Verizon Communications Inc VZ (XNYS)

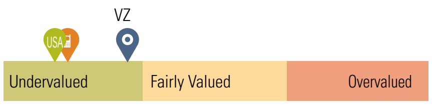
Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★	57.25 USD	59.00 USD	0.97	4.32	4.38	236.90	Telecom Services	Standard
20 Oct 2020 21:49, UTC	20 Oct 2020	15 Apr 2020 14:53, UTC		20 Oct 2020	20 Oct 2020	20 Oct 2020		

Morningstar Pillars

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Wide
Valuation	★★★	Undervalued
Uncertainty	Medium	Medium
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation



	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	0.92	0.97	0.84	0.83
Price/Earnings	12.4	13.8	15.3	20.1
Forward P/E	11.6	—	14.6	13.9
Price/Cash Flow	5.5	7.1	6.0	13.1
Price/Free Cash Flow	11.2	23.5	15.6	19.5
Trailing Dividend Yield%	4.32	4.32	4.22	2.35

Source: Morningstar

Bulls Say

- A relentless focus on network strength over the past 15 years has put Verizon in an enviable position. Its wireless network provides the broadest coverage in the industry, and its reputation with customers is sterling.
- With the largest customer base in the U.S., Verizon Wireless is also the most efficient carrier in the industry, delivering far better profitability than its rivals.
- While other wireless carriers are tangled up in merger activity, Verizon is relentlessly pushing forward in its core business, expanding its fiber-optic network and deploying 5G wireless technology.

Bears Say

- Wireless technology is dramatically lowering the cost to build and maintain a network. Existing carriers have a clear path to rapidly deploy new standards as they become available, often through software upgrades. Verizon's network leadership will soon be a thing of the past.
- Verizon's fixed-line business is a disaster, earning minimal profits today and facing years of high costs supporting declining businesses.
- Verizon's balance sheet isn't the fortress it once was. Paying down debt will limit strategic flexibility and shareholder returns.

Verizon Bounces Back in the Third Quarter; Share Fairly Valued

Business Strategy and Outlook

Michael Hodel, CFA, Analyst, 15 April 2020

Verizon's strong position in the wireless business should produce stable revenue and cash flow. We suspect the firm will have an opportunity to gain some market share in the coming quarters as T-Mobile integrates Sprint, but we expect only modest growth over the long term.

Verizon has long prided itself on network quality, investing consistently in both wireless and fixed-line technology. The firm has built its marketing reputation around these networks, attracting a large and loyal customer base. In the wireless business, the firm holds roughly 40% of the postpaid phone market, about a third greater than either AT&T or the recently merged T-Mobile/Sprint. Leading scale enables Verizon to generate the highest margins and returns on capital in the industry. The merger of T-Mobile and Sprint has improved the industry's structure, leaving three players with little incentive to price irrationally in search of short-term market share gains. Dish Network, now the industry's fourth-largest player (excluding America Movil's Tracfone/Straight Talk resale business), is too small to have much impact. It now owns Sprint's prepaid business, which accounts for less than 3% of the market and faces a long road as it builds out a network.

Verizon has--astutely, in our view--divested much of its fixed-line footprint over the past decade, leaving primarily operations in the Northeast. Around three fourths of its remaining network has been overbuilt with fiber optics (its Fios system), replacing traditional copper wire. The high cost of this network build has produced weak profitability in the fixed-line business, but we expect this asset will be increasingly valuable in serving customers in this densely populated region. Verizon has undertaken a major fiber expansion project recently, which promises to remake Fios to serve wireless and business customers while also adding capacity in other major markets around the United States. This undertaking should support the firm's effort to lead the industry in 5G technology deployment and enable it to serve new customers, providing strategic benefits, though we don't expect 5G will have a major impact on the home broadband market.

Analyst Note

Michael Hodel, CFA, Analyst, 21 October 2020

Verizon gradually rebounded from the effects of the pandemic during the third quarter, and it expects that trend to continue. While reported revenue dropped 4% versus a year ago, most of the decline was the result of weak phone sales. The core wireless-services business returned to growth, albeit with revenue up only 0.3% year over year, but management said it expects further acceleration during the fourth quarter to at least 2%. At that pace, Verizon would be nearly back to what we consider a reasonable expectation for long-term wireless-services revenue growth (3%-4%). Free cash flow also remained solid during the quarter. The firm has generated $18.3 billion so far this year, more than it produced in all of 2019. Cash flow may come under some pressure during the fourth quarter, given heavy promotions around the iPhone 12 launch, but we expect the impact will be easily manageable. We don't plan to materially change our $59 fair value estimate or narrow moat rating and consider Verizon shares fairly valued.

Wireless activity remained muted during the quarter. Relatively few customers upgraded phones or switched carriers, which helped boost margins and cash flow. Verizon has been pleased with its ability to manage delinquent accounts and said it expects only a modest increase in involuntary customer deactivations during the fourth quarter. About 3% of accounts are on its Stay Connected plan to help these customers, and 90% of those have made at least some payment. Despite the economic turbulence, Verizon again reported a net gain in wireless postpaid phone customers (283,000 versus 445,000 a year ago), leaving its base about 1% larger than a year ago at 91.1 million. Importantly, average revenue per postpaid account bounced back nicely, increasing 2.4% from the prior quarter and 0.2% year over year. International roaming revenue remains a headwind, but the firm has continued to successfully move customers to unlimited and higher-tier rate plans.

Economic Moat

Michael Hodel, Analyst, 15 April 2020

Verizon Communications Inc VZ (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 20 Oct 2020 21:49, UTC	57.25 USD 20 Oct 2020	59.00 USD 15 Apr 2020 14:53, UTC	0.97	4.32 20 Oct 2020	4.38 20 Oct 2020	236.90 20 Oct 2020	Telecom Services	Standard

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Comcast Corp CMCSA	USD	202,230	105,549	19.03	17.79
AT&T Inc T	USD	190,665	175,138	16.07	16.31

Verizon's moat stems from cost advantages in its wireless business and the industry's efficient scale characteristics. Verizon is reorganizing its business along customer lines, but we still believe the firm is best understood along wireless and fixed-line dimensions. The wireless business produces about 70% of total revenue and accounts for a similar portion of invested capital but contributes nearly all of Verizon's profits. We peg the segment's returns on invested capital at about 16%, or about 18% excluding goodwill, by far the strongest in the U.S. wireless industry (we estimate AT&T, the next strongest, earns returns of around 9%, or 12% without goodwill). Verizon Wireless has been built nearly entirely via internal growth since its founding in the late 1990s as a joint venture with Vodafone. The acquisition of Alltel in 2009 stands as the only major deal in firm history, accounting for most of the unit's goodwill. Alltel was strategically important, increasing the size of Verizon's customer base nearly 20%, placing it head and shoulders above even AT&T in terms of scale, while also adding strong geographic coverage in smaller towns and rural areas, extending the firm's strong network reputation.

