

Jin T. Mok
mokjin@rice.edu

Verizon Comm.

NYSE: VZ

HOLD

March 6, 2002

S&P Sector – Telecommunications

Industry – Wireline

MARKET DATA

Price	52-Wk Range	Price Target	Shares Out.	Market Cap.	Beta	Book Value	P/S	P/E
3-5-02 close	low on 2-6-02	Valuation Result	(million)	(billion)	Yahoo Finance	per share	(ttm)	(ttm)
\$47.93	\$43.02-\$57.40	\$56.04	2,710	\$130.1	0.50	\$11.98	1.94	228



COMPANY OVERVIEW – FROM YAHOO! FINANCE

Verizon Communications Inc. is the no. 1 local phone company in the US and the no. 2 communication services provider behind AT&T. The Company has four reportable segments, which it operates and manages as strategic business units and organizes by products and services. Domestic wireline communications services principally represent the Company's 16 operating telephone subsidiaries that provide local telephone services in over 30 states. Domestic wireless products and services include cellular, Personal Communications Services, paging services and equipment sales. The Company's International segment includes international wireline and wireless communications operations, investments and management contracts in the Americas, Europe, Asia and the Pacific. Through its Information Services segment, the Company provides print and online directory publishing and content for communications products and services.

Verizon, formed by the merger of Bell Atlantic and GTE, is one of the world's leading providers of high-growth communication services. For the fiscal year ended 12/31/01, operating revenues rose 4% to \$67.19 billion. Net income before extraordinary items, accounting change, and applicable to Common fell 95% to \$590 million. Results reflect the addition of new customers for long distance, DSL and data transport, offset by the charges for employee reductions and restructurings. Revenues for the fourth quarter increased 2.5% to \$8.2 billion and net income before special charges \$2.1 billion.

INVESTMENT RECOMMENDATION

☐ HOLD 200 shares of VZ.

SUMMARY

- ❑ The stock is currently undervalued by approximately 19%: Bloomberg's DDM valuation of VZ on March 5, 2002 rendered a price of \$59.49 / share. Our 3-stage model (7 years growth period at 8.4%, 5 years of transitional growth period, and maturity period at 3.5%) gives a current price valuation of \$56.04 / share based on the following CAPM assumptions: beta of 0.50, risk-free rate equal to the five-year T-bill at 5%, and a risk premium of 5.00%. The growth rate of 8.4% was from MSN's projected growth rate for VZ for the next 5 years.
- ❑ VZ ended 2001 with about 247,000 employees after cutting more than 16,000 jobs, mostly through a voluntary buyout offer and attrition. Cutting overtime expenses and the use of contractors trimmed the equivalent of 13,000 more jobs.
- ❑ The company reported on March 2002 that it expects to further reduce its workforce by the equivalent of 10,000 jobs in 2002 through attrition, layoffs, and reduced overtime and contract work. This year's job cuts will focus on Verizon's "low-growth" businesses - chiefly local telephone service - and not its fast-growing areas like long distance, digital subscriber lines (DSL), and long distance phone service. It expects its 2002 revenues to rise about 3 percent to 5 percent.
- ❑ In September 2001, the company received permission from the FCC to provide long distance in \$3B Pennsylvania market and is waiting on approval for New Jersey. It currently provides long distance services in New York, Massachusetts, Connecticut, and Rhode Island (FCC approved in February 2002).
- ❑ The near term outlook for the communication services is flat due to high competition and the weak economy.

INVESTMENT RATIONALE & RISKS

Rationale & Risks With respect to the communication services sector as a whole, we are recommending to hold an existing undervalued stock (VZ) with a neutral near-term outlook. As VZ gets approval to provide long distance services in other states and a rebound in the economy, revenue and profits will grow.

There is some competition in Verizon's local wireline market. Also, as more people choose to use wireless, the growth in local wireline will be tempered. However, this will be offset by the growth in Verizon's long distance, wireless, and DSL subscriber growth.

Qwest was recently negatively impacted on concerns over its bond ratings and the ability to raise any future funds through commercial paper. Verizon has a bond rating of A+ which is the highest of the upper medium grade. Verizon has not been negatively impacted by bond concerns.

