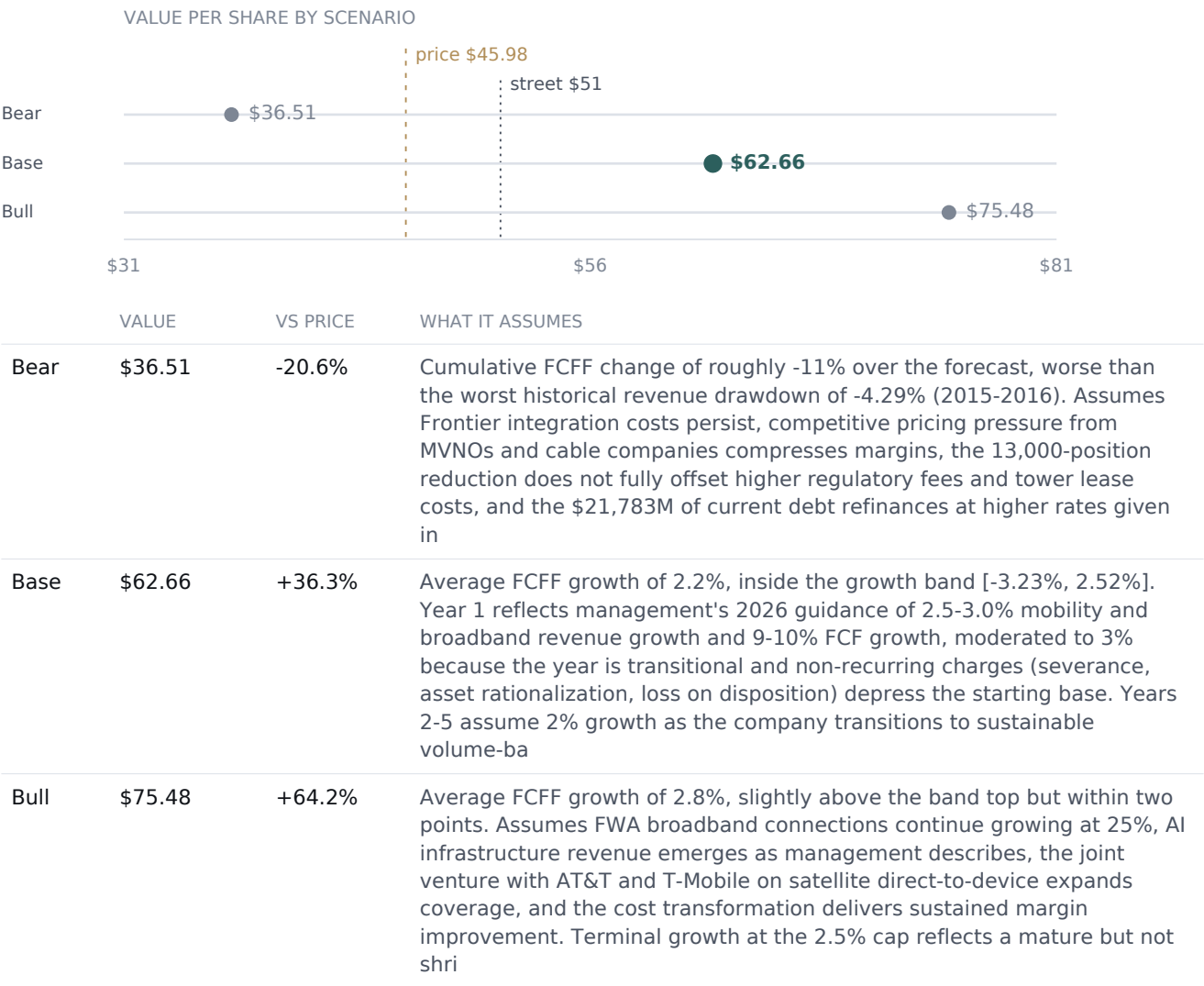


EQUITY RESEARCH / VZ

Verizon Communications Inc

LONG CANDIDATE · historical study through 2026-10-06 · horizon 540 days · DCF + P/E

PRICE	BASE CASE	UPSIDE	PROB-WEIGHTED	MARKET CAP	TRAILING P/E
\$45.98	\$62.66	+36.3%	\$57.38	\$191.04B	12.0x



STREET CHECK

Street target **\$51** (+11.2% vs price) · 11 buy / 15 hold / 0 sell · forward P/E 8.7x · EPS estimates \$5.03 this year, \$5.29 next

Our base case is **1.23x** the Street target: within the Street's range.

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

Thesis

Verizon trades at \$45.98, implying a market-implied FCFF growth of -1.82% at the 8.31% WACC, i.e. the market prices a permanently shrinking telecom business. The base case assumes 2-3% FCFF growth, consistent with management's 2.5-3.0% mobility and broadband revenue guidance and 9-10% FCF growth, yielding a DCF value of \$62.66 per share, 36.3% above the price. The divergence rests on the belief that the market has extrapolated the transitional year's non-recurring charges (severance \$397M, asset rationalization \$258M, loss on disposition \$746M, acquisition/integration \$135M in Q2 2026) and Frontier integration costs into a permanent structural decline, while the underlying business shows improving unit economics: postpaid phone churn at 0.92%, FWA connections growing 25%, a record 40.1% adjusted EBITDA margin, and a 13,000+ position reduction that management describes as a structural inflection point. The bear case at \$36.51 (-20.6%) retains the debt and integration risks the market may already be pricing, and the thesis is invalidated if the cost transformation fails to deliver sustained margin improvement or if the \$21,783M of current debt refinances at materially higher rates.