Verizon, AT&T, and the new T-Mobile dominate the U.S. wireless market, claiming roughly more than 90% of the retail postpaid phone market. Providing solid nationwide coverage requires heavy fixed investments in wireless spectrum and network infrastructure. While a larger customer base does require incremental investment in network capacity, a significant portion of costs are either fixed or more efficiently absorbed as network utilization reaches optimal levels in more locations. In addition, Verizon's relatively straightforward corporate history and consistently strong financial position have enabled it to deploy its network in a highly coordinated manner over the past 15 years, making it more efficient on average than its rivals.

The benefits of fixed-cost leverage and the difficulty of providing a differentiated wireless offering create an efficient scale advantage in the wireless industry. The massive consolidation across the industry over the past 15 years and the inability of several interested parties, including Dish Network and Comcast, to effectively enter the market provide evidence of efficient scale. In addition, we believe the merger of T-Mobile and Sprint reflects both firms' belief that they needed additional scale to earn acceptable returns on capital. T-Mobile's turnaround over the past few years has been impressive, but the firm's share gains have been relatively modest. We estimate T-Mobile on a stand-alone basis, held 18% of the postpaid phone market, up from 15% three years prior, still far smaller than AT&T or Verizon (nearly 30% and 40%, respectively). With Sprint in the fold, T-Mobile's postpaid market share now rivals AT&T. With three sizable players, we don't expect the carriers will have an incentive to aggressively poach each other's customers, given how painfully slowly market share shifts occur in the business. We also expect the high cost of maintaining nationwide coverage and its diminutive size will limit Dish's ability to compete on a large scale over the long term.

Verizon's fixed-line operations are challenged on a stand-alone basis, in our view. These businesses account for a bit more than 20% of the firm's invested capital base but at a loss in terms of operating profit and likely contribute little to operating cash flow. Fifteen years ago, fixed-line services, including directory publishing, formed Verizon's core, producing $18 billion in EBITDA. Today, the business is less than a third that size. We believe Verizon has pursued a rational strategy for this business, spinning off or selling assets where it had no plans for future investment while investing heavily in the remaining operation. For context, Verizon has realized more than $30 billion in proceeds for shareholders since 2005, equal to about three fourths of the invested capital remaining in the business. However, only shareholders who followed Verizon's lead, washing their hands of these assets by selling spun-off shares in firms like Idearc and FairPoint, fully realized this value. Verizon has had a knack for negotiating terms that ultimately lead asset buyers to bankruptcy.

Verizon now holds fixed-line assets that reach about 25 million homes and business primarily across the corridor from Washington to New York City. Verizon has deployed Fios, its fiber-optic cable network, to about three fourths of this territory, eliminating the gap in network capabilities versus cable companies like Comcast. Despite this network improvement, however, Verizon's ability to win customers hasn't been impressive. About 40% of homes served by Fios take Verizon Internet access service, a

Verizon Communications Inc VZ (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★	57.25 USD	59.00 USD	0.97	4.32	4.38	236.90	Telecom Services	Standard
20 Oct 2020 21:49, UTC	20 Oct 2020	15 Apr 2020 14:53, UTC		20 Oct 2020	20 Oct 2020	20 Oct 2020		

figure that hasn't moved much over the past five years, which likely leaves the firm slightly trailing the cable companies in these markets. We suspect the high cost of deploying Fios has hampered the ability to use aggressive price promotions to attract new customers. In areas where Fios isn't available, cable has crushed Verizon, leaving it with a subscale operation that likely earns very poor margins.

In addition to the traditional residential and small-business telecom segment, Verizon serves large enterprise and carrier customers around the world. The firm is reasonably well positioned in this market thanks to its global reach and deep technical capabilities. Few other telecom firms can meet the complex networking needs of larger customers, and the players in this market have been consolidating in recent years (including CenturyLink's merger with Level 3). Verizon also acquired XO Communications in 2017, adding metro fiber rings in 45 of the 50 largest U.S. markets. These networks will help Verizon better serve business customers while also providing a platform to increase the density of the wireless network. This last point is particularly important, as we expect fixed-line networks will play an increasing role in meeting wireless capacity needs.

Verizon's remaining businesses--primarily its foray into online content and advertising technology--don't enjoy a competitive advantage. These assets account for around 5% of invested capital and 7% of total revenue. We expect the media business will struggle on the advertising side against industry giants Alphabet and Facebook. The firm's recent decision to partner with Google to offer YouTube TV indicates that Verizon isn't wedded to the media business, as Google is Verizon Media's largest rival. We suspect Google is using YouTube TV to increase its ability to serve advertisers by expanding its presence in the traditional television ad market. For Verizon, though, we believe slowly exiting the television business, where its small scale is a disadvantage, outweighs any potential benefit from an effort to fold the television business into its media segment.

Fair Value & Profit Drivers

Michael Hodel, Analyst, 15 April 2020

Our $59 fair value estimate (up slightly from $58 previously) reflects our belief that Verizon's continued network focus will enable it to outperform its rivals in the wireless industry. This estimate equates to roughly 7.4 times our 2020 EBITDA estimate and 12 times our 2020 adjusted earnings estimate.

We expect Verizon will be able to expand wireless market share over the next couple of years as it continues to lead the industry in terms of quality and as competition continues to rationalize amid T-Mobile's integration efforts. We also expect revenue per customer will return to solid growth, as the shift to unsubsidized rate plans has neared an end. Finally, we expect Verizon will benefit from an increasing number of nontraditional devices on its network, like cars, though it reports some of this revenue in its other segment. In total, we expect wireless service revenue will grow an average of 3% annually over the next five years. We forecast wireless margins will hold roughly flat over the next five years, as Verizon's desire to keep its network at the forefront of the industry will cause the cost of servicing customers to increase over time, offsetting the benefit of improved pricing and ongoing efficiency efforts. Wireless profitability should get a nice lift in 2020 as low-margin phone sales slow amid the current pandemic and the economic turmoil it has caused.

