiOS video subscribers, respectively, as compared to 5.7 million FiOS internet and 4.7 million FiOS video subscribers in FY2016. Furthermore, Also in FY2017, FiOS represented approximately 85% of consumer revenue compared to approximately 82% in FY2016. This process is expected to continue in the coming periods. The FiOS business is the growth driver for Verizon's consumer wireline business and Verizon's strong commitment to further enhance its network is expected to enhance its growth prospects.

Segmental performance: Wireline, and Corporate and other

Verizon's Wireline, and Corporate and other segments witnessed strong performance in FY2017. The growth in these segment's revenue increased the company's total revenue. In FY2017, the Wireline segment's revenue grew by 0.6% from US\$30,510 million in FY2016 to US\$30,680 million. The growth in Wireline segment's revenue was due to increases in Business Markets, as a result of the acquisition of XO, and Fios revenues. Similarly, the Corporate and Other segment's revenue grew by 20.7% from US\$7,778 million in FY2016 to US\$9,387 million. The growth in this segment's revenue was due to an increase in revenue as a result of the acquisition of Yahoo's operating business in 2017, and also due to growth in fleet service revenue in its telematics business.

Weakness

Substantial debt

The company has substantial debt. As of December 31, 2017, Verizon had approximately US\$108.2 billion of outstanding indebtedness. High debt increases the vulnerability to adverse cycles and declining cash flows, as Verizon will be subject to recurring interest payments. In lieu of higher debt, the company paid interest expense of US\$4,733 million in FY2017. The company's high level of debt obligations could impact its ability to obtain additional financing to support its expansion plans. In addition, it could also lead to the diversion of its cash flows from operations and expansion plans to service the fixed obligations. This in turn places the company at a possible competitive disadvantage compared to competitors that have better access to capital resources.

Opportunity

Launch of 5G network

With global mobile data traffic expected to grow eight times by the end of 2023, there is a need for a more efficient technology, higher data rates and improved spectrum utilization. New applications such as 4K/8K video streaming, virtual and augmented reality and industrial use cases will also require higher

bandwidth, greater capacity, security, and lower latency. Equipped with these capabilities, 5G will bring new opportunities for people, society, and businesses. 5G will create value in three main areas: Enhanced mobile broadband, Massive machine-type communications, and Critical machine-type communication. Mobile broadband is the first case for 5G, addressing traffic growth demands and higher consumer experience needs. It also enables access to multimedia content such as 4K streaming on a mobile device or on-site live experiences. The company has been leading the development of fifth-generation (5G) wireless technology industry standards and the ecosystems for fixed and mobile 5G wireless services. During 2017, Verizon deployed the largest 5G trial network in the US with active customers. The company also announced to commercially launch 5G wireless residential broadband services in three to five US markets in 2018.

Increasing adoption of cloud computing services

The worldwide demand for cloud computing services is expected to record strong growth in coming years. Cloud computing is a computing infrastructure model, which enables delivery of software-as-a-service (SaaS). Appeal of cloud computing has been increasing as it enables the companies to reduce expenses such as upfront royalty or licensing payments, investment in hardware infrastructure and other operating expenses. According to in-house research, the global cloud computing market generated revenue of US\$ 18,687.2 million in 2017. SaaS was the largest segment of the global cloud computing sector, which accounted for 53.2% of the sector's total value. The global cloud computing market is forecast to grow at a CAGR of 28.3% during 2017-2022 to reach US\$64,929.6 million in 2022. The Asia-Pacific and the US is expected to grow with CAGRs of 29.9% and 26% respectively, over the same period, to reach US\$8,832.9 million and US\$34,586 million, respective in 2022. Verizon offers a broad range of cloud services, including enterprise cloud, Verizon cloud, and cloud professional services. The company's cloud services include computing, storage, backup, recovery and application platform. Verizon also offers IT infrastructure services that include collocation and hosting. The company's increasing presence in the cloud computing market and the growing end market will provide an opportunity for Verizon to gain new customers and increase its market share in the future.