What the market may be missing

The market prices VZ at 11.97x trailing P/E, implying roughly -1.82% FCFF growth at the anchor WACC, well below the company's own 3-year revenue CAGR of 0.33% and the 5-year CAGR of 1.5%. The filing shows FWA broadband connections growing 25.5% in Consumer and 25.1% in Business, postpaid phone churn improving to 0.92% from 0.97%, and a record 40.1% adjusted EBITDA margin versus 37.1% prior year. Management guides 2.5-3.0% mobility and broadband revenue growth for 2026, 9-10% FCF growth, and adjusted EPS of \$4.99-\$5.04. The market appears to treat the transitional year's one-off charges and Frontier integration as permanent, while the cost transformation (13,000+ positions cut, virtualized RAN, Open RAN) and the shift from subsidized promotions to value-based retention suggest the trough is temporary. The earnings multiple base target of \$46.37 is essentially at the price, confirming that the DCF upside comes from the cash-flow trajectory rather than from a multiple re-rating.

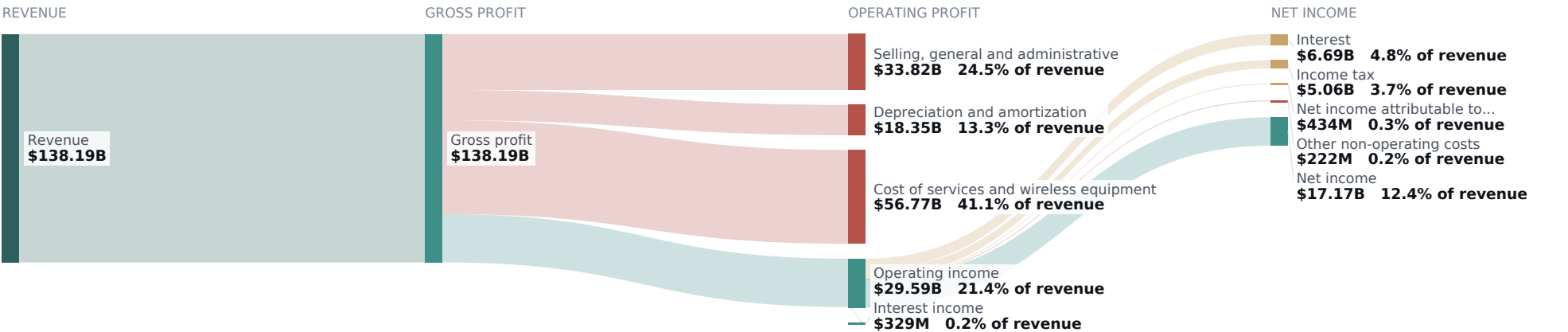
Why the opportunity exists

A narrative overshoot. The market prices VZ at 11.97x trailing P/E, implying -1.82% FCFF growth at the anchor WACC, well below the company's own 3-year revenue CAGR of 0.33% and 5-year CAGR of 1.5%. The market has extrapolated the transitional year's non-recurring charges (severance \$397M, asset rationalization \$258M, loss on disposition \$746M, acquisition/integration \$135M in Q2 2026) and Frontier integration costs into a permanent structural decline narrative. The YTD operating income growth of -4.51% reinforces this narrative. However, the underlying business shows improving unit economics: postpaid phone churn at 0.92%, FWA connections growing 25%, a record 40.1% adjusted EBITDA margin versus 37.1% prior year, and a 13,000+ position reduction that management describes as a structural inflection point. The market is pricing the trough as permanent, while the filing evidence suggests the charges are transitional and the cost transformation is delivering. The earnings multiple base target of \$46.37 is essentially at the price, confirming that the DCF upside comes from the cash-flow trajectory, not from a multiple re-rating, and that the market's narrative is anchored to depressed earnings rather than t... Evidence: Market-implied FCFF growth of -1.82% at the 8.31% WACC versus the company's 3-year revenue CAGR of 0.33% and 5-year CAGR of 1.5%. YTD operating income growth of -4.51%. Q2 2026 non-recurring charges: \$397M severance, \$258M asset rationalization, \$746M loss on disposition, \$135M acquisition/integration. Postpaid phone churn improved to 0.92% from 0.97%. FWA broadband connections grew 25.5% in Consumer and 25.1% in Business. Adjusted EBITDA margin hit record 40.1% versus 37.1%. Management guides 9-10% FCF growth and adjusted EPS of \$4.99-\$5.04 for 2026. FCFF yield of 13.59% and dividend yield o...

