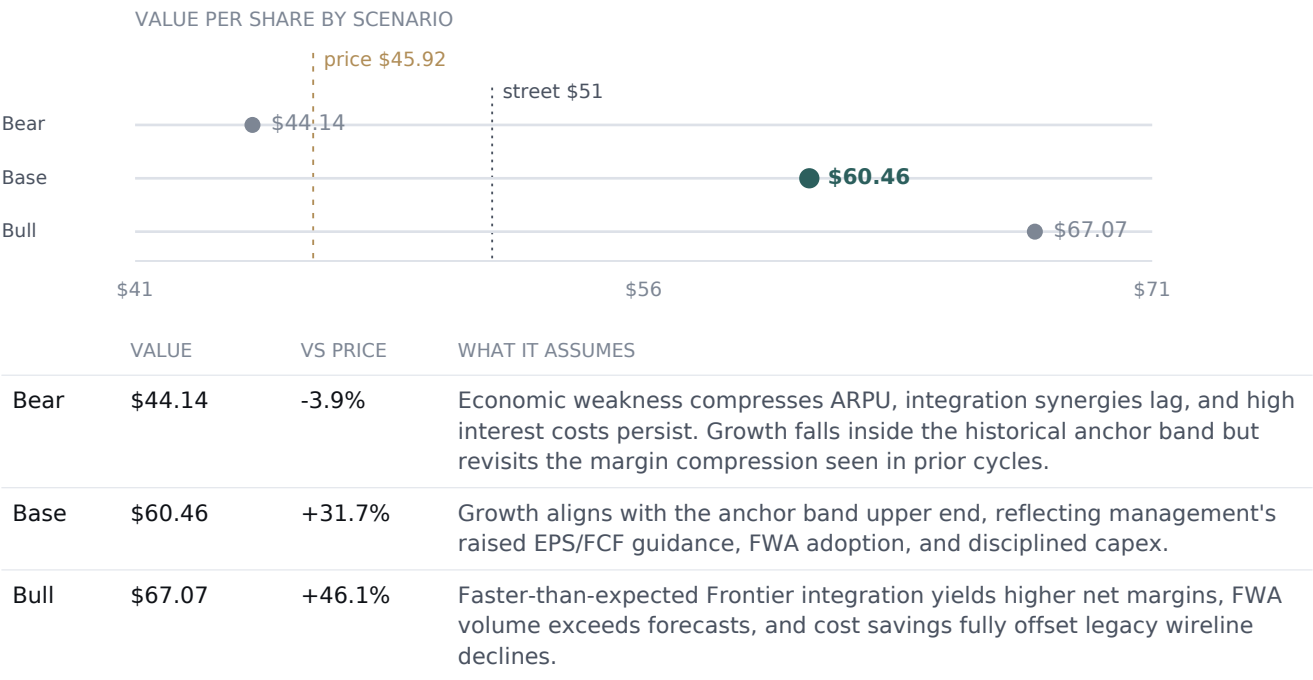


EQUITY RESEARCH / VZ

Verizon Communications Inc

LONG CANDIDATE · historical study through 2026-10-02 · horizon 365 days · DCF + P/E

PRICE	BASE CASE	UPSIDE	PROB-WEIGHTED	MARKET CAP	TRAILING P/E
\$45.92	\$60.46	+31.7%	\$58.03	\$190.79B	12.0x



STREET CHECK

Street target **\$51** (+11.4% vs price) · 11 buy / 15 hold / 0 sell · forward P/E 8.7x · EPS estimates \$5.02 this year, \$5.29 next

Our base case is **1.18x** the Street target: within the Street's range.

Consensus is shown for calibration only. The model never receives it.

Thesis

Verizon's infrastructure cash flows are structurally stable, and the market is undervaluing its post-Frontier integration FCF growth trajectory and FWA/fiber subscriber momentum. With a base-case DCF value of \$60.46 against a current price of \$45.92, the stock offers a ~32% margin of safety, supported by management's raised 2026 FCF guidance and disciplined capital allocation, including a 6.1% dividend yield.

What the market may be missing

The market prices in permanent secular decline in legacy copper/voice and overestimates the debt overhang from the Frontier deal, ignoring the accelerated FWA/fiber adoption and management's raised cash flow guidance. VZ's Q2 results show FWA and fiber adoption accelerating, with raised 2026 FCF guidance (9-10% YoY growth) and clear cost discipline, suggesting the market underappreciates the margin trajectory and FCF conversion.