Strategic acquisitions

The company has made several acquisitions in the recent year that are expected to enhance its revenue, service offerings and market share. In January 2018, Verizon acquired Niddel Corp., a company that offers machine-learning-based automated threat hunting. The acquisition enhances the company's existing offerings. Also Niddel's machine learning solution helps the company to improve information accuracy by reducing the company's false positives and improving its detection and response capabilities. In December 2017, the company acquired fiber-optic network assets from WideOpenWest, Inc. for US\$225 million. The addition of these fiber assets in the company's portfolio is expected to help Verizon to expedite its network densification with fiber and small cells, enhancing its industry-leading 4G LTE network and laying the groundwork for 5G. In June 2017, Verizon acquired the operating business of Yahoo, the US-based multinational technology company. The acquisition puts Verizon in a highly competitive position as a top global mobile media company, and would help accelerate its revenue stream in digital advertising. Following the transaction, Yahoo integrated with the company's existing Media business, which included AOL's operations and the content delivery platform of Verizon Digital Media Services (VDMS), to create a new organization named Oath. Oath, with its technology, content and data, is expected to help the company to expand the global scale of its digital media business and

build brands for the future. In February 2017, the company acquired XO Communications' fiber-optic network business for US\$1.8 billion. The acquisition enables the company to extend network services to its enterprise and wholesale customers. In addition, it also helps the company in its plans to densify its cellular network, and to deploy new 5G technologies.

Threat

Intense competition

Verizon operates in a highly competitive wireless market in the US. The rapid development of new technologies, services and products has eliminated many of the traditional distinctions among wireless, cable, internet, local and long distance communication services and brought new competitors to the markets, including other telephone companies, cable companies, wireless service providers, satellite providers, application and device providers, electric utilities and providers of VoIP services. The company competes on the basis of network quality, capacity and coverage, the pricing of the products and services, the quality of customer service, development of new and enhanced products and services, the reach and quality of sales and distribution channels and its capital resources. The primary competitors of the company include AT&T, Sprint and T-Mobile US, as well as various regional wireless service providers. In the wireline communications market, the company competes with cable companies, wireless service providers, other domestic and foreign telecommunications providers, satellite television companies, Internet service providers, over the top providers and other companies that offer network services and managed enterprise solutions. Further, the company competes with non-traditional operators such as Microsoft, Google, and Apple. The increasing competition coupled with impending price competition will continue to put pressure on pricing and margins as companies compete for potential customers.

Rapid technological changes

Verizon operates in an industry which is characterized by rapid and significant changes in the diversity and sophistication of the technologies and services offered. Such changes may render the company's existing services or technologies obsolete. These changes will broaden the range and reduce costs of telecom products and services. Future changes in network technology will create a need for the company to upgrade its products and technologies. These changes will also require the company to dedicate significant resources. New products or services that use new or evolving technologies may reduce demand for the company's existing offerings or cause prices for those services to decline. There can be no assurance that Verizon will succeed in developing, implementing and marketing new technologies, products, services or enhancements in a reasonable time, or that they will gain market acceptance. Inability to upgrade to new technologies may impact the company's competitiveness and the results of operations.

Stringent regulatory environment

The company's domestic operations are subject to regulation by the Federal Communications Commission (FCC) and other federal, state and local agencies, and its international operations are regulated by various foreign governments and international bodies. These regulatory regimes frequently

restrict the company's ability to operate in or provide specified products or services in designated areas and require the company to maintain licenses for its operations. Also, the FCC grants wireless licenses for terms generally lasting 10 years that are subject to renewal. The loss of, or a material limitation on, certain of the company's licenses could have a material adverse effect on its wireless business, results of operations and financial condition. Moreover, the development of new technologies, such as IP-based services, including VoIP and super high-speed broadband and video, could be subject to conflicting regulation by the FCC and various state and local authorities, which could significantly increase the cost of implementing and introducing new services based on this technology. Moreover, the company holds certain wireless licenses that require it to comply with FCC's open access regulations, which generally require licensees of particular spectrum to allow customers to use devices and applications of their choice. In addition, its broadband internet access services are subject to various attempts to impose network neutrality rules, which aims to limit the ways that a broadband internet access service provider can structure business arrangements and manage its network. Furthermore, any new regulations could restrict the company's ability to compete in the marketplace and limit the return it can expect to achieve on past and future investments. Changes in the regulatory framework under which the company operates could adversely affect its business prospects or results of operations.

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