In the fixed-line business, we expect revenue will decline through 2023, with some stability thereafter as wholesale revenue derived from Verizon's fiber efforts offsets the decline of legacy voice services, and as Fios enables the consumer business to grow modestly. We aren't optimistic about fixed-line profitability, however, as we expect legacy network maintenance costs will more than offset cost-cutting efforts.

Capital spending has held steady at around $17 billion-$18 billion annually over the past several years. We believe spending will begin trending higher as fiber investment becomes increasingly important to Verizon's network strategy. This spending could also come in the form of small acquisitions.

Risk & Uncertainty

Michael Hodel, Analyst, 15 April 2020

Verizon primarily faces technological and regulatory uncertainties. The firm has been a leader in deploying the latest network technologies, which we think will insulate it from unexpected changes in the future. Still, wireless technology continues to evolve, enabling more spectrum to be put to use more efficiently, potentially lowering barriers to entry for firms that have long wanted to enter the business. The large cable companies, in particular,

Verizon Communications Inc VZ (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★	57.25 USD	59.00 USD	0.97	4.32	4.38	236.90	Telecom Services	Standard
20 Oct 2020 21:49, UTC	20 Oct 2020	15 Apr 2020 14:53, UTC		20 Oct 2020	20 Oct 2020	20 Oct 2020		

have already deployed Wi-Fi networks broadly throughout their networks to provide limited wireless coverage. Technology could quickly enhance these efforts.

Regulators also control the flow of wireless spectrum into the industry, which has created scarcity in the past, pushing carriers to pay high prices for licenses. The Federal Communications Commission seems intent on making more spectrum available for both licensed and unlicensed use. A flood of new spectrum available could drive down prices, further easing entry into the wireless business.

Verizon is positioning itself for a potential turf war with the cable companies. The firm has launched a fixed-wireless offering that combines its fiber infrastructure and new wireless technology to offer in-home service to customers in a handful of markets. Management believes it will eventually be able to reach 30 million homes (about 25% of the total in the U.S.) with this technology, potentially expanding that footprint over time. This technology remains unproved, however, and management appears to have backed away from this effort somewhat.

In addition, Verizon remains responsible for providing fixed-line service to nearly 25 million homes. In most cases, regulators haven't permitted the firm to shut down its copper networks, forcing it to maintain costly infrastructure. Verizon needs to find a path to quickly decommission old networks to improve returns on capital overall.

Stewardship

Michael Hodel, Analyst, 15 April 2020

While Verizon's capital-allocation choices haven't been perfect, the firm has made several savvy moves and resisted the temptation to pursue large, tangential acquisitions. Shareholder returns have been respectable: With the Verizon shares holding up well during the current market downturn, the stock has outperformed the broader equity market despite significant turmoil in the telecom industry over the past decade. On balance, we rate Verizon's stewardship as Standard.

Verizon has had a knack for divesting declining businesses at attractive valuations over the years. The firm spun off its directory publishing business in 2006 with a huge chunk of debt shortly before that business went into steep decline. Verizon has sold or spun off disparate local phone operations through a series of transactions that have raised cash and freed the firm of the need to invest in networks with questionable return prospects. Judging by the financial struggles of FairPoint and Frontier, the firms on the receiving end of these deals, Verizon has created value for shareholders. More recently, Verizon sold 24 data centers to Equinix in 2017 for $3.6 billion, fetching a solid price and exiting a business where it was at a strategic disadvantage. In general, Verizon has used divestitures to focus its business on the areas where it has the strongest competitive advantages: wireless and fixed-line networks in the densely populated Northeast. The firm has also generally used smaller telecom acquisitions wisely, in our view. The $1.8 billion XO Communications purchase, for example, added to Verizon's fiber footprint in major metro areas, which is important for wireless backhaul and serving enterprise customers.

While Verizon has avoided large-scale acquisitions, it has still succumbed to the notion that telecom firms need a presence in the media business, a view we don't share. The firm acquired AOL for $3.8 billion in 2015 and spent $4.5 billion to buy Yahoo in 2017. These two businesses have been merged to form Verizon Media Group, an online content and advertising technology firm that hopes to challenge Google and Facebook for share in the digital advertising market. Verizon has reportedly already wrestled with the media group's future direction, struggling to determine what information tied to its wireless customers it can share with the media segment to better target advertising. This struggle, which we expect will continue as consumers and regulators sort out privacy issues, is the key reason we aren't fond of Verizon's foray into media. While we don't begrudge firms taking calculated risks in search of growth, we aren't fond of moves that potentially threaten core competitive advantages, in this case Verizon's brand reputation.

In June 2018, Verizon announced Lowell McAdam would step down as CEO while maintaining his position as board chairman. McAdam, who had served as CEO since 2011, was succeeded by Hans Vestberg, a move we believe signals Verizon's commitment to its core telecom business. As the previous CEO and CFO of Ericsson, one of the largest telecom equipment companies, and former chief technology officer for Verizon, Vestberg has a unique combination of technical, management, and finance skills. In line with past practice, McAdam served as chairman

Verizon Communications Inc VZ (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 20 Oct 2020 21:49, UTC	57.25 USD 20 Oct 2020	59.00 USD 15 Apr 2020 14:53, UTC	0.97	4.32 20 Oct 2020	4.38 20 Oct 2020	236.90 20 Oct 2020	Telecom Services	Standard

for a brief transition period before handing the title to Vestberg in March 2019. We would prefer these roles remain separated, but Verizon does prominently feature a lead independent director, currently Clarence Otis Jr.