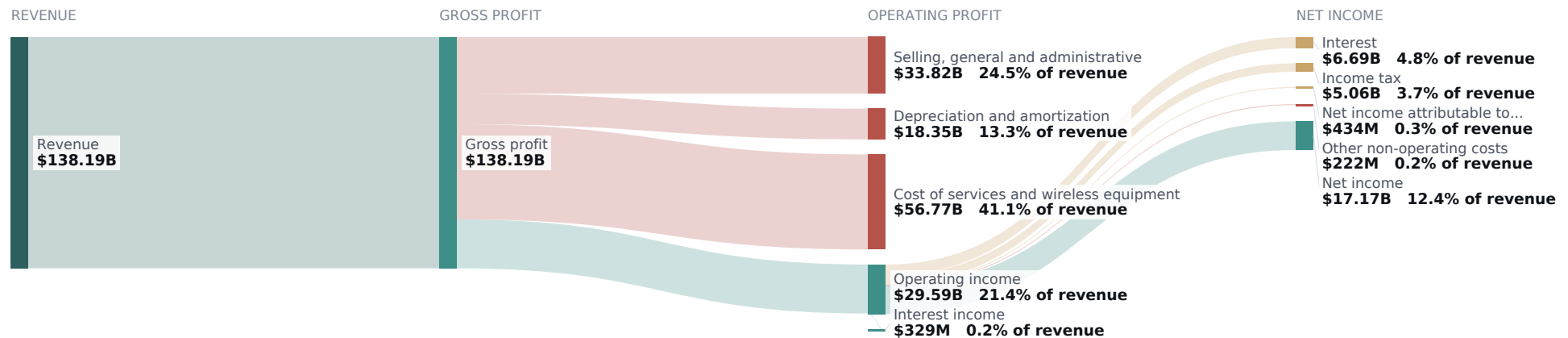
Why the opportunity exists

A narrative overshoot. The market is pricing in a permanent structural decline in legacy copper/voice and overestimating the debt overhang from the Frontier deal, ignoring the accelerated FWA/fiber adoption and management's raised cash flow guidance. Evidence: Business read notes FWA subscriber base growth of +26% in 2025, raised 2026 FCF guidance (9-10% YoY), and explicit cost discipline; fact sheet shows base case \$60.46 vs price \$45.92.

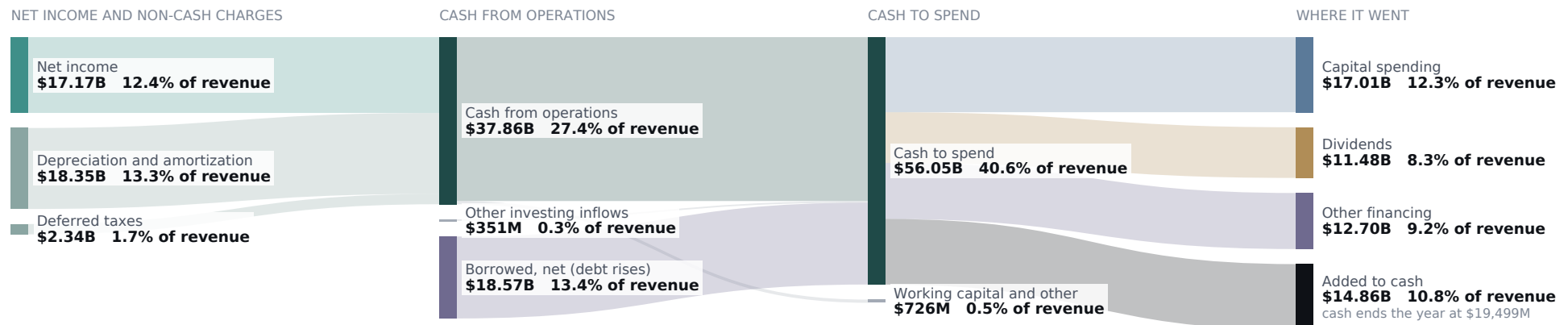
Follow the money: fiscal 2025

Of every \$100 of revenue, \$0.0 went to cost of revenue, \$79 to operating costs and \$8.5 to interest and tax, and \$12 became net income. Operations turned that into \$27 of cash; \$8.3 back to shareholders. Operations turned that into \$27 of cash; \$8.3 back to shareholders.

