



Stock Pitch

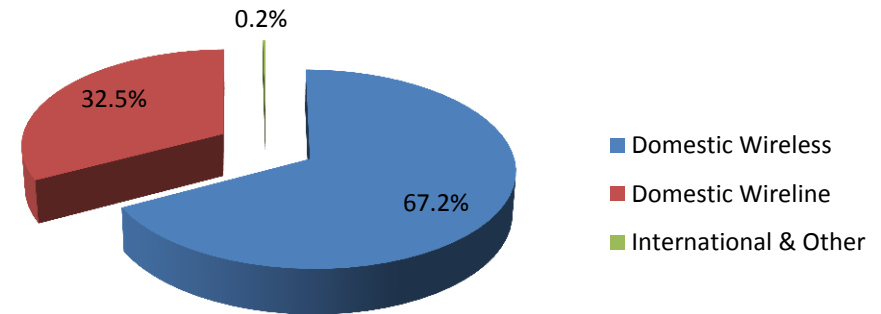
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Business Description

Wireless

- Second-largest provider of voice, text and data with 102.8mm subscribers in the United States
- Strong network coverage, 4G LTE network covers 97% of Americans
- Industry-leading EBITDA margins of 47% due to postpaid subscriber base

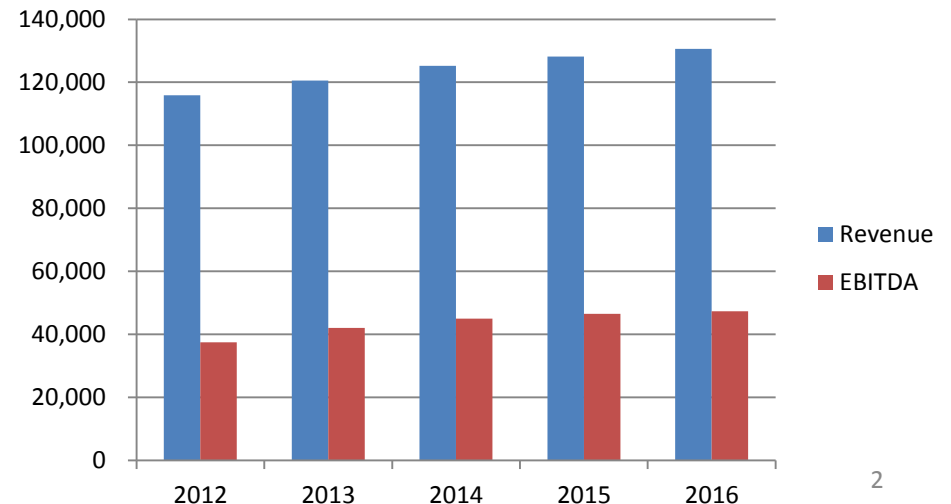
Verizon Revenue Breakdown



Wireline

- Provides landline, high-speed internet and video services to 10mm subscribers in the United States
- High-speed internet is area of growth because FiOS currently reaches only 18mm households
- FiOS technologically superior to cable and satellite providers due to stronger bandwidth capacity

Verizon Revenue and EBITDA



Acquisition of Verizon Wireless

Transaction Highlights

- Verizon acquired 45% of Verizon Wireless from Vodafone for \$130bn
- Transaction closed in February 2014, primarily to avoid rising interest rates
- Verizon is paying 7.6(x) 2014E EBITDA with negligible synergies and merger integration costs

Financing Structure

- Vodafone receiving \$60.2bn in Verizon stock, \$60bn in cash and \$10bn in assets from Verizon
- Vodafone immediately gave the Verizon stock to its shareholders as a stock dividend
- Verizon pro-forma leverage is now 2.3(x) 2014E EBITDA

Sources

<u>\$MM</u>	
New Equity Issued	60,200
New Verizon Debt	49,000
Cash on Balance Sheet	11,000
Miscellaneous Assets	10,000
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Total Sources	130,200