Verizon Communications Inc VZ (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★	57.25 USD	59.00 USD	0.97	4.32	4.38	236.90	Telecom Services	Standard
20 Oct 2020 21:49, UTC	20 Oct 2020	15 Apr 2020 14:53, UTC		20 Oct 2020	20 Oct 2020	20 Oct 2020		

Analyst Notes Archive

Verizon Shows Stability During Second Quarter; Share Fairly Valued

Michael Hodel, Analyst, 24 July 2020

Verizon's second-quarter results looked a bit more like we had expected, given the pandemic, than AT&T's (reported July 23), but we suspect the differences primarily come down to the treatment of customers struggling to pay their bills and taking advantage of the Keep Americans Connected pledge. Both firms produced broadly stable wireless results during the quarter, with the pandemic taking a small bite out of services revenue as customers roam less, especially internationally. Unlike AT&T, Verizon reported a huge jump in free cash flow (up nearly 75% to $13.7 billion in the first half), but the growth is primarily due to the timing of tax payments and working capital changes. Still, Verizon was able to repay a large chunk of debt during the quarter and has cut net borrowing by nearly $4 billion, or 4%, through the first six months of the year. Overall, Verizon is performing broadly in line with our expectations, and we don't plan to change our $59 fair value estimate or narrow moat rating; we view shares as fairly valued.

Verizon reported a sharp drop in wireless customer defections during the quarter: 0.58% monthly postpaid phone customer churn versus 0.76% a year ago. AT&T's reported churn metrics were roughly flat versus a year ago. However, it appears Verizon has kept customers behind on their payments in its customer count while AT&T has removed them. Verizon stated that about 1.5 million accounts (4% of the total) had taken advantage of Keep Americans Connected, but that a third of those were current by the end of quarter and the majority had made at least partial payments. Verizon reported a small gain in wireless postpaid phone customers (173,000) while AT&T reported a small loss (151,000), but we suspect the firms performed very similarly during the quarter. Both reported a small decline in wireless services revenue (1.7% at Verizon), tied primarily to lower revenue per customer resulting from lower roaming usage.

Verizon Dominates the CBRS Spectrum Auction as AT&T Sits Out

Michael Hodel, Analyst, 03 September 2020

The Federal Communications Commission's CBRS spectrum auction provided a window into the strategies and priorities of the wireless carriers, but it didn't change our view of positioning or valuation across the industry.

Verizon was set up nicely for the auction, with other likely major bidders AT&T, T-Mobile, and Dish Network focused on other areas. The firm accomplished what it needed, in our view, closing the gap in its midband holdings versus T-Mobile and AT&T in areas where needed most. Verizon spent $1.9 billion (out of $4.5 billion of total bids), walking away with a large amount of spectrum at great prices. In New York, for example, the firm won 40 MHz of the 70 MHz auctioned across all 15 counties in the market, spending about $0.30 per MHz POP (MHz of spectrum multiplied by the population). While not directly comparable, that price is a far cry from the $5 per MHz POP carriers spent to acquire midband spectrum in New York at auction in 2015.

In most places, Verizon avoided peripheral areas. In the San Francisco area, for example, it picked up 30 MHz of spectrum in the market's five most densely populated counties but sat out less dense places like Marin and Monterey counties. Auction prices clearly didn't dictate this strategy, as licenses in many exurban counties around the country sold for $0.05 per MHz POP or less. The move likely reflects Verizon's view that its existing spectrum holdings, at lower frequencies, are adequate to meet future demand in less densely populated areas.

Dish was the second-largest player in the auction, spending $913 million. The firm ended up with a relatively thin layer of spectrum (around 20 MHz on average) covering nearly the entire country. We suspect this move reflects Dish's plans to target niche wireless applications with its 5G network. Cable companies Comcast, Charter, and Cox rounded out the top 5 bidders, spending $1.1 billion collectively to acquire a thin layer of spectrum in their service territories.

Verizon Solidifies Prepaid With Tracfone Acquisition; America Movil Gets a Great Price

Michael Hodel, Analyst, 14 September 2020

Verizon's decision to acquire Tracfone, the largest wireless reseller in the United States, makes sense and doesn't change our view of the firm or our $59 fair value estimate. Verizon is the natural home for Tracfone. Unlike AT&T and T-Mobile, which have developed the sizable prepaid brands Cricket and Metro, respectively, Verizon has largely ignored this business, choosing instead to work with

Verizon Communications Inc VZ (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★	57.25 USD	59.00 USD	0.97	4.32	4.38	236.90	Telecom Services	Standard
20 Oct 2020 21:49, UTC	20 Oct 2020	15 Apr 2020 14:53, UTC		20 Oct 2020	20 Oct 2020	20 Oct 2020		

resellers like Tracfone to attack the lower end of the wireless market. More than 13 million of Tracfone's 21 million customers are on the Verizon network, including most of the firm's 10 million StraightTalk customers. Tracfone has invested aggressively to build StraightTalk into a solid presence at the higher end of the prepaid market, and we expect the brand will form the core of Verizon's prepaid strategy.

Verizon will pay $6.25 billion to America Movil for Tracfone, split evenly between cash and stock, and make additional payments of up to $625 million based on the performance of the business. Excluding the contingent payments, the price tag equals around 8 times EBITDA, which seems high at first for a firm that is heavily reliant on its buyer. However, Tracfone requires little incremental capital investment and Verizon likely has large cost-saving opportunities. Tracfone was also able to command more favorable wholesale network rates earlier this year, likely from Verizon, which could indicate that America Movil has been pitting wireless carriers against each other for some time. Verizon is likely happy to secure these customer relationships.

For America Movil, the deal is a huge win. The firm exits a business that faces long-term competitive uncertainty while raising proceeds to offset more than half of its outstanding U.S.-dollar-denominated debt (or about 20% of its total debt load). We want to see more detail on how Movil will use these funds before we increase our $18 fair value estimate, but we still believe the ADRs are very attractive.

Verizon Bounces Back in the Third Quarter; Share Fairly Valued

Michael Hodel, Analyst, 21 October 2020

Verizon gradually rebounded from the effects of the pandemic during the third quarter, and it expects that trend to continue. While reported revenue dropped 4% versus a year ago, most of the decline was the result of weak phone sales. The core wireless-services business returned to growth, albeit with revenue up only 0.3% year over year, but management said it expects further acceleration during the fourth quarter to at least 2%. At that pace, Verizon would be nearly back to what we consider a reasonable expectation for long-term wireless-services revenue growth (3%-4%). Free cash flow also remained solid during the quarter. The firm has generated $18.3 billion so far this year, more than it produced in all of 2019. Cash flow may come under some pressure during the fourth quarter, given heavy promotions around the iPhone 12 launch, but we expect the impact will be easily manageable. We don't plan to materially change our $59 fair value estimate or narrow moat rating and consider Verizon shares fairly valued.