1 WHERE EVERY DOLLAR OF REVENUE WENT



2 HOW PROFIT BECAME CASH, AND WHERE THE CASH WENT SHOWN 2.6 TIMES LARGER THAN PANEL 1



From the 10-K for the fiscal year ended 2025-12-31, XBRL accession 0000732712-26-000007. Every band ties to a reported figure; where the tagged lines do not add up, the difference appears as an explicit other or working-capital band. Lines outside the standard set are placed by the filing's own calculation links, under the company's labels; borrowing and investment flows are netted by instrument.

The business

Verizon is a leading global holding company providing wireless and wireline communications, broadband, IoT, and streaming services to consumers, enterprises, and government entities through its Consumer and Business segments.

What it sells

Wireless voice and data services on postpaid and prepaid plans; fixed broadband over fiber-optic, copper, and 5G/4G LTE networks (including Fixed Wireless Access); residential and enterprise video and voice; Internet of Things (IoT) connectivity; security and managed network services; network access wholesale to MVNOs and other carriers; wireless devices (smartphones, tablets, smart watches) with trade-in and installment payment options; device protection and cloud storage. Consumer wireless and wireline services (postpaid/prepaid, FWA broadband, Fios internet/video), wireless equipment, IoT connectivity, advanced communications, corporate networking, security, managed network services, and local/long-distance voice. Communications, technology, information and streaming products and services, including mobility and wireless services, fixed wireless access (FWA) broadband, fiber and wireline broadband, IoT connectivity, corporate networking, security, managed network services, and wireless equipment (smartphones, tablets, and connected devices). Also provides legacy voice, video, and data solutions over fiber and copper networks.

Customers and channels

Consumers, small and medium businesses, large enterprises, public sector entities (federal, state, local governments, educational institutions), and other wireless/wireline carriers. Distribution channels include direct sales (company-operated stores, business direct teams, digital/omni-channel platforms leveraging AI), indirect retail channels (exclusive agents, national retailers, convenience stores), and business channels (resellers, distributors, system integrators). Wholesale network access is sold to mobile virtual network operators (MVNOs) and carriers. Consumers, businesses, public sector, government entities, educational institutions, first responders, and wireless/wireline carriers. Sold via retail stores/plans, wholesale arrangements, FWA networks, and an extensive fiber footprint across 31 U.S. states and Washington D.C. Consumer retail customers (postpaid and prepaid), businesses, public sector/government entities, and wireless/wireline carriers. Distribution channels include retail stores, direct sales, wholesale arrangements, and reseller networks.

Unit economics and costs

Postpaid service is billed one month in advance for a monthly access charge. Prepaid requires advance payment without credit verification. Customers can use device payment plans for installment purchases of hardware, often supplemented by promotional trade-in offers. The company is actively reducing costs, including a workforce reduction of over 13,000 positions announced in Q4 2025. The business models are highly fixed-cost driven due to extensive network infrastructure, requiring continuous capital investment in spectrum, densification (macro/small cells), fiber expansion, and virtualization (vRAN, Open RAN) to improve efficiency and capacity. Cost of services decreased \$208M YoY due to lower personnel, access, and device protection costs, partially offset by higher FUSF regulatory fees and rent/lease. Cost of wireless equipment increased \$2.8B from higher upgrade volume (+12%) and premium device mix. D&A rose \$457M from C-Band deployment and asset mix. SG&A fell \$295M from device insurance claim reductions, lower ad costs, and prior-year workforce reductions, offset by \$193M in asset rationalization charges. Postpaid ARPA decreased 1.4% to \$168.35 and 1.6% to \$167.50 (H1) due to amortization of sales promotions and acquisition discounts. Core prepaid ARPU increased 2.5% to \$33.37. Postpaid phone churn improved to 0.92% from 0.97%. Upgrade rate fell to 2.6% from 3.6%. Device cost per unit shifted higher due to mix, but overall equipment cost dropped 16.4%/5.7% YoY due to volume declines. Personnel costs rose ~\$199M/\$373M (Q2/H1) from Frontier headcount. D&A rose 8.0%/7.5% YoY from asset mix changes including Frontier.

