

verizon



Verizon's Acquisition of Frontier Communications for \$20bn

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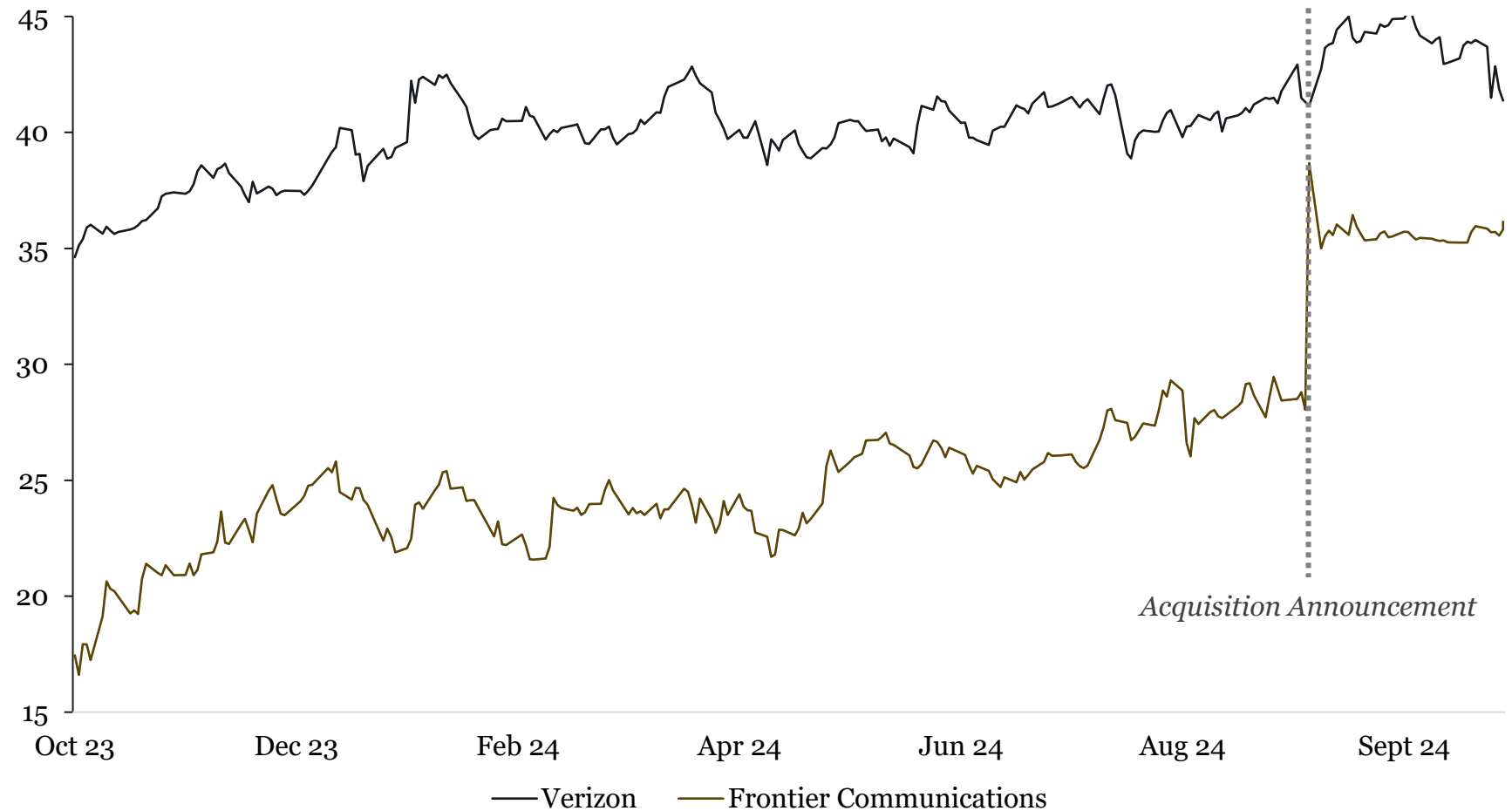
Deal Details & Rationale

Deal Details

\$20bn all-cash acquisition of the largest pure-play fiber internet provider in the U.S.