Wireless activity remained muted during the quarter. Relatively few customers upgraded phones or switched carriers, which helped boost margins and cash flow. Verizon has been pleased with its ability to manage delinquent accounts and said it expects only a modest increase in involuntary customer deactivations during the fourth quarter. About 3% of accounts are on its Stay Connected plan to help these customers, and 90% of those have made at least some payment. Despite the economic turbulence, Verizon again reported a net gain in wireless postpaid phone customers (283,000 versus 445,000 a year ago), leaving its base about 1% larger than a year ago at 91.1 million. Importantly, average revenue per postpaid account bounced back nicely, increasing 2.4% from the prior quarter and 0.2% year over year. International roaming revenue remains a headwind, but the firm has continued to successfully move customers to unlimited and higher-tier rate plans.

Quantitative Equity Report | Release: 21 Oct 2020, 13:18 UTC | Reporting Currency: USD | Trading Currency: USD | Exchange:XNYS

Verizon Communications Inc VZ ★★★Q 21 Oct 2020 02:00 UTC

Last Close	Fair ValueQ	Market Cap	Sector	Industry	Country of Domicile
20 Oct 2020	21 Oct 2020 02:00 UTC	20 Oct 2020			
57.25	62.08	236.9 Bil	Communication Services	Telecom Services	USA United States

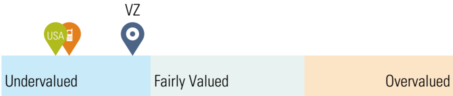
There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

Verizon is now primarily a wireless business (70% of revenue and nearly all operating income). It serves about 89 million postpaid and 4 million prepaid phone customers and connects another 24 million data devices, like tablets, via its nationwide network, making it the largest U.S. wireless carrier. Fixed-line telecom operations include local networks (12% of revenue) in the Northeast, which reach about 25 million homes and businesses, and nationwide enterprise services (10%). Recent investments, including fiber network

Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	Wide	100	100	99
Valuation	Undervalued	23	19	24
Quantitative Uncertainty	Medium	100	100	98
Financial Health	Moderate	90	68	90



Source: Morningstar Equity Research

Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	0.92	0.97	0.84	0.83
Price/Earnings	12.4	13.8	15.3	20.1
Forward P/E	11.6	—	14.6	13.9
Price/Cash Flow	5.5	7.1	6.0	13.1
Price/Free Cash Flow	11.2	23.5	15.6	19.5
Trailing Dividend Yield %	4.32	4.32	4.22	2.35
Price/Book	3.8	9.1	2.0	2.4
Price/Sales	1.8	1.6	1.3	2.4

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	32.1	69.9	13.0	12.9
Return on Assets %	6.6	7.6	4.8	5.2
Revenue/Employee (K)	958.8	843.4	685.3	325.9

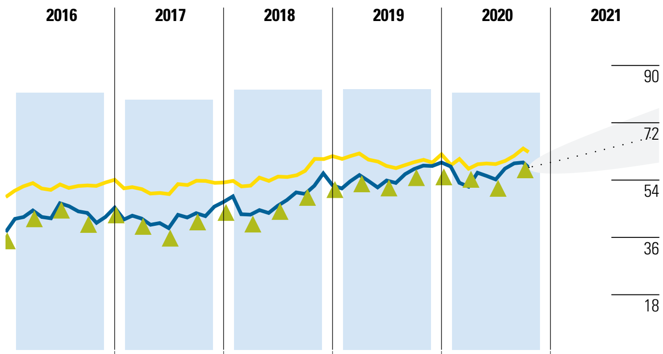
Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.7	0.7	0.5	0.5
Solvency Score	499.9	—	527.0	552.4
Assets/Equity	4.8	8.3	1.9	1.7
Long-Term Debt/Equity	1.6	3.5	0.3	0.4

Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	0.8	1.5	0.7	2.0
Operating Income %	13.4	0.2	9.2	6.7
Earnings %	23.7	13.2	14.0	10.5
Dividends %	2.1	2.1	2.4	2.7
Book Value %	15.4	39.0	38.1	0.6
Stock Total Return %	-2.2	9.2	8.8	9.3

Price vs. Quantitative Fair Value



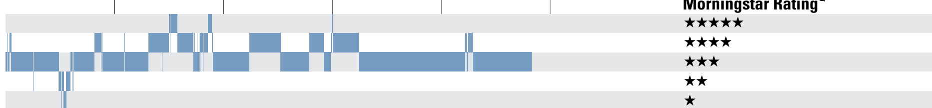
Quantitative Fair Value Estimate
Total Return
Sales/Share
Forecast Range
Forcasted Price
Dividend
Split

Momentum:	Neutral
Standard Deviation:	16.16
Liquidity:	High

48.84	52-Wk	62.22
42.80	5-Yr	62.22

2016	2017	2018	2019	2020	
20.4	3.5	10.7	13.5	-2.7	Total Return %
8.0	-18.0	15.7	-17.7	-11.7	+/– Market (Morningstar US Index)
4.26	4.39	4.22	3.95	4.32	Trailing Dividend Yield %
4.33	4.46	4.29	4.01	4.38	Forward Dividend Yield %
15.6	13.6	7.2	15.8	12.4	Price/Earnings
1.7	1.7	1.8	1.9	1.8	Price/Revenue