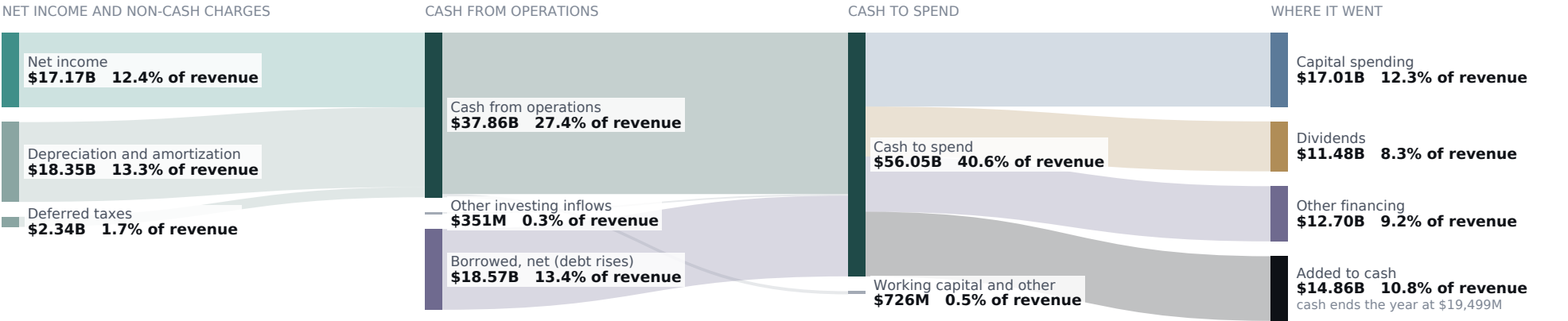
Follow the money: fiscal 2025

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 holding company operating as one of the world's leading providers of communications, technology, information and streaming products and services to consumers, businesses and government entities, with two reportable segments (Consumer ~77% and Business ~21% of 2025 revenues) built on extensive U.S. wireless, fiber-optic, and copper networks plus global spectrum holdings.

What it sells

Wireless services (postpaid, prepaid, fixed wireless access via 5G/4G LTE) and wireless equipment (smartphones, tablets, connected devices); residential fixed connectivity (fiber-optic Fios, copper, FWA broadband, video, voice); IoT connectivity solutions; corporate networking; local and long-distance voice; security and managed network services; wholesale network access to MVNOs and carriers; device protection, content offerings, cloud storage; OTT video services; business solution fulfillment and integrated mobility services. Consumer segment: postpaid and prepaid wireless services, wireless equipment (smartphones, tablets, wearables), residential fixed connectivity (Fios internet, video, voice), FWA broadband via 5G/4G LTE, wholesale wireless network access to resellers. Business segment: mobility communication services, FWA, wireline broadband, IoT connectivity, advanced communication services, corporate networking, local and long distance voice, security and managed network services, fiber broadband, video, advanced voice solutions, mobile resource management. Corporate and Other: device insurance programs, investments in unconsolidated businesses, development stage businesses, unallocated corporate expenses, pension costs, interest and financing expenses. Consumer segment: postpaid and prepaid wireless services, fixed wireless access (FWA) broadband via 5G/4G LTE, fiber broadband in 31 U.S. states and Washington D.C., residential internet/video/voice, wireless equipment (smartphones, tablets, wearables), wholesale wireless access to resellers. Business segment: mobility communication services, FWA, wireline broadband, IoT connectivity, advanced communication services, corporate networking, local/long distance voice, security and managed network services. Corporate and other: device insurance, unconsolidated business investments, development-stage businesses, divested businesses (including Verizon Contributed Business now held for sale).

Customers and channels

Consumers (retail postpaid and prepaid), businesses (Enterprise, Public Sector, Business Markets), government entities (federal, state, local, educational), wireless/wireline carriers (wholesale), MVNOs. Channels: direct (company-operated stores, sales/service centers, business direct sales teams), indirect (agents at retail locations, internet, national retailers, convenience store chains for prepaid), digital/omni-channel with AI. Business segment adds resellers, non-stocked device distributors, and system integrators. Majority of indirect wireless sales under exclusive arrangements. Consumer customers on postpaid (billed one month in advance) or prepaid basis; retail customers via Verizon family of brands; wholesale resellers. Business customers include large enterprises, public sector (U.S. federal, state, local governments, educational institutions), small/medium businesses, wireless and wireline carriers, first responders. Channels include retail stores, wholesale arrangements, and direct sales. Consumer wireline services in 31 U.S. states and Washington D.C. over 100% fiber-optic network and traditional copper-based network. Retail consumers (postpaid under Verizon brand, prepaid including SafeLink), businesses, public sector customers, wireless and wireline carriers, wholesale/resellers, educational institutions, first responders. Channels include retail stores, wholesale arrangements, and direct sales. Serving nearly all of the Fortune 500.

Unit economics and costs

Postpaid service billed one month in advance for a monthly access charge; prepaid paid in advance without credit verification. Device payment plans allow installment payments over time. Cost structure includes network build/maintenance (macro and small cell, in-building, distributed antenna systems), virtualized RAN (vRAN, Open RAN), cloud infrastructure, AI/automation. Workforce: ~89,900 FTE employees (89% U.S.), ~27% union-represented (CWA, IBEW). In Q4 2025, announced reduction of more than 13,000 positions; over 80% exited in December 2025. Business transformation initiatives aim to reduce costs, drive efficiencies, streamline operations. Competitive pricing pressure from aggressive promotions, price locks, bundled content, and MVNO reselling. Consolidated operating expenses \$108,932M (+2.7%). Cost of services \$27,789M (-0.7%): decreased due to \$222M lower personnel costs from prior year workforce reductions, \$169M lower access costs, \$105M lower device protection, \$91M lower legacy wireline costs; offset by \$198M higher regulatory fees (FUSF) and \$145M higher rent/lease (Vertical Bridge tower transaction, C-Band). Cost of wireless equipment \$28,976M (+11.0%): \$1.7B from higher volume (12% upgrades), \$1.2B from higher priced equipment mix. SG&A \$33,818M (-0.9%): \$241M lower device insurance claims, \$150M lower advertising, \$115M lower personnel; offset by \$193M higher asset/business rationalization. D&A \$18,349M (+2.6%) from C-Band deployment. Consumer segment costs: cost of services \$18,433M (+2.0%), cost of wireless equipment \$23,930M (+12.6%), SG&A \$20,643M (+0.5%), D&A \$14,173M (+4.6%). Business segment costs: cost of services \$9,203M (-5.5%), cost of wireless equipment \$5,046M (+4.2%), SG&A \$8,176M (-4.7%), D&A \$4,112M (-4.5%). Effective interest rate 5.0% (2025) vs 5.1% (2024). Effective tax rate 22.3% vs 21.9%. Postpaid ARPA declined to \$168.35 (-1.4% YoY) due to amortization of wireless equipment sales promotions and acquisition-related discounts. Prepaid ARPU rose to \$33.37 (+2.5%). Postpaid phone churn improved to 0.92% from 0.97%. Upgrade rate fell to 2.6% from 3.6%. Strategic decision to reduce device subsidies and lower upgrade volumes drove \$1.1B equipment cost decline in Q2. Cost of services rose 5.0% Q2 on Frontier headcount, digital content, facilities. SG&A rose 15.0% Q2 driven by \$746M loss on disposition, \$397M severance, \$200M asset rationalization, \$135M acquisition/integration charges, offset by \$193M lower advertising. D&A rose 8.0% Q2 from Frontier depreciable assets. Consolidated adjusted EBITDA margin hit record 40.1% (vs 37.1%).