Frontier Communications' Share Price Jumps 38% Post-Acquisition Announcement

- On 5 September 2024, Verizon and Frontier Communications announced that they have entered into an agreement for Verizon to acquire Frontier Communications in a transaction that is expected to close in 18 months.
- The transaction is set to value Frontier Communications at \$20bn and will be an all-cash transaction
- Under the terms of the agreement, Verizon will acquire Frontier for \$38.50 per share in cash, representing a premium of 43.7% to Frontier's 90-Day volume-weighted average share price (VWAP) on 3 September 2024, the last trading day prior to media reports regarding a potential acquisition of Frontier.
- In response to the acquisition announcement, Frontier Communications' share price jumped 38% and has hovered around \$36 ever since.
- Centerview Partners and Morgan Stanley acted as financial advisors to Verizon, while PJT Partners served as financial advisor to the Strategic Review Committee of the Board of Directors of Frontier, and Barclays served as financial advisor to Frontier.



Deal Rationale

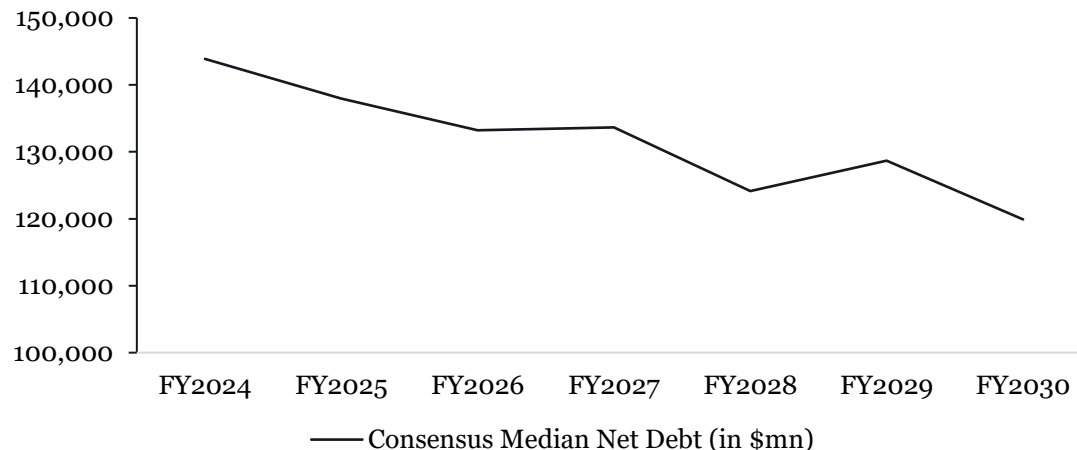
Integrating Frontier's cutting-edge fiber network into Verizon's leading portfolio of fiber and wireless assets

Customer & Strategic Benefits

- **Extends Verizon premium offerings and experience to Frontier's consumer and small business customers.** Frontier customers and those previously outside Verizon's fiber footprint are expected to gain more choice and access to Verizon's premium mobility, home internet, streaming and connected home offerings, alongside premium business products like Verizon Business Complete.
- **Creates market-leading broadband network with superior scale and distribution.** Frontier's consumer fiber network, one of the largest and fastest-growing nationally, can be immediately and seamlessly integrated upon closing directly into Verizon's award-winning Fios network, meeting existing Fios standards. Today, Verizon and Frontier have approximately 10 million fiber customers across 31 states and Washington D.C. with fiber networks passing over 25 million premises, and both companies expect to increase their fiber penetration between now and closing.
- **Unites Frontier's premium broadband offering with Verizon's premium mobile offering.** Combined Mobile and Home Internet customers show increased loyalty and have an improved rate of churn by approximately 50% for postpaid mobility, which is expected to improve Verizon's mobility economics.
- **Increases reach across more markets.** Verizon will gain access to Frontier's high-quality customer base in markets highly complementary to Verizon's core Northeast and Mid-Atlantic markets. Frontier's footprint offers substantial room for increased penetration in both fiber and mobility services and Verizon is well positioned with stores throughout Frontier's territory.
- **Aligns with Verizon's long-term strategic plan.** The acquisition of Frontier is consistent with Verizon's core strategy of growing and strengthening customer relationships. This transaction is expected to expand Verizon's share of the nationwide broadband market, building upon Verizon's two decades of leadership at the forefront of fiber.