Segments

- **Verizon Consumer Group** - Provides consumer-focused wireless and wireline communications, fixed broadband, video, and device protection. Provides consumer wireless and wireline services across an extensive US network and 100% fiber footprint in 31 states + DC. Q2 revenue decreased 1.5% YoY to \$26.2B, offset by a 5.1% YoY increase in segment operating income to \$8.0B. EBITDA margin was 45.0%.
- **Verizon Business Group** - Provides wireless/wireline services, IoT, security, and managed solutions to enterprises, public sector, and wholesale carriers. Provides wireless/wireline services, FWA, IoT, corporate networking, security, and managed services to businesses, public sector, and carriers. Q2 revenue increased 2.6% YoY to \$7.2B, with operating income up 36.9% YoY to \$1.0B. EBITDA margin was 29.1%. Note: International wireline business classified as held for sale in Q2.
- **Consumer** - consumer-focused wireless and wireline communications services, FWA broadband, and wireless equipment
- **Business** - wireless and wireline communications, FWA, broadband, IoT, advanced comms, security, and managed services to businesses, public sector, and carriers

Revenue drivers

- Monthly postpaid access charges billed in advance
- Prepaid service sales
- Fixed Wireless Access (FWA) broadband subscriptions
- Fios fiber broadband and video subscriptions
- Wholesale network access fees to MVNOs and other carriers
- Wireless equipment sales (smartphones, tablets, IoT devices)

- Enterprise connectivity, security, and managed network service contracts
- Device protection and content offerings

Competitive position

Faces intense competition from national wireless providers (AT&T, T-Mobile), cable operators (Comcast, Charter), satellite/LEO companies, OTT providers, and system integrators. Differentiates through network reliability, extensive fiber footprint, advanced technology deployment (5G, C-Band, millimeter wave), and integrated solution suites. Competes on pricing, promotions, network quality, and bundled services. The industry is highly consolidated for consumer wireless but faces fragmentation in broadband and enterprise solutions. Regulatory constraints and incumbent status in 31 states provide some structural advantages but also impose obligations competitors may not face. Highly competitive U.S. market with intense pressure from traditional and non-traditional players. Relies on extensive fiber/wireless infrastructure, high-quality networks, innovative offerings, and customer experience to maintain share. Faces secular declines in legacy wireline/voice and government efficiency pressures on public sector accounts. One of the world's leading providers with one of the most extensive US wireless networks and a 100% fiber-optic footprint in 31 states and DC. Competing by delivering value through new Simplicity and Verizon One converged offerings and an industry-leading loyalty program, shifting away from subsidized promotions toward sustainable volume-based growth and healthier unit economics. Faces intense competition on pricing, promotions, and network quality.

Industry direction

Rapid technological convergence eliminating distinctions between wireless, cable, internet, and traditional phone services. Shift from traditional linear video to OTT offerings. Network evolution driven by AI data demands, 6G transition, and virtualization (Open RAN, cloud infrastructures). Expansion of FWA for multi-dwelling units and rural access. Increasing regulatory focus on privacy, AI governance, net neutrality, low-income broadband pricing, and cybersecurity. Competitive pricing and service plan discounts remain prevalent, with growth rates moderating. High smartphone penetration moderates new connection growth. Future revenue driven by expanding existing relationships, FWA penetration, connected devices (wearables, tablets, IoT), and 5G use cases. Legacy traditional data and voice face substitution from wireless, VoIP, and cable. Telecom industry is structurally shifting away from device subsidy-driven growth toward sustainable volume-based growth and longer customer device retention cycles. Major carriers are collaborating on infrastructure sharing, such as spectrum pooling and satellite direct-to-device technologies, to address coverage gaps. Fiber, FWA, and 5G densification are accelerating, with AI infrastructure revenue beginning to emerge as a new growth vector.

Recent developments

- Q1 2026: Revised segment revenue presentation disaggregated into mobility/broadband service, wireless equipment, and other.
- Q2 2026: Classified international wireline connectivity and managed network services business as held for sale, moving it to Corporate & Other; recognized a \$746M loss.
- May 2026: Entered into an agreement in principle with AT&T and T-Mobile to form a joint venture pooling spectrum and leveraging satellite direct-to-device technology to address dead

zones.

- June 2026: Agreed with BT Group to acquire a 50% equity interest in Jasper NewCo.
- H1 2026: Completed acquisition of Frontier Communications, significantly expanding fiber footprint and incurring integration, severance, and asset rationalization charges.
- Completed acquisition of Frontier on Jan 20, 2026 for ~\$22.3B total consideration, expanding fiber footprint to 31 states and DC.
- Completed acquisition of Starry on Jan 30, 2026, adding FWA capabilities for multi-dwelling units.
- Reclassified recurring device protection/insurance revenues from Other to Wireless service revenue in Q1 2025.