Morningstar RatingQ

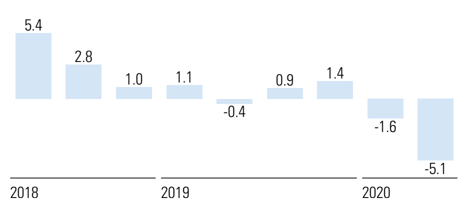


2015	2016	2017	2018	2019	TTM	**Financials** (Fiscal Year in Mil)
131,620	125,980	126,034	130,863	131,868	129,726	Revenue
3.6	-4.3	0.0	3.8	0.8	-1.6	% Change
33,060	27,059	29,188	26,869	30,470	28,851	Operating Income
68.7	-18.2	7.9	-7.9	13.4	-5.3	% Change
17,879	13,127	30,101	15,528	19,265	19,145	Net Income
38,930	22,715	25,305	34,339	35,746	43,462	Operating Cash Flow
-27,717	-17,593	-17,830	-18,087	-18,837	-22,322	Capital Spending
11,213	5,122	7,475	16,252	16,909	21,140	Free Cash Flow
8.5	4.1	5.9	12.4	12.8	16.3	% Sales
4.37	3.21	7.36	3.76	4.65	4.62	EPS
80.6	-26.5	129.3	-48.9	23.7	-0.6	% Change
2.18	2.68	1.14	3.80	4.22	5.11	Free Cash Flow/Share
2.23	2.29	2.34	2.39	2.44	2.46	Dividends/Share
3.23	5.02	6.58	13.19	14.25	15.15	Book Value/Share
4,073	4,077	4,079	4,132	4,136	4,138	Shares Outstanding (Mil)
						Profitability
124.5	67.4	91.7	32.3	33.6	32.1	Return on Equity %
7.5	5.4	12.0	6.0	6.9	6.6	Return on Assets %
13.6	10.4	23.9	11.9	14.6	14.8	Net Margin %
0.55	0.52	0.50	0.50	0.47	0.45	Asset Turnover
14.9	10.8	6.0	5.0	4.8	4.7	Financial Leverage
60.1	59.2	59.1	57.6	58.5	59.1	Gross Margin %
25.1	21.5	23.2	20.5	23.1	22.2	Operating Margin %
103,705	105,433	113,642	105,873	99,932	106,190	Long-Term Debt
16,428	22,524	43,096	53,145	61,395	62,697	Total Equity
1.5	1.5	1.5	1.5	1.3	1.2	Fixed Asset Turns

Quarterly Revenue & EPS

Revenue (Bil)	Mar	Jun	Sep	Dec	Total
2020	31.6	30.4	—	—	—
2019	32.1	32.1	32.9	34.8	131.9
2018	31.8	32.2	32.6	34.3	130.9
2017	29.8	30.5	31.7	34.0	126.0
Earnings Per Share ()					
2020	1.00	1.13	—	—	—
2019	1.22	0.95	1.25	1.23	4.65
2018	1.11	1.00	1.19	0.47	3.76
2017	0.84	1.07	0.89	4.56	7.36

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

Morningstar's equity research group (“we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define excess economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

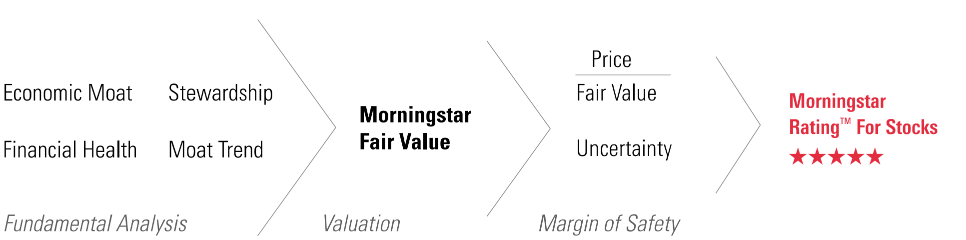
To assess the direction of the underlying competitive advantages, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

All the moat and moat trend ratings undergo periodic review and any changes must be approved by the Morningstar Economic Moat Committee, comprised of senior members of Morningstar's equity research department.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies



Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBI, and the net new investment, or NNI, to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

Research Methodology for Valuing Companies

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the fair value estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

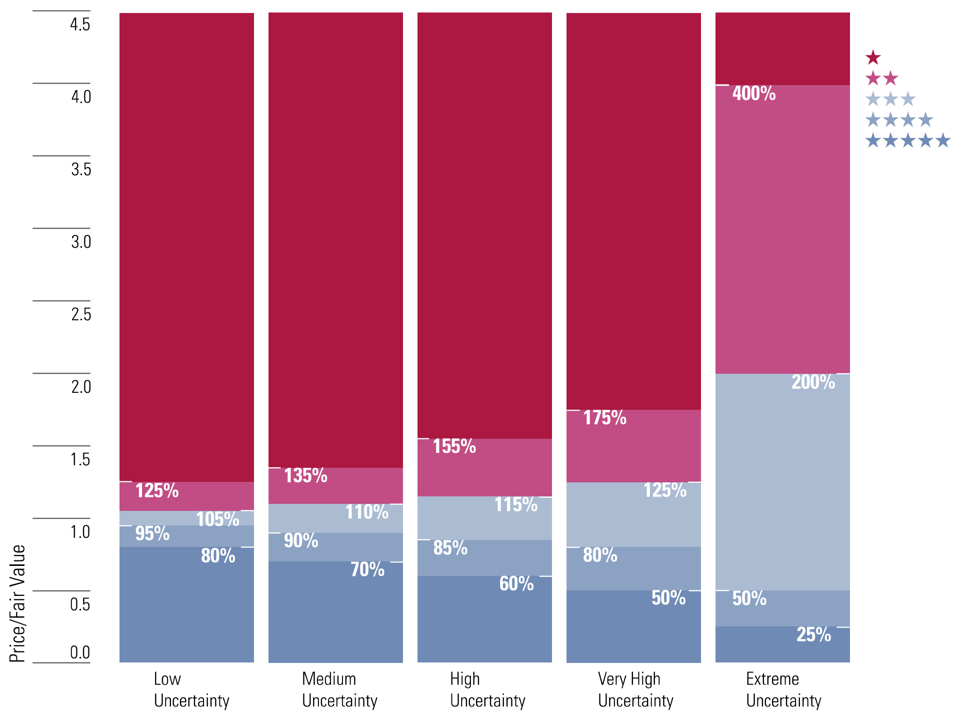
- Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- Very High–margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- Extreme–margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. The current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. The market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Research Methodology for Valuing Companies

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview

The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings

Morningstar's quantitative equity ratings consist of:
(i) Quantitative Fair Value Estimate
(ii) Quantitative Star Rating
(iii) Quantitative Uncertainty
(iv) Quantitative Economic Moat
(v) Quantitative Financial Health
(collectively the "Quantitative Ratings").

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. ("“Morningstar," "we," "our") calculates Quantitative Ratings for companies whether it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the quantitative fair value estimate using a statistical model derived from the fair value estimate Morningstar's equity analysts assign to companies. Please go to https://shareholders.morningstar.com for information about fair value estimates Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- Narrow: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- Wide: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- None: assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as 1-Star, 2-Star, 3-Star, 4-Star, and 5-Star.