Financial Benefits

- **Accretive to Verizon's earnings.** The transaction is expected to be accretive to Verizon's revenue and Adjusted EBITDA growth rates upon closing.
- **Drives significant cost synergies.** Verizon expects to realize at least \$500 million in run-rate cost synergies by year three from benefits of increased scale and distribution and network integration.
- **Maintains Verizon's financial strength, flexibility and consistent capital allocation approach.** Following the closing of the transaction, Verizon will continue to have a strong balance sheet and liquidity profile. The company will maintain its capital allocation priorities, characterized by prudent investment in the business, a commitment to maintaining an industry-leading dividend and continued debt reduction.



Acquirer Overview

Verizon (NYSE: VZ)

Communication Services | Integrated Telecommunication Services



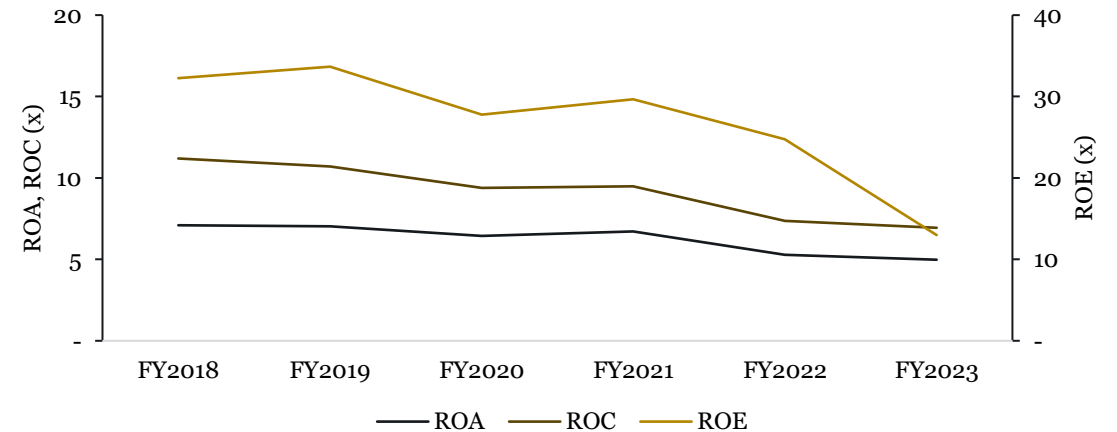
Business Overview

- Verizon Communications Inc. is a world-leading telecommunications firm based in the US. It has served its clients duly for over 20 years in providing wireless, broadband, and cabled services to both consumers and businesses. Verizon is the world's second-largest telecommunications firm, behind AT&T, when considering revenue.
- The company operates through two segments, Verizon Consumer Group (Consumer) and Verizon Business Group (Business).
- **Verizon Consumer Group.** Consumer segment provides consumer-focused wireless and wireline communications services and products. The company's wireless services are provided across one of the most extensive wireless networks in the United States (U.S.) under the Verizon family of brands and through wholesale and other arrangements. The company also provides fixed wireless access (FWA) broadband through its fifth-generation (5G) or fourth-generation (4G) Long-Term Evolution (LTE) networks as an alternative to traditional landline internet access. The company's wireline services are provided in nine states in the Mid-Atlantic and Northeastern U.S., as well as Washington D.C., over its 100% fiber-optic network through its Verizon Fios product portfolio and over a traditional copper-based network to customers who are not served by Fios.
- As of December 31, 2023, Consumer had approximately 115 million wireless retail connections (including FWA), of which 82% are postpaid connections. In addition, at December 31, 2023, Consumer had approximately 9 million total broadband connections (which includes Fios internet, Digital Subscriber Line (DSL) and FWA connections), and approximately 3 million Fios video connections.
- **Verizon Business Group.** Business segment provides wireless and wireline communications services and products, including FWA broadband, data, video and conferencing services, corporate networking solutions, security and managed network services, local and long-distance voice services and network access to deliver various Internet of Things (IoT) services and products. The company provides these products and services to businesses, government customers and wireless and wireline carriers across the U.S. and a subset of these products and services to customers around the world.