Management outlook

Raised full-year 2026 guidance for mobility and broadband service revenue growth to 2.5-3.0%, with Q3 expected around 3.0% and Q4 approaching 4.0%. Adjusted EPS guidance raised to \$4.99-\$5.04 (6.0-7.0% growth). Cash flow from operations growth expected at ~2.0-4.0% YoY; free cash flow growth at 9.0-10.0% YoY. Expects total retail postpaid phone net additions in the upper half of the 750k-1.0M range. Capital expenditures guided at \$16.0B-\$16.5B. Expanded full-year share buyback target to up to \$4.5B. As of Q2 end, unsecured debt was \$136.5B, net unsecured debt \$128.7B, debt/consolidated net income (LTM) 8.2x, and net unsecured debt/consolidated adjusted EBITDA 2.5x. Expects 2026 to be a transitional year for revenue while pursuing sustainable volume-based growth. Focus on strategic growth areas: mobility and broadband. Plans to rationalize product portfolio, implement operational efficiencies, and leverage AI-driven technologies. Anticipates FWA and fiber broadband to drive growth, while legacy traditional wireline services will face secular pressures. Plans to leverage AI and automation for network deployment, maintenance, and customer support. Will continue densifying networks, expanding fiber footprint, and shifting to virtualized multi-vendor infrastructure (Open RAN). Expects increased spectrum demand driven by AI and 6G transition. Anticipates market shift to OTT video. Focuses on cost reduction, operational efficiency, and integrating acquired assets (Frontier, Starry). Acknowledges unpredictable impacts of AI on competition and regulatory landscapes.

Accounting flags

- Q1 2026 change in segment revenue presentation disaggregated by mobility/broadband service, wireless equipment, and other.
- Q2 2026 reclassification of international wireline business to held for sale, resulting in a \$746M loss on disposition.
- Use of non-GAAP measures: Consolidated/Segment EBITDA, Adjusted EBITDA, and Free Cash Flow, which exclude special items and D&A.
- Significant special items in H1 2026: \$397M severance, \$396M acquisition/integration, \$258M asset rationalization, \$237M pension remeasurement gain.
- Use of non-GAAP measures (EBITDA, Adjusted EBITDA, Free Cash Flow) to exclude depreciation, amortization, and special items
- Pension/postretirement benefit remeasurement loss of \$441M in 2025 due to discount rate assumption changes

Key figures

KEY FIGURES	TTM TO 2026-06-30	FY2025	
Revenue	\$138.90B	\$138.19B	+2.5% y/y
Operating income	\$28.53B	\$29.26B	20.5% margin
Net income	\$16.17B	\$17.17B	
Diluted EPS	\$3.84	\$4.06	12.0x trailing P/E
Operating cash flow	\$38.80B	\$37.14B	+0.6% y/y
Capital spending	\$17.27B	\$17.01B	12.4% of revenue
Unlevered FCFF	\$25.96B		13.6% yield
Cash and short-term investments	\$1.75B	\$19.05B	
Net debt	\$163.48B		3.4x EBITDA
Market capitalisation	\$190.79B		12.4x EV/EBIT

Figures from the filings' XBRL; definitions in the method section. Capitalised software / intangible purchases are added to capex in the cash-flow bridge. Flows are trailing twelve months to 2026-06-30 (fiscal year 2025 plus year to date less the same period a year earlier, from the 10-Q filed 2026-07-31). Balance-sheet items are as of 2026-06-30 from the quarterly report. Interest tax shield uses the 21.0% statutory rate from the filing's rate reconciliation. Current debt of \$21,783.0M (Debt maturing within one year) falls due within twelve months of 2026-06-30; the price date is 94 days later, so check in the filing whether any of it matured or was refinanced.

The counter-case

The bear case assumes margin compression and integration lag, but management's raised EPS/FCF guidance, demonstrated cost reductions (SG&A down \$295M YoY), and FWA network advantages (joint venture with AT&T/T-Mobile) provide a floor on cash flows, while the high dividend yield (6.1%) offers downside protection. High debt levels (\$165.2B total debt) and interest rate sensitivity (100bps hike adds ~\$340M annual interest expense), alongside intense competition from T-Mobile and AT&T, could compress margins and drag FCFF growth into negative territory, aligning with the bear case value of \$44.14.