Uses

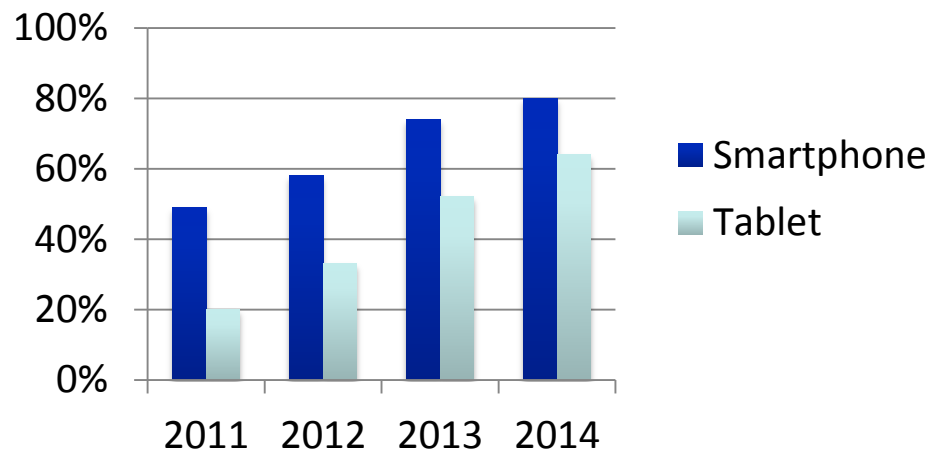
<u>\$MM</u>	
Vodafone Cash Increase	36,200
Vodafone Cash Dividend	23,800
Vodafone Stock Dividend	60,200
Miscellaneous Assets	10,000
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Total Uses	130,200

Wireless Industry Growth Potential

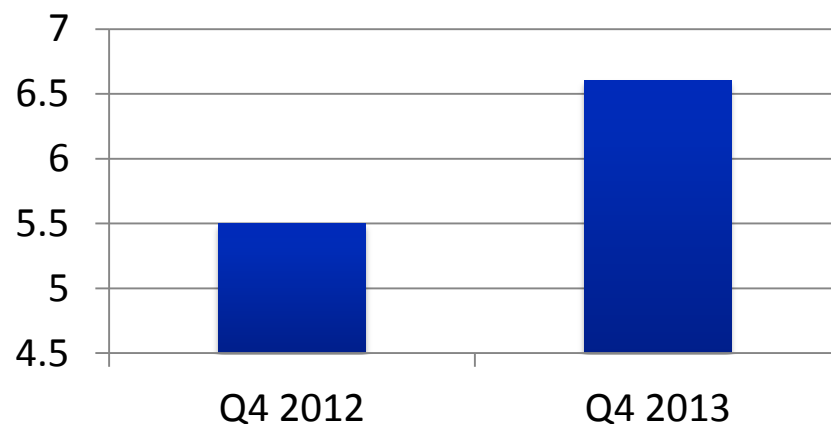
We Are Entering the Mobile Age

- The smartphone is rapidly becoming people's entertainment center
- In this world, a stronger and more reliable network becomes even more important for customers
- What makes mobile a growth market is increased usage of data
 - About half of Verizon customer's smartphones right now have 3G
- Every industry is being transformed by mobile applications

Smartphone & Tablet Penetration



Smartphone Data Usage (GB/month)



T-Mobile Challenge: Short-Term Picture

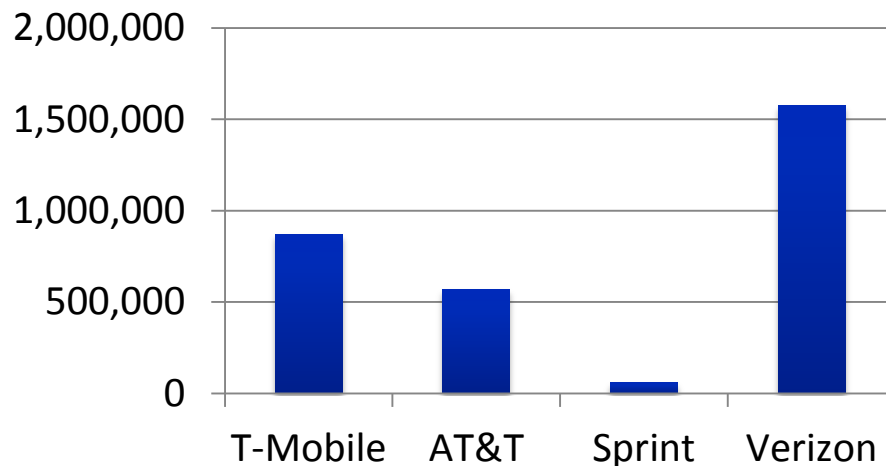
T-Mobile Plan

- Two key features in T-Mobile's Simple Choice Plan are: no contract lock-in and advertised prices just for network costs
 - Monthly cost for first 2 years isn't too different
 - Provides more flexibility