In our telecom sector report, we recommended looking at BellSouth (BLS) and Southwestern Bell (SBC) as possible candidates for purchase. However, our current holding of VZ was very similarly correlated as well as similarly underpriced as Verizon. Purchasing shares of BLS or SBC did not seem to increase our diversification. Therefore, we recommend a hold on our current holding Verizon.

Analysts on Yahoo estimate the mean 12 month target price at \$60.50 per

share. They rate Verizon as a moderate buy (1.63 out of 5, 1 being strong buy and 5 being strong sell)

**Overall Effect on
Wright Fund**

Currently, VZ represents 1.5% of the Wright Fund and 72.2% of the telecom services sector. The stock's latest close on March 5, 2002 was \$47.40, within the lower half of the 52-week high of \$57.40 and low of \$43.02. We still maintain a stop price of \$39.00 and set a target of \$57.00.

Based on our recent analysis of the telecom services sector, we have recommended that the sector be underweight in relation to the S&P 500 index. We are currently underweighted and recommend holding our shares in VZ which is currently undervalued. When the economy recovers and the cost cutting efforts have taken effect, Verizon will be in a very good position for increase in stock price.

COMPANY INSIGHT & INDUSTRY GUIDANCE
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**Insight, News
& Trends:**

Verizon has more than 61 million local-access lines throughout the US.

Verizon Wireless, the company's joint venture with Vodafone, is the #1 US wireless provider with more than 29 million mobile phone customers nationwide.

Outside the US, Verizon's affiliates serve 36 million wireless customers and operate 13 million access lines; the company also is developing a multinational data network.

As if AT&T didn't have enough reasons to look over its shoulder, Verizon has 7.4 million US long-distance customers – and growing.

Verizon has been liquidating their non-strategic assets. In October 2001, CenturyTel agreed to buy local telephone properties in Alabama and Missouri for \$2.16 billion. Verizon also agreed to sell access lines in Kentucky to AllTel for \$1.9 billion.

Recent Results:

DSL subscribers reached Verizon's 1.2M year end target, a 122% increase from 2000. The company added a record 225,000 DSL customers during the last quarter

Verizon Long Distance, the nation's fourth largest long-distance provider, ended 2001 with 7.4 million customers in 40 states, an increase of 2.7 million during the year, or 59 percent. Approximately 40 percent of the long-distance customer base comes from three states where the service has been most

recently introduced. There are nearly 2.3 million customers in New York, 600,000 in Massachusetts and nearly 250,000 in Pennsylvania.

Long distance revenues were up nearly \$100M year on year due to strength in interLATA service, offsetting negative effects of intraLATA competition.

Verizon Wireless ended 2001 with 29.4 million customers, growing its total number of customers nearly 10 percent year-over-year. When fully allocating in the prior year previously announced subscriber-base adjustments, the growth rate would be nearly 12 percent. During the fourth quarter, the company added 715,000 net new customers.

Fourth quarter results were negatively effected by severance, restructuring, and charges reflecting the current market values of investments including Genuity, an internet service provider. These charges amount to \$4.1 billion or \$1.52 per share. Verizon reported a loss of \$2.0 billion or \$0.75 per share compared to net income of \$1.9 billion or \$0.70 per share in the fourth quarter 2000.

Industry Guidance:

Long-term outlook for the communications services industry is positive; however, it is neutral for the near term.

The outlook for the next five years growth is expected to be 19.3% for the industry and 7.5% for the S&P 500.

The S&P Telephone Index fell 18.9% in year 2001 compared to a decline of 12.9% in year 2000.

In light of the economy and the prospects for near term, many of the telecom companies have concentrated on reducing workforces and managing costs. These measures should help companies with their profit margins.