Valuation

Verizon generates positive, structurally stable FCFF with a predictable margin profile and funds a high dividend. A DCF captures the infrastructure cash-flow generation and balance sheet weight, while an earnings multiple anchors valuation against the company's historical P/E range and market expectations for normalized EPS growth post-Frontier integration.

SCENARIO	ASSUMPTIONS	VALUE	VS PRICE
Bear	FCFF growth -3%, -2%, -1%, +0%, +0%; WACC 8.2%; terminal growth 1.5%	\$44.14	-3.9%
Base	FCFF growth +1%, +1%, +2%, +2%, +2%; WACC 8.2%; terminal growth 2.0%	\$60.46	+31.7%
Bull	FCFF growth +2%, +2%, +3%, +4%, +4%; WACC 8.2%; terminal growth 2.0%	\$67.07	+46.1%
Bear (P/E)	9.0x forward EPS \$4.09 (reported diluted, growth +6.5%)	\$36.81	-19.8%
Base (P/E)	11.0x forward EPS \$4.09 (reported diluted, growth +6.5%)	\$44.99	-2.0%

SCENARIO	ASSUMPTIONS	VALUE	VS PRICE
Bull (P/E)	13.0x forward EPS \$4.09 (reported diluted, growth +6.5%)	\$53.16	+15.8%

- Discount rate: the model used 8.2% against an anchor of 8.2% (risk-free 5.24%, beta 0.80, equity risk premium 5.0%, cost of equity 9.2%, after-tax cost of debt 5.0% on a synthetic A rating from interest coverage, debt 46% of capital).
- The price implies constant five-year FCFF growth of -2.1% at the base-case WACC and terminal growth.
- Anchors from the company's own history: base-case growth band -3.5% to +2.5% a year; worst revenue decline -4% (2015-2016); own trailing P/E 7.79-13.71x (median 9.77x) over the last five fiscal year ends.
- Sensitivity to discount rate: 6.2% gives \$107, 7.2% gives \$79, 8.2% gives \$60, 9.2% gives \$47, 10.2% gives \$36.
- Sensitivity to terminal growth: 1.0% gives \$50, 1.5% gives \$55, 2.0% gives \$60, 2.5% gives \$67, 3.0% gives \$75.
- Per-share values use 4,154,775,202 shares as of 2026-06-30; the fiscal-year diluted average differs by +1.8%.
- Probability-weighted value \$58.03 (+26.4% vs price) at 25%/50%/25% weights.

Bear case assumes economic weakness compresses ARPU and integration synergies lag, pushing FCFF growth from -3.0% to 0.5%. Base case assumes management's raised guidance is met, with FWA adoption and cost discipline driving 1.0% to 2.0% annual FCFF growth. Bull case posits faster-than-expected Frontier integration yields higher net margins, with FWA volume and cost savings fully offsetting legacy wireline declines, driving 2.0% to 4.0% growth.

What breaks the case

SHOCK TO THE BASE CASE	VALUE	VS PRICE
Base case as planned	\$60.46	+31.7%
WACC 100bp higher	\$46.69	+1.7%
Pre-tax cost of debt 200bp higher	\$49.98	+8.8%
Every year's FCFF growth 5 points lower	\$40.50	-11.8%
Every year's FCFF growth 5 points higher	\$84.48	+84.0%
Starting FCFF 10% lower	\$50.48	+9.9%
Starting FCFF 10% higher	\$70.44	+53.4%

The base case equals the price at a 9.3% WACC or if every annual FCFF growth rate were -3.5% points different. These are thresholds, not forecasts.

No listed peer was judged comparable. The feasibility packet reports 'No frozen peer tree available for this quarter', so a peer-based multiple or growth comparison cannot be executed from the provided data. Valuation is grounded instead on the company's own five-year P/E range (7.79x-13.71x) and internal historical growth/margin bands.