Segments

- **Consumer** - Consumer-focused wireless and wireline communications services and products; 116M wireless retail connections (83% postpaid), 11M broadband, 2M Fios video; wholesale network access to MVNOs. Wireless service revenue \$69,382M (+2.1%), wireless equipment \$21,779M (+11.1%), Fios revenue \$11,678M (+0.3%), Other \$4,116M (+7.0%). Wireless retail connections 115,903K (+0.6%), postpaid 95,678K (+0.6%), FWA broadband 3,407K (+25.5%), Fios internet 7,328K (+2.7%), Fios video 2,441K (-9.1%). ARPA \$147.31 (+2.3%). Postpaid accounts 32,384K (-1.3%). Churn 1.61% retail, 1.15% postpaid, 0.92% postpaid phone.
- **Business** - Wireless and wireline services to businesses, public sector, and carriers; 31M wireless retail postpaid connections, 3M broadband. Enterprise and Public Sector \$13,534M (-4.8%), Business Markets and Other \$13,581M (+3.7%), Wholesale \$1,954M (-11.7%). Wireless retail postpaid connections 31,027K (+0.7%), FWA broadband 2,320K (+25.1%), wireline broadband 452K (-1.5%). Churn 1.58% postpaid, 1.23% postpaid phone. Service and

other revenues ~\$25.4B, wireless equipment ~\$3.7B.

- **Enterprise and Public Sector** - Large business and public sector customers; connectivity, security, professional services, IoT, voice data solutions.
- **Business Markets and Other** - Small and medium businesses; wireless, equipment, advanced communications, fiber broadband, video, security, mobile resource management.
- **Wholesale** - Wireline data, voice, local dial tone, broadband to local, long distance, and wireless carriers; a portion generated by a few large telecom companies that compete directly with Verizon.
- **Corporate and Other** - Includes device insurance programs, investments in unconsolidated businesses, development stage businesses, unallocated corporate expenses, pension costs, interest and financing expenses, historical results of divested businesses, and gains/losses not allocated to segments.
- **Verizon Consumer Group** - Consumer-focused wireless and wireline communication services and products. Wireless across one of the most extensive U.S. networks; wireline in 31 states and D.C. over 100% fiber-optic network and traditional copper. Postpaid and prepaid wireless, FWA broadband, residential internet/video/voice, wireless equipment, wholesale to resellers.
- **Verizon Business Group** - Wireless and wireline communication services and products to businesses, public sector, carriers. Includes mobility, FWA, wireline broadband, IoT, advanced communication, corporate networking, voice, security and managed network services. Verizon Contributed Business (international wireline/managed network) moved to Corporate in Q2 2026 as held for sale.

Revenue drivers

- 116 million Consumer wireless retail connections (including FWA), 83% postpaid
- 31 million Business wireless retail postpaid connections (including FWA)
- 5.7 million FWA broadband connections
- 11 million Consumer broadband connections (Fios internet, FWA, DSL)
- 3 million Business broadband connections
- 2 million Fios video connections
- Wholesale network access to MVNOs and carriers
- IoT connectivity solutions and managed network services

Competitive position

Highly competitive telecommunications industry. Competes against AT&T, T-Mobile, regional wireless providers, cable companies (Comcast, Charter), MVNOs, satellite/LEO providers, OTT providers, system integrators, hardware/software providers, and global telecom firms. Competitive factors: pricing, value proposition, promotions, customer service quality, network reliability/speed/capacity/coverage, marketing, capital resources, AI adoption. Customer growth rate expected to moderate, intensifying competition for customers. Some competitors subject to fewer regulatory constraints. Aggressive network deployment and government incentives may enhance competitors' ability to compete. Global enterprise market served by a relatively small number of providers with strong brand recognition and existing customer relationships. Highly competitive telecommunications industry with traditional and non-traditional participants seeking market share. U.S. wireless market has achieved high smartphone penetration reducing new phone connection growth opportunity. Verizon's competitive advantages include one of the most extensive wireless networks in the U.S., 100% fiber-optic network in 31 states and D.C., C-Band and millimeter wave spectrum portfolio, 5G wireless, fiber-based transport, cloud infrastructures, AI and automation, private networks, IP routing. Aggressive device promotions and price lock guarantees common in wireless competitive landscape. Verizon focuses on innovative products, excellent customer experience, high-performing networks, and value proposition. FWA broadband as alternative to traditional landline internet. Convergence growth opportunities from broadband footprint. One of the world's leading providers of communications, technology, information and streaming products. Operates one of the most extensive wireless networks in the U.S. and a 100% fiber-optic network in 31 states plus D.C. Portfolio includes C-Band and millimeter wave spectrum. Competing on customer experience, network performance, AI/automation, private networks, IP routing. Joint venture with AT&T and T-Mobile to address wireless dead zones via satellite direct-to-device technology.