★: the stock is overvalued with a reasonable margin of safety.
Log (Quant FVE/Price)<–1*Quantitative Uncertainty

★★: the stock is somewhat overvalued.
Log (Quant FVE/Price) between (–1*Quantitative Uncertainty, –0.5*Quantitative Uncertainty)

★★★: the stock is approximately fairly valued.
Log (Quant FVE/Price) between (–0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)

★★★★: the stock is somewhat undervalued.
Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)

★★★★★: the stock is undervalued with a reasonable margin of safety. Log (Quant FVE/Price) >1*Quantitative Uncertainty

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the quantitative fair value estimate. Generally, the lower the quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rating is expressed as Low, Medium, High, Very High, and Extreme.

- Low: the interquartile range for possible fair values is less than 10%.
- Medium: the interquartile range for possible fair values is less than 15% but greater than 10%.
- High: the interquartile range for possible fair values is less than 35% but greater than 15%.
- Very High: the interquartile range for possible fair values is less than 80% but greater than 35%.
- Extreme: the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- Weak: assigned when Quantitative Financial Health <0.2
- Moderate: assigned when Quantitative Financial Health is between 0.2 and 0.7
- Strong: assigned when Quantitative Financial Health >0.7

Research Methodology for Valuing Companies

Other Definitions

Last Close: Price of the stock as of the close of the market of the last trading day before date of the report.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

This Report has not been made available to the issuer of the security prior to publication.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report.

The quantitative equity ratings are not statements of fact. Morningstar does not guarantee the completeness or accuracy of the assumptions or models used in determining the quantitative equity ratings. In addition, there is the risk that the price target will not be met due to such things as unforeseen changes in demand for the company's products, changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, and tax rate. For investments in foreign markets there are further risks, generally based on exchange rate changes or changes in political and social conditions.

A change in the fundamental factors underlying the quantitative equity ratings can mean that the valuation is subsequently no longer accurate.

For more information about Morningstar's quantitative methodology, please visit http://global.morningstar.com/equitydisclosures.

Verizon Communications Inc VZ (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★	57.25 USD	59.00 USD	0.97	4.32	4.38	236.90	Telecom Services	Standard
20 Oct 2020 21:49, UTC	20 Oct 2020	15 Apr 2020 14:53, UTC		20 Oct 2020	20 Oct 2020	20 Oct 2020		

General Disclosure

The analysis within this report is prepared by the person (s) noted in their capacity as an analyst for Morningstar's equity research group. The equity research group consists of various Morningstar, Inc. subsidiaries ("Equity Research Group)". In the United States, that subsidiary is Morningstar Research Services LLC, which is registered with and governed by the U.S. Securities and Exchange Commission.

The opinions expressed within the report are given in good faith, are as of the date of the report and are subject to change without notice. Neither the analyst nor Equity Research Group commits themselves in advance to whether and in which intervals updates to the report are expected to be made. The written analysis and Morningstar Star Rating for stocks are statements of opinions; they are not statements of fact.

The Equity Research Group believes its analysts make a reasonable effort to carefully research information contained in the analysis. The information on which the analysis is based has been obtained from sources believed to be reliable such as, for example, the company's financial statements filed with a regulator, company website, Bloomberg and any other the relevant press sources. Only the information obtained from such sources is made available to the issuer who is the subject of the analysis, which is necessary to properly reconcile with the facts. Should this sharing of information result in considerable changes, a statement of that fact will be noted within the report. While the Equity Research Group has obtained data, statistics and information from sources it believes to be reliable, neither the Equity Research Group nor Morningstar, Inc. performs an audit or seeks independent verification of any of the data, statistics, and information it receives.

General Quantitative Disclosure

The Quantitative Equity Report ("Report") is derived from data, statistics and information within Morningstar, Inc.'s database as of the date of the Report and is subject to change without notice. The Report is for informational purposes only, intended for financial professionals and/or sophisticated investors ("Users") and should not be the sole piece of information used by such Users or their clients in making an investment decision. The quantitative equity ratings noted the Report are provided in good faith, are as of the date of the Report and are subject to change. While Morningstar has obtained data, statistics and information from sources it believes to be reliable, Morningstar does not perform an audit or seeks independent verification of any of the data, statistics, and information it receives.

The quantitative equity ratings are not a market call, and do not replace the User or User's clients from conducting their own due-diligence on the security. The quantitative equity rating is not a suitability assessment; such assessments take into account may factors including a person's investment objective, personal and financial situation, and risk tolerance all of which are factors the quantitative equity rating statistical model does not and did not consider.

Prices noted with the Report are the closing prices on the last stock-market trading day before the publication date stated, unless another point in time is explicitly stated.

General Disclosure (applicable to both Quantitative and Qualitative Research)

Unless otherwise provided in a separate agreement, recipients accessing this report may only use it in the country in which the Morningstar distributor is based. Unless stated otherwise, the original distributor of the report is Morningstar Research Services LLC, a U.S.A. domiciled financial institution.

This report is for informational purposes only and has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. This publication is intended to provide information to assist institutional investors in making their own investment decisions, not to provide investment advice to any specific investor. Therefore, investments discussed and recommendations made herein may not be suitable for all investors: recipients must exercise their own independent judgment as to the suitability of such investments and recommendations in the light of their own investment objectives, experience, taxation status and financial position.

The information, data, analyses and opinions presented herein are not warranted to be accurate, correct, complete or timely. Unless otherwise provided in a separate agreement, neither Morningstar, Inc. or the Equity Research Group represents that the report contents meet all of the presentation and/or disclosure standards applicable in the jurisdiction the recipient is located.

Except as otherwise required by law or provided for in a separate agreement, the analyst, Morningstar, Inc. and the Equity Research Group and their officers, directors and employees shall not be responsible or liable for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions within the report. The Equity Research Group encourages recipients of this report to read all relevant issue documents (e.g., prospectus) pertaining to the security concerned, including without limitation, information relevant to its investment objectives, risks, and costs before making an

Verizon Communications Inc VZ (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 20 Oct 2020 21:49, UTC	57.25 USD 20 Oct 2020	59.00 USD 15 Apr 2020 14:53, UTC	0.97	4.32 20 Oct 2020	4.38 20 Oct 2020	236.90 20 Oct 2020	Telecom Services	Standard

investment decision and when deemed necessary, to seek the advice of a legal, tax, and/or accounting professional.