What would change the view

Key debates

- Frontier integration cost timing vs. synergy realization: Q2 2026 recognized substantial special items (\$397M severance, \$396M acquisition/integration, \$258M asset rationalization). Whether these costs permanently depress margins or deliver expected FWA/fiber cross-sell and network consolidation savings is the primary driver of base-to-bull value. (Accounting flags: significant special items in H1 2026; segment revenue reclassification and integration charges)
- FWA and fiber subscriber penetration vs. legacy device revenue decline: Wireless equipment sales rose on volume but device cost per unit shifted. Long-term value hinges on sustaining postpaid/ARPU growth through FWA and fiber broadband while legacy copper and device margins normalize. (Business read: FWA subscriber base growth (+26% in 2025), postpaid ARPA decreasing 1.4-1.6% YoY, shift to higher-priced device mix)
- Interest rate sensitivity on floating rate debt: Higher rates directly increase annual interest expense, compressing net income and free cash flow available for dividends and buybacks. The firm discloses a \$340M impact per 100bps shift. (Disclosed sensitivities: impact of 100-basis-point change in interest rates affecting floating rate debt)

Exposures (verified against the filing)

- Interest rates, negative for the equity: Higher market rates increase interest expense on floating-rate debt, directly reducing net income and unlevered free cash flow. The firm also carries interest rate swap hedges whose fair value shifts with the yield curve.

Sensitivities the company discloses

- Interest rates on floating rate debt: 100-basis-point increase gives Approximately \$340 million increase in annual interest expense
- Fair value of long-term debt and related derivatives: +/- 100 basis point shift in yield curve gives Fair value decreases to \$150,740 million (+100bps) or increases to \$168,104 million (-100bps)

Catalysts

- Full integration of Frontier Communications showing synergy realization
- Q3/Q4 2026 guidance adherence and FWA subscriber addition metrics
- Interest rate environment stability affecting floating-rate debt costs
- Regulatory outcomes on net neutrality and spectrum allocation

Invalidation

- TTM operating income growth remains negative or declines further YoY
- Frontier integration costs permanently suppress net margins below 10%
- FCFF growth falls below the bear case trajectory (-3% to 0.5%)
- Credit rating downgrades to BB trigger refinancing stress on \$21.8B current debt

Risks

- Intense competition from T-Mobile and AT&T on pricing and promotions

- Rapid technological shifts and AI-driven network cost inflation
- Regulatory constraints and spectrum licensing costs
- High leverage and refinancing risk on \$165.2B total debt
- Economic downturns reducing postpaid ARPU and device upgrade demand

Short side

Shorting VZ is unattractive due to the high dividend yield, massive float, and low borrow rates; the unbounded loss risk is exacerbated by the stock's defensive characteristics and potential for forced covering on any positive infrastructure or rate-cut catalyst.

Open questions

Can VZ sustain the 9-10% YoY FCF growth guidance despite rising network costs for 5G/AI densification? (forecast uncertainty)

Monitored via quarterly capex guidance and FCF margin trajectory. Watch: Q3 2026 earnings call guidance update.

What is the precise timeline and magnitude of synergy realization from the Frontier acquisition? (missing fact)

Assumed within the base-case margin trajectory; tracked via special item disclosures. Watch: Release of full-year 2026 synergy guidance or H2 integration report.

Limitations

The DCF relies on a constant WACC of 8.24% and assumes stable terminal growth of 2.0%, which may not fully capture interest rate volatility on VZ's large floating-rate debt portfolio. The earnings multiple approach uses a base multiple of 11.0x, which is within the historical range but may be depressed by market perceptions of legacy wireline decline. This memo is an initial research product from a frozen historical filing and price; it is not investment qualification.

Software flags: exposure quote unverified:consumer demand; exposure quote unverified:regulation; sensitivity quote unverified:1.

Sources

10-K for the fiscal year ended 2025-12-31, filed 2026-02-17 (accession 0000732712-26-000007).

10-Q for the quarter ended 2026-06-30, filed 2026-07-31 (accession 0000732712-26-000046).

8-K for the earnings release dated 2026-07-24, filed 2026-07-24 (accession 0000732712-26-000040).

- Price: historical close of \$45.92 on 2026-10-02.
- 8 cited claims and 16 recorded calculations; every figure in the key-figures table is bound to a tagged XBRL fact, and every calculation reproduces independently.
- Street consensus from the market-data vendor on the same date, shown for calibration only.

Model: Qwen3.6-35B-A3B-NVFP4 · run discovery-20260911 · job 467 · memo SHA-256 0a283f5ef5208d69... · full memo and audit attached as JSON.

This note was written by a model from a single annual filing and a closing price. It is a starting point for human research, not a recommendation; nothing here has been investment-qualified.