Industry direction

Rapid convergence of wireless, cable, internet, and traditional telephone services eliminating distinctions among them. Shift from traditional linear video to OTT offerings. Increasing use of AI technologies driving data demands and future transition to 6G. Demand for spectrum expected to increase over time. Customer growth rate expected to moderate relative to historical rates. Network densification via macro/small cell, in-building, distributed antenna systems. Virtualization (vRAN, Open RAN) supports cost efficiency and supplier diversification. Satellite partnerships for off-grid emergency and text messaging. State-level net neutrality and digital discrimination rules under consideration. AI regulation nascent but expanding (Colorado comprehensive legislation). U.S. wireless market has achieved high smartphone penetration, reducing opportunity for new phone connection growth; customer growth rate expected to moderate over time. Future revenue growth driven by expanding existing customer relationships, increasing ways customers connect, increasing penetration of FWA and connected devices (wearables, tablets, IoT). 5G use cases and ecosystems development. Fiber internet connections expected to grow with expanded availability and penetration. FWA connections expected to continue growing. Video business faces ongoing pressure from linear television market. Access line and DSL losses expected to continue as customers switch to wireless, VoIP, cable. Legacy traditional wireline services face secular pressures. Verizon expects 2026 to be a transitional year for revenue working toward sustainable volume-based growth. Transition to sustainable volume-based growth; emergence of AI infrastructure revenue; satellite-based direct-to-device technologies for coverage gaps; densification via macro/small cell, in-building, distributed antenna systems; cloud computing and virtualization of network infrastructure; shift from subsidized promotions to value-based customer retention.

Recent developments

- May 14, 2026: Agreement in principle with AT&T and T-Mobile to form joint venture pooling spectrum to end wireless dead zones, including satellite direct-to-device technologies for unserved/underserved communities; subject to definitive agreements and closing conditions
- June 28, 2026: Transaction Agreement with BT Group plc and Jasper NewCo Limited; Verizon and BT each acquire 50% equity in NewCo; subject to regulatory approvals
- Verizon Contributed Business (international wireline connectivity and managed network services) classified as held for sale in Q2 2026, moved from Business segment to Corporate; \$746M pre-tax loss on disposition recorded
- Frontier Communications acquisition completed; \$9.48B cash paid in first half 2026; drove personnel, facility, content, and D&A cost increases across segments
- Workforce reduction initiatives: \$397M severance charges in Q2 2026
- Asset rationalization charges of \$258M in Q2 2026 related to ceasing use of certain real estate and network assets as part of transformation initiatives
- Network outage in first quarter 2026 resulted in credits provided to customers, contributing to postpaid revenue decline
- New Simplicity plans, Verizon One converged offerings, and industry-leading loyalty program launched

Management outlook

Verizon raised full-year guidance for the second consecutive quarter. Mobility and broadband service revenue growth for 2026 raised to 2.5-3.0%, with wireless service revenue growth approximately flat as the company transitions to sustainable volume-based growth; total mobility and broadband service revenue growth expected to approach 3.0% in Q3 and approximately 4.0% in Q4 2026. Adjusted EPS raised to \$4.99-\$5.04 (6.0-7.0% YoY growth). Cash flow from operations growth raised to approximately 2.0-4.0% YoY. Free cash flow growth raised to 9.0-10.0% YoY. Capex maintained at \$16.0-\$16.5 billion. Postpaid phone net additions expected in upper half of 750,000-1,000,000 range (approximately 2-3x 2025 result). Share buyback target expanded to up to \$4.5 billion. CEO Dan Schulman describes a 'structural inflection point' driven by customer-first transformation, lower churn, healthier unit economics, and emergence of AI infrastructure revenue. 2026 expected to be a transitional year for revenue as Verizon works toward sustainable volume-based growth. Focus on strategic growth areas: mobility and broadband. Plans to rationalize product portfolio, implement operational efficiencies, leverage AI-driven technologies. Expects mobility and broadband revenue growth from maintaining/growing customer base, migrations to higher priced plans, increased perks, FWA connections, expanded fiber footprint post-Frontier. Business segment expects mobility and broadband revenue expansion from wireless volumes, FWA revenue, fiber penetration; legacy wireline faces continued secular pressures. Expects cash flow benefits from service revenue growth and cost structure optimization. Focused on more efficient use of capital at lower cost. Expects promotional equipment offers to continue unfavorably impacting wireless service revenue in 2026. No required pension funding through end of 2030. Postretirement contributions estimated ~\$700M in 2026. Management expects competition to remain intense as traditional and non-traditional participants seek increased market share. Customer growth rate expected to moderate over time compared to historical rates. Demand for spectrum expected to continue increasing driven by customer connections, wireless broadband usage, AI data demands, and future 6G transition. Market expected to continue shifting from linear video to OTT. Management is pursuing business transformation initiatives to reduce costs, drive efficiencies, streamline operations, enhance customer experience, and improve competitive position. Virtualization and Open RAN deployment support cost efficiency and supplier diversification. No specific numeric forward guidance is provided in the excerpt.