SECTOR COMPANY COMPARISON

	VZ	BLS	Q	SBC	T
Stock Price	\$47.40	\$39.10	\$8.85	\$38.77	\$16.06
Revenue	\$67,190.00	\$24,130.00	\$19,743.00	\$45,918.00	\$55,762.00
Net Income	\$590.00	\$2,570.00	-\$3,950.00	\$7,260.00	\$9,520.00
EPS	\$0.21	\$1.36	-\$2.38	\$2.14	\$2.23
EPS (Projected 2002)	\$3.20	\$2.41	\$0.15	\$2.44	\$0.15
P/E Ratio	228.00	29.20	183.00	18.48	6.40
P/E Ratio (Projected 2002)	14.81	16.22	59.00	15.89	107.07
D/E Ratio	1.29	0.81	0.55	0.53	0.57
ROE	1.70%	13.80%	N/A	22.30%	18.20%
Growth Rate (5-Yr Avg.)	35.05%	5.85%	151.75%	28.23%	2.75%
Growth Rate (Next 5-Yr)	8.40%	8.50%	21.60%	10.50%	10.80%
Beta	0.50	0.41	1.47	0.47	1.04
Debt Rating	A+	A+	BBB	AA-	BBB+

VERIZON EARNINGS & GROWTH ESTIMATES:

Earnings Estimates	Qtr(3/02)	Qtr(6/02)	FY(12/02)	FY(12/03)
Average Estimate	0.72	0.78	3.20	3.35
Number of Analysts	12	11	23	12
High Estimate	0.77	0.84	3.30	3.60
Low Estimate	0.67	0.68	2.68	2.66
Year Ago EPS	0.72	0.77	3.00	3.20
Growth Rate	0.69%	1.30%	6.75%	4.73%

Zacks Industry: UTIL-TELEPHONE

Earnings Growth Rates	Last 5 yrs.	FY 2002	FY 2003	Next 5 yrs.	02 P/E
Company	6.70%	5.30%	4.70%	8.40%	15.80
Industry	6.40%	1.40%	16.30%	19.30%	-14.70
S&P 500	8.40%	-21.70%	12.40%	7.50%	26.10

Zacks Industry: UTIL-TELEPHONE

VERIZON ANALYST RATINGS:
Zacks average brokerage recommendation is **Moderate Buy**.

Recommendations	Current	1 Month Ago	2 Months Ago	3 Months Ago
Strong Buy	13	13	13	13
Moderate Buy	8	7	6	6
Hold	5	6	6	3
Moderate Sell	0	0	0	0
Strong Sell	0	0	0	0
Mean Rec.	1.63	1.65	1.66	1.53

Mean Recommendation Conversion Table

- 1.0 = Strong Buy
- 1.1 thru 2.0 = Moderate Buy
- 2.1 thru 3.0 = Hold
- 3.1 thru 4.0 = Moderate Sell
- 4.1 thru 5.0 = Strong Sell

VERIZON: RECENT ANNUAL FINANCIALS (FROM MSN MONEY)

Annual Income Statement (Values in Millions)	12/2001	12/2000	12/1999	12/1998	12/1997
Sales	67,190.0	64,707.0	33,174.0	31,565.9	30,193.9
Cost of Sales	NA	39,481.0	8,392.0	9,386.0	8,444.2
Gross Operating Profit	NA	25,226.0	24,782.0	22,179.9	20,142.8
Selling, General & Admin. Expense	NA	0.0	10,217.0	9,802.7	9,047.2
Other Taxes	NA	0.0	0.0	0.0	1,606.9
EBITDA	NA	25,226.0	14,565.0	12,377.2	11,095.6
Depreciation & Amortization	NA	12,261.0	6,070.0	5,750.0	5,754.1
EBIT	NA	12,965.0	8,495.0	6,627.2	5,341.5
Other Income, Net	NA	7,896.0	197.0	-292.9	-127.4
Total Income Avail for Interest Exp.	NA	21,525.0	8,028.0	6,334.3	5,214.1
Interest Expense	NA	3,490.0	1,263.0	1,335.4	1,230.0
Minority Interest	NA	216.0	0.0	0.0	0.0
Pre-tax Income	NA	18,035.0	6,765.0	4,998.9	3,984.1
Income Taxes	NA	7,009.0	2,557.0	2,008.1	1,529.2
Special Income/Charges	NA	664.0	-664.0	0.0	0.0
Net Income from Cont. Operations	590.0	10,810.0	4,208.0	2,990.8	2,454.9
Net Income from Discont. Ops.	0.0	0.0	0.0	0.0	0.0
Net Income from Total Operations	590.0	10,810.0	4,208.0	2,990.8	2,454.9
Normalized Income	NA	10,146.0	4,872.0	2,990.8	2,454.9
Extraordinary Income	0.0	0.0	0.0	0.0	0.0
Income from Cum. Eff. of Acct. Chg.	-182.0	-40.0	0.0	0.0	0.0
Income from Tax Loss Carryforward	0.0	0.0	0.0	0.0	0.0
Other Gains (Losses)	-19.0	1,027.0	-6.0	-25.5	0.0
Total Net Income	389.0	11,797.0	4,202.0	2,965.3	2,454.9
Dividends Paid per Share	1.54	1.58	1.54	1.54	1.49
Preferred Dividends	NA	0.00	0.00	0.00	0.00
Basic EPS from Cont. Operations	0.21	3.98	2.72	1.90	1.58
Basic EPS from Discont. Operations	0.00	0.00	0.00	0.00	0.00
Basic EPS from Total Operations	0.21	3.98	2.72	1.90	1.58
Diluted EPS from Cont. Operations	0.21	3.95	2.66	1.87	1.57
Diluted EPS from Discont. Operations	0.00	0.00	0.00	0.00	0.00
Diluted EPS from Total Operations	0.21	3.95	2.66	1.87	1.57