* In mn unless otherwise stated

Key Financials (as of 27 October 2024)*

Market Capitalisation	174,190	FY2023 EBITDA	47,870
Share Price	\$41.38	TTM Diluted EPS	\$2.31
FY2023 Revenue	134,240	TTM Price/EPS	14.84x
FY2023 Net Income	11,614	TEV/LTM EBITDA	6.56x



ESG Practices

- Verizon has committed to utilising 100% renewable energy by 2030, has issued Green Bonds, and aims to collect and recycle £10m worth of e-waste by 2026. On the social front, Verizon has spent nearly \$55bn on diverse suppliers in the last 10 years and has a diverse board with 12 members. Evidently, ESG practices are near the forefront of senior management's strategy and will continue to shape Verizon's actions in the coming years.

Target Overview

Frontier Communications (NASDAQ: FYBR)

Communication Services | Integrated Telecommunication Services



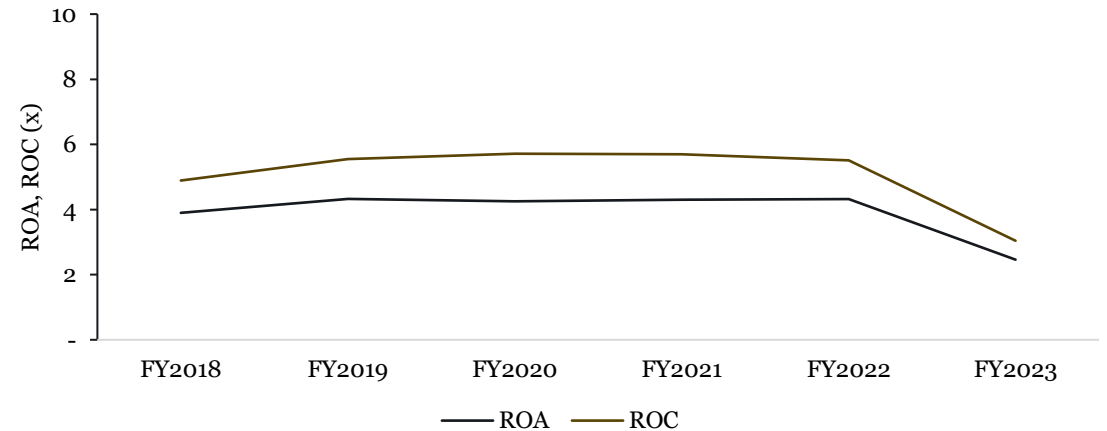
Business Overview

- Frontier Communications provides communications and technology services. The company offered gigabit speeds to 2.9 million broadband subscribers in 25 states as of December 31, 2023. The company is building critical infrastructure across the country with its fiber-optic network and cloud-based solutions, enabling secure high-speed connections.
- As of December 31, 2023, the company had approximately 6.5 million total locations passed with fiber, and more than doubled the company's fiber footprint since the company started the company's build in 2020. The company's build plan is solidified by multi-year agreements with key labor and equipment partners
- **Frontier Consumer Group.** The company's consumer customers are residential customers in single or multi-family units. The company provides broadband, video, voice and other value-added services and products to the company's consumer customers over both fiber and copper-based networks.
- **Frontier Business Group.** The company's business customers include larger enterprise customers, small and medium businesses ('SMB'), and wholesale customers.
- **Larger Enterprise:** These customers consist of Fortune 1000 companies, companies with multiple locations, large government entities, educational institutions, and non-profits.
- **Small and Medium Business:** These customers consist of single location and smaller multi-location companies, as well as mid-sized government entities, educational institutions, and non-profits.
- **Wholesale:** These customers are often referred to as carriers or service providers and use the company's network facilities to provide services to their customers. The company's wholesale customers include local, long distance, wireless, cable and other carriers. These companies need to access locations within Frontier's footprint to offer their services. Wholesale customers buy both voice and data services to supplement their own network infrastructure..