Accounting flags

- Revenue reporting revised in Q1 2026: segments now disaggregated by Mobility and broadband service, Wireless equipment, and Other; prior periods recast
- Operating metrics now reported on consolidated basis only (no segment-level operating metrics) beginning Q1 2026
- Verizon Contributed Business moved from Business segment to Corporate and other in Q2 2026 as held for sale; historical segment results reclassified
- Non-GAAP measures used: Consolidated EBITDA, Consolidated Adjusted EBITDA, Segment EBITDA, Segment EBITDA margin, adjusted EPS, free cash flow, net unsecured debt
- Special items excluded from segment results: severance, acquisition/integration charges, asset rationalization, loss on disposition, pension remeasurement

- Effective tax rate rose to 25.1% in Q2 2026 from 22.5% in Q2 2025, primarily due to nondeductible loss on held-for-sale classification

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	\$191.04B		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 98 days later, so check in the filing whether any of it matured or was refinanced.

The counter-case

The earnings multiple base target of \$46.37 is essentially at the price, suggesting the stock is not cheap on an earnings basis. The TTM diluted EPS of \$3.84 is depressed by non-recurring charges, and the base multiple of 11.5x is only slightly below the trailing 11.97x. The DCF upside of 36.3% depends on 74.1% of enterprise value coming from terminal value, making the valuation highly sensitive to the discount rate: at 9.31% the base case drops to \$48.71, only 5.9% above the price. The YTD operating income growth of -4.51% and the 3-year revenue CAGR of 0.33% suggest the market's low-growth pricing may be correct. The 13,000-position reduction and Frontier integration are execution risks; management's guidance has been raised for two consecutive quarters but delivery is unproven. The \$21,783M of current debt maturing within twelve months creates refinancing risk at a 3.88x interest coverage. The 6.09% dividend yield is attractive but consumes a large share of OCF-less-capex (\$20,160M TTM), leaving limited cushion for a downturn. The bear case at \$36.51 (-20.6%) assumes FCFF declines cumulatively by roughly 11% over five years, worse than the worst historical revenue drawdown of -4.29% (2015-2016). This scenario assumes Frontier integration costs persist, competitive pricing from MVNOs and cable companies compresses margins, the 13,000-position reduction does not fully offset higher regulatory fees (FUSF +\$198M) and tower lease costs, and the \$21,783M of current debt refinances at higher rates given interest coverage of 3.88x. Net debt/EBITDA of 3.44x and total debt of \$165,231M create a leverage risk: a 100bp rate change moves interest expense by \$340M. The YTD operating income growth of -4.51% and the effective tax rate rising to 25.1% in Q2 2026 due to the nondeductible loss on held-for-sale classification support the bear narrative. The earnings multiple bear target of \$34.27 (-25.5%) reflects margin compression and the debt burden. If the market's -1.82% implied growth is correct, the stock is fairly priced or slightly expensive, not cheap.

Valuation

Verizon generates positive, reasonably predictable unlevered free cash flow (\$25,964.9M TTM, 18.69% margin) from a capital-intensive but cash-generative telecom network, making DCF on FCFF appropriate. Diluted EPS is positive (\$3.84 TTM) and the trailing P/E of 11.97x sits within the company's own five-year range (7.79-13.71x), so an earnings multiple is also informative. Both methods are used: DCF captures the cash-flow trajectory through the transitional year and Frontier integration, while the P/E anchors the valuation against the company's own historical multiple band.

SCENARIO	ASSUMPTIONS	VALUE	VS PRICE
Bear	FCFF growth -5%, -4%, -3%, -2%, -1%; WACC 8.3%; terminal growth 1.5%	\$36.51	-20.6%
Base	FCFF growth +3%, +2%, +2%, +2%, +2%; WACC 8.3%; terminal growth 2.0%	\$62.66	+36.3%
Bull	FCFF growth +4%, +4%, +3%, +3%, +3%; WACC 8.3%; terminal growth 2.5%	\$75.48	+64.2%
Bear (P/E)	8.5x forward EPS \$4.03 (reported diluted, growth +5.0%)	\$34.27	-25.5%

SCENARIO	ASSUMPTIONS	VALUE	VS PRICE
Base (P/E)	11.5x forward EPS \$4.03 (reported diluted, growth +5.0%)	\$46.37	+0.8%
Bull (P/E)	13.5x forward EPS \$4.03 (reported diluted, growth +5.0%)	\$54.43	+18.4%

- Discount rate: the model used 8.3% against an anchor of 8.3% (risk-free 5.31%, beta 0.80, equity risk premium 5.0%, cost of equity 9.3%, after-tax cost of debt 5.1% on a synthetic A rating from interest coverage, debt 46% of capital).
- The price implies constant five-year FCFF growth of -1.8% at the base-case WACC and terminal growth.
- Anchors from the company's own history: base-case growth band -3.2% 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: 6.3% gives \$110, 7.3% gives \$82, 8.3% gives \$63, 9.3% gives \$49, 10.3% gives \$38.
- Sensitivity to terminal growth: 1.0% gives \$52, 1.5% gives \$57, 2.0% gives \$63, 2.5% gives \$70, 3.0% gives \$78.
- 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 \$57.38 (+24.8% vs price) at 30%/50%/20% weights.

Bear (\$36.51, -20.6%): FCFF declines cumulatively by roughly 11% over five years, worse than the worst historical revenue drawdown of -4.29%. Frontier integration costs persist, competitive pricing from MVNOs and cable companies compresses margins, the 13,000-position reduction does not fully offset higher regulatory fees and tower lease costs, and the \$21,783M of current debt refinances at higher rates. Terminal growth of 1.5% reflects a shrinking legacy wireline base. Base (\$62.66, 36.3%): FCFF grows 2-3% per year, consistent with management's 2.5-3.0% mobility and broadband revenue guidance. Year 1 reflects the transitional year with non-recurring charges moderating growth to 3%. Years 2-5 assume 2% growth as FWA and fiber penetration continue, cost savings from the workforce reduction and virtualization stabilize margins, and capex is held at \$16-16.5B per guidance. Terminal growth of 2.0% reflects a mature but not shrinking telecom market. Bull (\$75.48, 64.2%): FCFF grows 3-4% per year. FWA connections continue growing at 25%, AI infrastructure revenue emerges, the AT&T/T-Mobile satellite joint venture expands coverage, and the cost transformation delivers sustained margin improvement. Terminal growth at the 2.5% cap reflects a mature but growing telecom market. Probability-weighted value is \$57.38 (24.8% upside), with 30% bear, 50% base, 20% bull.