Annual Balance Sheet (Values in Millions)	12/2001	12/2000	12/1999	12/1998	12/1997
Assets					
Current Assets					
Cash and Equivalents	NA	757.0	1,097.0	237.1	322.8
Receivables	NA	14,010.0	7,025.0	6,559.9	6,340.8
Inventories	NA	1,910.0	664.0	566.0	550.3
Other Current Assets	NA	5,444.0	1,810.0	1,719.3	1,786.9
Total Current Assets	NA	22,121.0	10,596.0	9,082.3	9,000.8
Non-Current Assets					
Property, Plant & Equipment, Gross	NA	158,957.0	89,238.0	83,064.1	77,437.2
Accum. Depreciation & Depletion	NA	89,453.0	49,939.0	46,248.6	42,397.8
Property, Plant & Equipment, Net	NA	69,504.0	39,299.0	36,815.5	35,039.4
Intangibles	NA	41,990.0	0.0	0.0	0.0
Other Non-Current Assets	NA	31,120.0	12,719.0	9,246.1	9,923.9
Total Non-Current Assets	NA	142,614.0	52,018.0	46,061.6	44,963.3
Total Assets	NA	164,735.0	62,614.0	55,143.9	53,964.1
Liabilities & Shareholder's Equity					
Current Liabilities					
Accounts Payable	NA	13,965.0	6,465.0	6,105.0	5,966.4
Short Term Debt	NA	14,838.0	5,455.0	2,987.6	6,342.8
Other Current Liabilities	NA	5,433.0	1,547.0	1,438.6	1,355.0
Total Current Liabilities	NA	34,236.0	13,467.0	10,531.2	13,664.2
Non-Current liabilities					
Long Term Debt	NA	55,034.0	18,463.0	17,646.4	13,265.2
Deferred Income Taxes	NA	15,260.0	3,892.0	2,253.8	2,106.2
Other Non-Current Liabilities	NA	3,797.0	10,253.0	11,156.9	11,027.7
Minority Interest	NA	21,830.0	458.0	329.7	911.2
Total Non-Current Liabilities	NA	95,921.0	33,066.0	31,386.8	27,310.3
Total Liabilities	NA	130,157.0	46,533.0	41,918.0	40,974.5
Shareholder's Equity					
Preferred Stock Equity	NA	0.0	201.0	200.5	200.5
Common Stock Equity	NA	34,578.0	15,880.0	13,025.4	12,789.1
Total Equity	NA	34,578.0	16,081.0	13,225.9	12,989.6

Total Liabilities & Stock Equity	NA	164,735.0	62,614.0	55,143.9	53,964.1
Total Common Shares Outstanding	2.7 Bil	2.8 Bil	1.6 Bil	1.6 Bil	1.6 Bil
Preferred Shares	NA	0.0	2.2 Mil	2.2 Mil	2.2 Mil
Treasury Shares	NA	23.6 Mil	23.6 Mil	22.9 Mil	23.0 Mil