The Report and its contents are not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Morningstar, Inc. or its affiliates to any registration or licensing requirements in such jurisdiction.

Where this report is made available in a language other than English and in the case of inconsistencies between the English and translated versions of the report, the English version will control and supersede any ambiguities associated with any part or section of a report that has been issued in a foreign language. Neither the analyst, Morningstar, Inc., or the Equity Research Group guarantees the accuracy of the translations.

This report may be distributed in certain localities, countries and/or jurisdictions ("Territories") by independent third parties or independent intermediaries and/or distributors ("Distributors"). Such Distributors are not acting as agents or representatives of the analyst, Morningstar, Inc. or the Equity Research Group. In Territories where a Distributor distributes our report, the Distributor is solely responsible for complying with all applicable regulations, laws, rules, circulars, codes and guidelines established by local and/or regional regulatory bodies, including laws in connection with the distribution third-party research reports.

Conflicts of Interest:

• No interests are held by the analyst with respect to the security subject of this investment research report.
– Morningstar, Inc. may hold a long position in the security subject of this investment research report that exceeds 0.5% of the total issued share capital of the security. To determine if such is the case, please click http://msi.morningstar.com and http://mdi.morningstar.com.

• Analysts' compensation is derived from Morningstar, Inc.'s overall earnings and consists of salary, bonus and in some cases restricted stock.

• Neither Morningstar, Inc. or the Equity Research Group receives commissions for providing research nor do they charge companies to be rated.

• Neither Morningstar, Inc. or the Equity Research Group is a market maker or a liquidity provider of the security noted within this report.

• Neither Morningstar, Inc. or the Equity Research Group has been a lead manager or co-lead manager over the previous 12-months of any publicly disclosed offer of financial instruments of the issuer.

• Morningstar, Inc.'s investment management group does have arrangements with financial institutions to provide portfolio management/investment advice some of which an analyst may issue investment research reports on. However, analysts do not have authority over Morningstar's investment management group's business arrangements nor allow employees from the investment management group to participate or influence the analysis or opinion prepared by them.

• Morningstar, Inc. is a publically traded company (Ticker Symbol: MORN) and thus a financial institution the security of which is the subject of this report may own more than 5% of Morningstar, Inc.'s total outstanding shares. Please access Morningstar, Inc.'s proxy statement, "Security Ownership of Certain Beneficial Owners and Management" section https://shareholders.morningstar.com/investor-relations/financials/sec-filings/default.aspx

• Morningstar, Inc. may provide the product issuer or its related entities with services or products for a fee and on an arms' length basis including software products and licenses, research and consulting services, data services, licenses to republish our ratings and research in their promotional material, event sponsorship and website advertising.

Further information on Morningstar, Inc.'s conflict of interest policies is available from http://global.morningstar.com/equitydisclosures. Also, please note analysts are subject to the CFA Institute's Code of Ethics and Standards of Professional Conduct.

For a list of securities which the Equity Research Group currently covers and provides written analysis on please contact your local Morningstar office. In addition, for historical analysis of securities covered, including their fair value estimate, please contact your local office.

For Recipients in Australia: This Report has been issued and distributed in Australia by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544; ASFL: 240892). Morningstar Australasia Pty Ltd is the provider of the general advice ('the Service') and takes responsibility for the production of this report. The Service is provided through the research of investment products. To the extent the Report contains general advice it has been prepared without reference to an investor's objectives, financial situation or needs. Investors should consider the advice in light of these matters and, if applicable, the relevant Product Disclosure Statement before making any decision to invest. Refer to our Financial Services Guide (FSG) for more information at http://www.morningstar.com.au/fsg.pdf .

For Recipients in Canada: This research is not prepared subject to Canadian disclosure requirements.

For Recipients in Hong Kong: The Report is distributed by Morningstar Investment Management Asia Limited, which is regulated by the Hong Kong Securities and Futures Commission to provide services to professional investors only. Neither Morningstar Investment Management Asia Limited, nor its representatives, are acting or will be deemed to be acting as an investment advisor to any recipients of this information unless expressly agreed to by Morningstar Investment Management Asia Limited. For enquiries regarding this research, please contact a Morningstar Investment Management Asia Limited Licensed Representative at http://global.morningstar.com/equitydisclosures .

For Recipients in India: This Investment Research is issued by Morningstar Investment Adviser India Private Limited. Morningstar Investment Adviser India Private Limited is registered with the Securities and Exchange Board of India (Registration number INA000001357) and provides investment advice and research. Morningstar Investment Adviser India Private Limited has not been the subject of any disciplinary action by

Verizon Communications Inc VZ (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★	57.25 USD	59.00 USD	0.97	4.32	4.38	236.90	Telecom Services	Standard
20 Oct 2020 21:49, UTC	20 Oct 2020	15 Apr 2020 14:53, UTC		20 Oct 2020	20 Oct 2020	20 Oct 2020		

SEBI or any other legal/regulatory body. Morningstar Investment Adviser India Private Limited is a wholly owned subsidiary of Morningstar Investment Management LLC. In India, Morningstar Investment Adviser India Private Limited has one associate, Morningstar India Private Limited, which provides data related services, financial data analysis and software development.

The Research Analyst has not served as an officer, director or employee of the fund company within the last 12 months, nor has it or its associates engaged in market making activity for the fund company.

*The Conflicts of Interest disclosure above also applies to relatives and associates of Manager Research Analysts in India # The Conflicts of Interest disclosure above also applies to associates of Manager Research Analysts in India. The terms and conditions on which Morningstar Investment Adviser India Private Limited offers Investment Research to clients, varies from client to client, and are detailed in the respective client agreement.

For recipients in Japan: The Report is distributed by Ibbotson Associates Japan, Inc., which is regulated by Financial Services Agency. Neither Ibbotson Associates Japan, Inc., nor its representatives, are acting or will be deemed to be acting as an investment advisor to any recipients of this information.

For recipients in Singapore: This Report is distributed by Morningstar Investment Adviser Singapore Pte Limited, which is licensed by the Monetary Authority of Singapore to provide financial advisory services in Singapore. Investors should consult a financial adviser regarding the suitability of any investment product, taking into account their specific investment objectives, financial situation or particular needs, before making any investment decisions.