What breaks the case

SHOCK TO THE BASE CASE	VALUE	VS PRICE
Base case as planned	\$62.66	+36.3%
WACC 100bp higher	\$48.71	+5.9%
Pre-tax cost of debt 200bp higher	\$52.05	+13.2%
Every year's FCFF growth 5 points lower	\$42.41	-7.8%
Every year's FCFF growth 5 points higher	\$87.01	+89.2%
Starting FCFF 10% lower	\$52.46	+14.1%
Starting FCFF 10% higher	\$72.86	+58.5%

The base case equals the price at a 9.5% WACC or if every annual FCFF growth rate were -4.0% points different. These are thresholds, not forecasts.

No listed peer was judged comparable. No frozen peer tree is available for this quarter, so no peer comparables can be judged. The company's own trailing P/E of 11.97x sits within its five-year range (7.79-13.71x, median 9.77x). Revenue growth of 2.52% (last year) and 1.04% (YTD) is modest; operating margin of 20.54% and FCFF margin of 18.69% are within the historical range. Net debt/EBITDA of 3.44x and interest coverage of 3.88x reflect a levered balance sheet. Without peer data, the multiple is justified solely against the company's own five-year P/E band and the growth, quality, and leverage profile described above.

What would change the view

Key debates

- Revenue growth trajectory through the transitional year: The base case assumes 2-3% FCFF growth, above the market-implied -3.23%. Whether management's 2.5-3.0% mobility and broadband revenue guidance sustains beyond 2026 or reverts to the 0.33% three-year CAGR determines whether the stock re-rates or stays anchored to the low-growth band. (Management guidance: 'Mobility and broadband service revenue growth for 2026 raised to 2.5-3.0%'; three-year revenue CAGR of 0.33%; YTD revenue growth of 1.04% with operating income growth of -4.51%.)
- Cost structure transformation and Frontier integration: The 13,000+ position reduction, virtualized RAN, Open RAN, and asset rationalization are the primary margin levers. If Frontier integration costs (personnel, facilities, content, D&A) persist or the severance and rationalization charges recur, the cost savings are offset and FCFF growth stalls. (Q2 2026: \$397M severance, \$258M asset rationalization, \$746M loss on disposition; D&A rose 8.0% from Frontier depreciable assets; cost of services rose 5.0% on Frontier headcount.)
- Debt refinancing and interest burden: \$165,231M total debt, \$21,783M maturing within twelve months, interest coverage of 3.88x, and net debt/EBITDA of 3.44x. A 100bp rate change moves interest expense by \$340M. Refinancing at higher rates or a credit rating downgrade compresses FCFF and the equity value. (Fact sheet: total debt \$165,231M, current debt \$21,783M, interest coverage 3.88x, net debt/EBITDA 3.44x; disclosed sensitivity: 100bp change in interest rates affects annual interest expense by approximately \$340 million.)

Exposures (verified against the filing)

- Interest rates, negative for the equity: A 100bp rise in interest rates increases annual interest expense by approximately \$340 million on floating-rate debt, reducing FCFF and net income. The \$21,783M of current debt maturing within twelve months must be refinanced at prevailing rates, and the synthetic A rating floor already prices a 1.1% spread over the risk-free rate.

Sensitivities the company discloses

- Interest rates on floating rate debt: 100 basis point change gives Change in annual interest expense of approximately \$340 million
- Fair value of long-term debt and related derivatives: 100 basis point upward shift in yield curve gives Fair value decreases from \$158,955 million to \$150,740 million
- Fair value of long-term debt and related derivatives: 100 basis point downward shift in yield curve gives Fair value increases from \$158,955 million to \$168,104 million
- Business reporting unit goodwill fair value: Terminal value growth rate declined by 50 basis points, or discount rate increased by 50 basis points, or EBITDA margin decreased by 100 basis points gives Fair value would still exceed carrying value, but continued risk of future impairment exists

Catalysts

- Q3 2026 earnings confirming management's 2.5-3.0% mobility and broadband revenue growth guidance, with postpaid phone net additions in the upper half of the 750,000-1,000,000 range
- Frontier integration cost normalization: if D&A and personnel costs from Frontier stabilize, the record 40.1% adjusted EBITDA margin becomes sustainable
- Completion of the Verizon Contributed Business sale, removing the \$746M held-for-sale loss from the P&L and eliminating the nondeductible tax drag
- Refinancing of the \$21,783M current debt at rates consistent with the synthetic A rating, confirming the 6.41% cost-of-debt floor
- The AT&T/T-Mobile joint venture on satellite direct-to-device closing, expanding coverage and potentially creating new revenue streams
- Share buyback execution: \$3.5B already executed YTD against a \$4.5B target, reducing the share count and supporting EPS

Invalidation

- FCFF growth falls below the market-implied -1.82% for two consecutive quarters, confirming the market's decline narrative
- Postpaid phone churn reverts above 1.0% or FWA connection growth decelerates below 15%, undermining the unit-economics improvement
- The \$21,783M of current debt refinances at a spread materially above the 1.1% synthetic A rating, pushing interest coverage below 3.5x
- Frontier integration costs persist or recur, preventing the adjusted EBITDA margin from sustaining above 37.1%
- Management's 2026 guidance of 9-10% FCF growth is missed, and the 3-year revenue CAGR of 0.33% reasserts itself