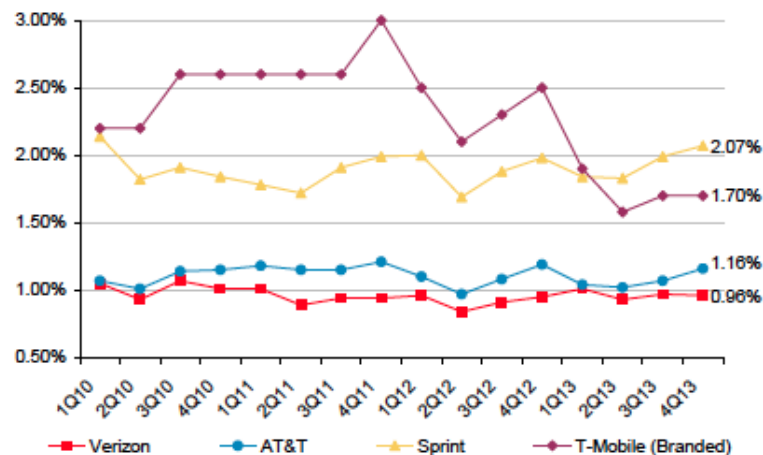
Verizon Reaction

- Verizon has responded by increasing services and flexibility but not cutting prices
- T-Mobile's subscriber gains, according to its CEO, have been from Sprint and AT&T
- Verizon's low churn demonstrates its defensible market position

Q1 2014 Postpaid Subscriber Gains



Postpaid Subscriber Churn

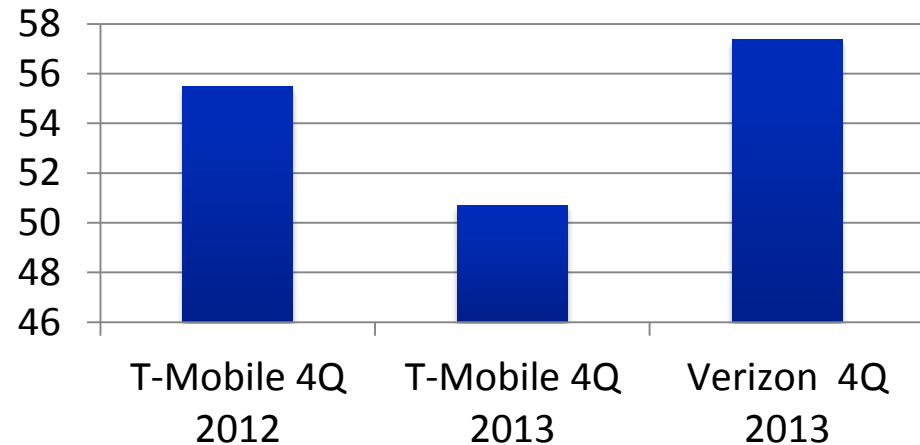


T-Mobile Challenge: Short-term Picture

T-Mobile's Strategy is Unsustainable

- The company's investments in new technology and spectrum rights have been possible due to one time awards of \$4 billion from a deal breakup fee
- The enterprise itself has lost money for 3 quarters in a row and the stock has fallen 10% YTD
- ARPU figures demonstrate trouble

ARPU (Average Revenue Per User)



Switching Costs are High

- A Verizon phone will not work on T-Mobile's network
- Family and other plans contain strong monetary incentives to stick with your current carrier

T-Mobile Challenge: Long-Term Picture

Key inputs for a wireless company include expensive new technology and spectrum licenses

Verizon and AT&T's large networks provide them with an advantage

- Spectrum licenses and technology are worth more to them
- They have stronger balance sheets

Unless Sprint and T-Mobile merge, it is doubtful that either can overcome these network effects

Sum-Of-The-Parts Analysis

Wireless

- Verizon has superior coverage due to attractive spectrum portfolio and scale of network infrastructure
- Verizon is growing market-leading share of lucrative postpaid subscribers
- Overall industry has strong growth prospects

Wireline

- Cable and satellite distributors historically trade between 6-7(x) EBITDA
- Verizon, Comcast are only pay-TV operators growing subscribers
- Verizon at technological advantage due to Fiber Optic ability to handle increased bandwidth consumption

Wireless Comparables

	EV	EV / EBITDA
AT&T	238,197	5.5
T-Mobile US	33,172	6.9
Sprint	59,941	11.3
Dish Networks	30,749	10.4
Wireless Segment		7.5

Wireline Comparables

	EV	EV / EBITDA
Comcast	178,317	8.3
DirecTV	57,270	7.1
Charter	27,615	9.9
Time Warner Cable*	63,471	8.0
Wireline Segment		6.5

Verizon Communications (*NYSE: VZ*)

Verizon Wireless's entrenched, defensible market position in an industry poised for growth ensures limited downside and stable dividend payout with strong upside potential

Recommendation: Buy

Current Price: \$47.5-

Price Target: \$54.5

STRENGTHS

- Industry-leading margins and growth profile
- Technical sell-off in the market due to new shares from Verizon Wireless acquisition
- Dividend yield of 4.6% and historical dividend stability boosts absolute return

RISKS

- T-Mobile's un-carrier business strategy compresses margins for entire industry
- Sprint – T-Mobile merger is approved by regulators
- Spectrum auctions and network infrastructure capital expenditures depress FCF