Annual Cash Flow (in Millions)	12/2001	12/2000	12/1999	12/1998	12/1997
Cash Flow from Operating Activities					
Net Income (Loss)	NA	10,810.0	4,208.0	2,990.8	2,454.9
Depreciation and Amortization	NA	12,261.0	6,070.0	5,750.0	5,754.1
Deferred Income Taxes	NA	3,434.0	928.0	264.2	236.9
Operating (Gains) Losses	NA	-10,180.0	781.0	781.6	278.1
Extraordinary (Gains) Losses	NA	0.0	0.0	0.0	0.0
Change in Working Capital					
(Increase) Decr. in Receivables	NA	-2,440.0	-423.0	-220.3	-139.5
(Increase) Decr. in Inventories	NA	-530.0	-92.0	-110.5	-73.8
(Increase) Decr. in Other Curr. Assets	NA	-264.0	-1,425.0	-108.0	65.2
(Decrease) Incr. in Payables	NA	1,973.0	345.0	376.4	-93.3
(Decrease) Incr. in Other Curr. Liabs.	NA	763.0	264.0	346.7	287.9
Other Non-Cash Items	NA	0.0	0.0	0.0	88.2
Net Cash from Cont. Operations	NA	15,827.0	10,656.0	10,070.9	8,858.7
Net Cash from Discont. Operations	NA	0.0	0.0	0.0	0.0
Net Cash from Operating Activities	NA	15,827.0	10,656.0	10,070.9	8,858.7
Cash Flow from Investing Activities					
Cash Flow Provided by:					
Sale of Property, Plant, Equipment	NA	6,794.0	211.0	649.2	5.5
Sale of Short Term Investments	NA	983.0	795.0	968.2	426.9
Cash Used by:					
Purchase of Property, Plant, Equipmt.	NA	-19,880.0	-9,180.0	-7,508.4	-6,637.7
Purchase of Short Term Investments	NA	-1,204.0	-855.0	-1,027.8	-843.6
Other Investing Changes Net	NA	-2,748.0	-600.0	-766.1	-289.7
Net Cash from Investing Activities	NA	-16,055.0	-9,629.0	-7,684.9	-7,338.6
Cash Flow from Financing Activities					
Cash Flow Provided by:					
Issuance of Debt	NA	12,296.0	3,687.0	6,462.3	2,213.3
Issuance of Capital Stock	NA	576.0	433.0	559.0	776.2
Cash Used for:					
Repayment of Debt	NA	-7,238.0	-1,199.0	-5,479.8	-1,165.9
Repurchase of Capital Stock	NA	-2,294.0	-723.0	-1,001.8	-929.8
Payment of Cash Dividends	NA	-4,421.0	-2,399.0	-2,379.5	-2,340.4
Other Financing Charges, Net	NA	33.0	34.0	-631.9	-0.1

Net Cash from Financing Activities	NA	-1,048.0	-167.0	-2,471.7	-1,446.7
Effect of Exchange Rate Changes	NA	0.0	0.0	0.0	0.0
Net Change in Cash & Cash Equivalents	NA	-1,276.0	860.0	-85.7	73.4
Cash at Beginning of Period	NA	2,033.0	237.0	322.8	249.4
Free Cash Flow	NC	-8,474.0	-923.0	183.0	-119.4

CHARTS / TECHNICAL

Verizon Daily Stock Chart vs. S&P 500 and Dividend Yield (source: BigCharts.com 03-05-02)



CURRENT TELECOM WIRELINE CORRELATION MATRIX

(based on historical weekly returns for the most recent 3 years)

	VZ	BLS	Q	SBC	T	PCS
VZ	1					
BLS	0.766226	1				
Q	0.160979	0.394411	1			
SBC	0.584314	0.622256	0.379142	1		
T	0.579862	0.652069	0.396210	0.490338	1	
PCS	0.236652	0.382581	0.653819	0.029399	0.340849	1