- The discount rate rises above 9.54% (the break-even WACC), collapsing the DCF value to the price

Risks

- Net debt/EBITDA of 3.44x and total debt of \$165,231M create leverage risk; a credit rating change could raise financing costs above the synthetic A floor
- The \$21,783M of current debt maturing within twelve months must be refinanced at prevailing rates; a 100bp rate change moves interest expense by \$340M
- Frontier integration costs (personnel, facilities, content, D&A) may persist beyond the transitional year
- Competitive pricing pressure from MVNOs, cable companies, and aggressive device promotions compresses ARPA and service revenue
- Customer growth rate expected to moderate, intensifying competition for customers
- Execution risk on the 13,000+ position reduction and virtualized RAN/Open RAN transformation
- Regulatory risks including state-level net neutrality, digital discrimination, and FCC oversight
- 74.1% of the base-case enterprise value comes from terminal value, making the DCF highly sensitive to the discount rate and terminal growth assumptions

Short side

A short is not compelling at \$45.98. The base case DCF value of \$62.66 exceeds the price by 36.3%, and the earnings multiple base target of \$46.37 is essentially at the price. The bear case at \$36.51 (-20.6%) requires FCFF to decline cumulatively by roughly 11% over five years, worse than the worst historical revenue drawdown of -4.29%. Borrow availability is not addressed in the material. Squeeze risk is low for a mega-cap telecom with 4.15 billion shares outstanding and a 6.09% dividend yield that attracts income investors. Timing is uncertain: the transitional year's non-recurring charges may persist through 2026, delaying any re-rating. The unbounded loss on a short is mitigated by the dividend yield, which provides a cash floor, but the 3.44x net debt/EBITDA and 3.88x interest coverage mean a credit event could accelerate a decline. The short thesis would require the market's -1.82% implied growth to be correct and the cost transformation to fail, which is possible but not the base case.

Open questions

Whether the \$21,783M of current debt has been refinanced or matured between 2026-06-30 and 2026-10-06, and at what rate (missing fact)

The fact sheet notes the price date is 98 days after the balance sheet date and flags this as a check. If refinanced at a spread above the 1.1% synthetic A rating, the WACC rises and the base case value falls. The break-even WACC is 9.54%, so a 123bp increase in the discount rate erases the upside. Watch: Next quarterly filing or press release disclosing refinancing terms or credit rating changes

Whether the 13,000+ position reduction and virtualized RAN/Open RAN savings are recurring or one-time (forecast uncertainty)

The Q2 2026 charges (\$397M severance, \$258M asset rationalization, \$746M loss on disposition, \$135M acquisition/integration) are classified as special items in the Adjusted EBITDA reconciliation. If they recur, the FCFF margin of 18.69% compresses toward the 5-year median of 13.63%. The base case assumes these are transitional. Watch: Q3 2026 earnings release: whether special items decline and adjusted EBITDA margin sustains above 37.1%

Whether management's 2026 guidance of 9-10% FCF growth and adjusted EPS of \$4.99-\$5.04 is delivered (forecast uncertainty)

Guidance has been raised for two consecutive quarters. The YTD operating income growth of -4.51% and the 3-year revenue CAGR of 0.33% suggest delivery is uncertain. The base case moderates management's 9-10% FCF growth to 3% FCFF growth for year 1, reflecting the transitional year's depressed base. Watch: Q3 and Q4 2026 earnings: actual FCF growth versus the 9-10% guidance

Whether the Verizon Contributed Business sale closes and the \$746M loss is realized or reversed (missing fact)

The business is classified as held for sale in Q2 2026. The \$746M pre-tax loss is already recorded. Closing would remove the nondeductible tax drag (effective tax rate rose to 25.1% in Q2 2026). This is a timing question, not a valuation driver. Watch: Regulatory approval announcements or closing disclosures

Limitations

The base case DCF value of \$62.66 depends on 74.1% of enterprise value coming from terminal value, making it highly sensitive to the discount rate. At 9.31% the base case drops to \$48.71, only 5.9% above the price. The earnings multiple base target of \$46.37 is essentially at the price, so the DCF upside is not corroborated by the multiple. The TTM FCFF margin of 18.69% is within the 5-year range (6.42%-19.10%) but near the top, and the TTM includes Q2 2026 non-recurring charges that depress the starting base. The starting FCFF of \$25,964.9M is not normalized for these charges because the margin remains inside the historical band. The WACC of 8.31% uses a synthetic A rating from interest coverage of 4.4x, but the actual interest coverage is 3.88x; if the synthetic rating is too generous, the cost of debt is understated. No peer comparables are available, so the multiple is justified solely against the company's own 5-year P/E band. The break-even growth shift of -4.05% means the base case survives a uniform 4-point growth haircut, but the break-even WACC of 9.54% means a 123bp rate increase erases the upside. The earnings multiple and DCF disagree: the multiple says the stock is fairly valued, the DCF says it is cheap. This divergence reflects the depressed TTM EPS versus the cash-flow trajectory, and the DCF should be treated as the primary method only if the non-recurring charges are genuinely transitional. Terminal value is 76% of enterprise value in at least one scenario, so the result is dominated by the terminal assumptions. 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:refinancing; exposure quote unverified:regulation.

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 \$45.98 on 2026-10-06.

- 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: qwen3.8-flash-next-iq2_xs · run discovery-20260911 · job 543 · memo SHA-256 45e31cdd598d4a6d... · 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.