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Key Financials (as of 27 October 2024)*

Market Capitalisation	8,967	FY2023 EBITDA	2,189
Share Price	\$36.01	TTM Diluted EPS	\$0.12
FY2023 Revenue	5,751	TTM Price/EPS	176.21x
FY2023 Net Income	29	TEV/LTM EBITDA	7.30x



ESG Practices

- In terms of governance, the company has a dedicated Board of Directors and Executive Committee, which ensures accountability and oversight of ESG practices. Additionally, Frontier publishes an annual ESG report, providing transparency into its ESG initiatives and progress. Through these initiatives, Frontier Communications Parent, Inc. demonstrates its commitment to creating a positive impact on the environment and society while maintaining strong governance practices.

Valuation Analysis

DCF Analysis

Unlevered DCF for Acquirer (Verizon) and Target (Frontier Communications)

Acquirer

Implied Share Price Calculation*

Sum of PV of FCF	79,507
Exit TEV/EBITDA Multiple	6.56x
WACC	9.3%
Terminal Value	380,737
PV of Terminal Value	270,004
Enterprise Value	349,512
(-) Net Debt	176,532
Equity Value	172,980
Diluted Shares Outstanding	4,209
Implied Share Price	\$41.10

- Revenue was projected to grow at 3%, based on conservative historical data and management forecasts. COGS and SG&A expenses were set to increase as a percentage of revenue. For PP&E, we based growth on the average historical PP&E growth rate. D&A and CapEx were set as a percentage of the initial PP&E. We calculated growth for other current assets by averaging historical current asset margins and projected this on a straight line. For current liabilities, we increased accounts payable, accrued expenses, and deferred liabilities as a percentage of revenue. This allowed us to calculate net working capital.
- Using these assumptions, we built the DCF with unlevered free cash flows. The Weighted Average Cost of Capital was determined to be 9.3%, using an after-tax cost of debt of 7.2% and a cost of equity of 10.5%. This resulted in a base case of \$41.10, using 6.56x as the exit TEV/EBITDA multiple. This price is in line with the current share price of \$41.38.

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Target

Implied Share Price Calculation*

Sum of PV of FCF	3,698
Exit TEV/EBITDA Multiple	7.30x
WACC	8.4%
Terminal Value	22,188
PV of Terminal Value	14,792
Enterprise Value	18,490
(-) Net Debt	9,728
Equity Value	8,762
Diluted Shares Outstanding	249
Implied Share Price	\$35.19

- Revenue was projected to grow at 5%, based on historical data and management forecasts. COGS and SG&A expenses were set to increase as a percentage of revenue. For PP&E, we based growth on the average historical PP&E growth rate. D&A and CapEx were set as a percentage of the initial PP&E. For current assets, inventory growth was linked to days of inventory outstanding, and accounts receivable growth was linked to days sales outstanding. We also took into account Frontier's TEV as compared to Verizon and hence operating and gross margins expanding as unit fixed costs fall with expansion.
- Using these assumptions, we built the DCF with unlevered free cash flows. The Weighted Average Cost of Capital was determined to be 8.4%, using an after-tax cost of debt of 7.2% and a cost of equity of 9.1%. This resulted in a base case of \$35.19, using 7.30x as the exit TEV/EBITDA multiple. This price represents a 10% premium for the acquisition share price of \$38.50.

Trading Comparables Analysis

Median EV/LTM EBITDA Analysis for Acquirer (Verizon) and Target (Frontier Communications)

Acquirer

Peers	TEV/LTM EBITDA*
AT&T (NYSE: T)	7.16x
T-Mobile US (NYSE: TMUS)	12.14x
Comcast Corporation (NASDAQ: CMCSA)	6.55x
Charter Communications (NASDAQ: CHTR)	7.11x
Deutsche Telekom (XTRA: DTE)	7.31x
Median TEV/LTM EBITDA	7.16x
Implied TEV	342,749
(-) Net Debt	172,980
Implied Equity Value	169,769
Diluted Shares Outstanding	4,209
Implied Share Price	\$40.33

Target

Peers	TEV/LTM EBITDA*
Vodafone Idea (BOM: 532822)	16.99x
Lumen Technologies (NYSE: LUMN)	12.06x
Uscellar (NYSE: USM)	8.64x
Millicom International Cellular (NAS: TIGO)	4.89x
Kazakhtelecom (XKAZ: KZTK)	3.04x
Median TEV/LTM EBITDA	8.64x
Implied TEV	18,912
(-) Net Debt	9,728
Implied Equity Value	9,185
Diluted Shares Outstanding	249
Implied Share Price	\$36.89

- For the trading comparables analysis, we looked at selected peers in the Integrated Telecommunication Services sub-vertical which had similar TEV and market caps for Verizon and Frontier Communications. We also looked at peers outside of the U.S. to paint a more accurate picture of the median trading multiple of each firm.
- Verizon's implied share price is in line with its current share price of \$41.38. Peers used were all of similar market cap and play in the U.S. market (T, TMUS, CMCSA, CHTR) and the EU market (DTE).
- Frontier Communications' implied share price represents a 4% premium for the acquisition share price of \$38.50. The peers used were all of similar market cap and play in the U.S. market (LUMN, USM), the India market (532822), the LATAM market (TIGO) and the Kazakhstan market (KZTK).

* In mn unless otherwise stated

Deal Analysis & Commentary

SWOT Analysis & Commentary

Opportunities to scale up and invest in 5G development amidst a changing regulatory environment and intense competition

Strengths

- **Expanded Infrastructure.** The acquisition enhances Verizon's existing network infrastructure, particularly in fiber-optic capabilities. Frontier's established fiber network allows Verizon to broaden its high-speed internet offerings, particularly in rural and suburban areas.
- **Increased Market Share.** By acquiring Frontier, Verizon gains a significant number of new customers and market presence in regions where it had limited penetration. This can lead to improved economies of scale and increased revenue streams.
- **Focus on 5G and Broadband.** The acquisition aligns with Verizon's strategic focus on expanding its 5G network. By integrating Frontier's resources, Verizon can enhance its broadband services and leverage its 5G capabilities to offer better connectivity options to customers.

Opportunities

- **Technological Advancements.** Verizon can leverage Frontier's infrastructure to deploy next-generation technologies, such as smart home services and IoT applications, thereby attracting a tech-savvy customer base.
- **Market Diversification:** Expanding into new geographical areas with Frontier's customer base allows Verizon to diversify its market presence, reducing dependence on any single region for revenue.
- **Synergies and Cost Savings:** By integrating operations, Verizon can achieve cost efficiencies through streamlined processes, reduced redundancies, and improved operational capabilities. The deal is expected to generate at least \$500mn in annual run-rate cost synergies

Weaknesses

- **Debt Load.** The acquisition, valued at approximately \$20bn, could increase Verizon's debt. Managing this debt while maintaining profitability may become a concern, especially if the anticipated synergies do not materialize as quickly as expected.
- **Regulatory Scrutiny.** Given the size of the acquisition, it faced significant regulatory review. Any delays or conditions imposed by regulatory bodies could hinder the integration process and impact operational strategies.
- **Integration Challenges:** Merging two large organizations can be complex and time-consuming. There may be operational inefficiencies during the integration phase, potentially affecting service quality and customer satisfaction.

Threats

- **Changing Regulatory Environment.** Future regulatory changes could affect Verizon's operational flexibility. Increased regulations or policies aimed at promoting competition could constrain growth opportunities.
- **Intense Competition.** The telecommunications market is highly competitive, with established players like AT&T and newer entrants continually innovating. This competition could impact Verizon's ability to retain customers post-acquisition.
- **Technological Disruption.** Rapid technological changes in telecommunications, such as shifts towards wireless-only services or alternative internet providers, could challenge Verizon's growth strategy and necessitate continual adaptation.