

Non-GAAP Reconciliations

As of September 30, 2020

verizon

Definitions - Non-GAAP Measures

Non-GAAP Measures

Verizon's Financial and Operating Information includes financial information prepared in conformity with generally accepted accounting principles in the United States (GAAP) as well as non-GAAP financial information. It is management's intent to provide non-GAAP financial information to enhance the understanding of Verizon's GAAP financial information and it should be considered by the reader in addition to, but not instead of, the financial statements prepared in accordance with GAAP. Each non-GAAP financial measure is presented along with the corresponding GAAP measure so as not to imply that more emphasis should be placed on the non-GAAP measure. We believe that providing these non-GAAP measures in addition to the GAAP measures allows management, investors and other users of our financial information to more fully and accurately assess both consolidated and segment performance. The non-GAAP financial information presented may be determined or calculated differently by other companies and may not be directly comparable to that of other companies.

EBITDA and EBITDA Margin Related Non-GAAP Measures

Consolidated earnings before interest, taxes, depreciation and amortization (EBITDA), Segment EBITDA and Segment EBITDA Margin are non-GAAP financial measures that we believe are useful to management, investors and other users of our financial information as they are a widely accepted financial measures used in evaluating the profitability of a company and with its competitors.

Consolidated EBITDA is calculated by adding back interest, taxes and depreciation and amortization expense to net income.

Segment EBITDA is calculated by adding back segment depreciation and amortization expense to segment operating income. Segment EBITDA Margin is calculated by dividing Segment EBITDA by segment total operating revenues.

Consolidated Adjusted EBITDA and Consolidated Adjusted EBITDA Margin Related Non-GAAP Measures

Consolidated Adjusted EBITDA and Consolidated Adjusted EBITDA Margin are non-GAAP financial measures that we believe provide relevant and useful information to management, investors and other users of our financial information in evaluating the effectiveness of our operations and underlying business trends in a manner that is consistent with management's evaluation of business performance. We believe that Consolidated Adjusted EBITDA and Consolidated Adjusted EBITDA Margin are used by investors to compare a company's operating performance to its competitors by minimizing impacts caused by differences in capital structure, taxes and depreciation policies. Further, the exclusion of non-operational items and special items enables comparability to prior period performance and trend analysis.

Consolidated Adjusted EBITDA is calculated by excluding from Consolidated EBITDA the effect of the following non-operational items: equity in losses and earnings of unconsolidated businesses and other income and expense, net, and the following special items: impairment charges, severance charges, loss on spectrum license auction, acquisition and integration related charges and net gain from dispositions of assets and businesses. The impairment charges relate to goodwill impairment charges recognized as a result of the Company's annual goodwill impairment testing of its media business, Verizon Media, and the impairment charge of an investment in a media joint venture. Severance charges recorded during 2019 and 2018 relate to headcount reduction initiatives. Loss on spectrum license auction relates to the reclassification of spectrum licenses to assets held for sale at fair value as a result of Auction 103. Acquisition and integration related charges represent transaction expenses related to business acquisitions and incremental expenses directly incurred to integrate the acquired businesses into our operations. Net gain from dispositions of assets and businesses relates to the sale of various real estate properties and businesses.

Consolidated Adjusted EBITDA Margin is calculated by dividing Consolidated Adjusted EBITDA by Consolidated Operating Revenues.

Adjusted Earnings per Common Share (Adjusted EPS) and Adjusted EPS Growth Forecast

Adjusted EPS and Adjusted EPS Growth Forecast are non-GAAP financial measures that we believe are useful to management, investors and other users of our financial information in evaluating our operating results and understanding our operating trends without the effect of special items which could vary from period to period. We believe excluding special items provides more comparable assessment of our financial results from period to period.

Adjusted EPS is calculated by excluding from the calculation of reported EPS the effect of the following special items: net pension remeasurement charge, early debt redemption costs, loss on spectrum license auction, and net gain from dispositions of assets and businesses.

We have not provided a reconciliation for our Adjusted EPS Growth Forecast because we cannot, without unreasonable effort, predict the special items that could arise during 2020.

Adjusted Effective Income Tax Rate Attributable to Verizon Forecast (Adjusted ETR Forecast)

Adjusted ETR Forecast is a non-GAAP financial measure that we believe is useful to management, investors and other users of our financial information in assessing our effective income tax rate without the effect of special items which could vary from period to period. Adjusted ETR Forecast is calculated by dividing the Provision for income taxes by Net Income attributable to Verizon before tax after adjusting for the impact of special items.

We have not provided a reconciliation for our Adjusted ETR Forecast because we cannot, without unreasonable effort, predict the special items that could arise during 2020.

Definitions - Non-GAAP Measures

Net Unsecured Debt and Net Unsecured Debt to Consolidated Adjusted EBITDA Ratio

Net Unsecured Debt and Net Unsecured Debt to Consolidated Adjusted EBITDA Ratio are non-GAAP financial measures that we believe are useful to management, investors and other users of our financial information in evaluating Verizon's ability to service its unsecured debt from continuing operations.

Net Unsecured Debt is calculated by subtracting secured debt and cash and cash equivalents from the sum of debt maturing within one year and long-term debt. Net Unsecured Debt to Consolidated Adjusted EBITDA Ratio is calculated by dividing Net Unsecured Debt by Consolidated Adjusted EBITDA. For purposes of Net Unsecured Debt to Consolidated Adjusted EBITDA Ratio, Consolidated Adjusted EBITDA is calculated for the last twelve months.

Free Cash Flow

Free cash flow is a non-GAAP financial measure that reflects an additional way of viewing our liquidity that, when viewed with our GAAP results, provides a more complete understanding of factors and trends affecting our cash flows. We believe it is a more conservative measure of cash flow since capital expenditures are necessary for ongoing operations. Free cash flow has limitations due to the fact that it does not represent the residual cash flow available for discretionary expenditures. For example, free cash flow does not incorporate payments made on finance lease obligations or cash payments for acquisitions of businesses or wireless licenses. Therefore, we believe it is important to view free cash flow as a complement to our entire consolidated statements of cash flows.

Free cash flow is calculated by subtracting capital expenditures (including capitalized software) from net cash provided by operating activities.

Non-GAAP Reconciliations - Consolidated

Consolidated EBITDA, Consolidated Adjusted EBITDA and Consolidated Adjusted EBITDA Margin

(dollars in millions)

Unaudited	2018		2019				2020		
	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	
Consolidated Net Income	\$ 2,065	\$ 5,160	\$ 4,074	\$ 5,337	\$ 5,217	\$ 4,287	\$ 4,839	\$ 4,504	
Add/(subtract):									
Provision (benefit) for income taxes	(698)	1,628	1,236	1,586	(1,505)	1,389	1,348	1,347	
Interest expense ⁽¹⁾	1,199	1,210	1,215	1,146	1,159	1,034	1,089	1,044	
Depreciation and amortization expense	4,352	4,231	4,232	4,114	4,105	4,150	4,181	4,192	
Consolidated EBITDA	\$ 6,918	\$ 12,229	\$ 10,757	\$ 12,183	\$ 8,976	\$ 10,860	\$ 11,457	\$ 11,087	
Add/(subtract):									
Other (income) expense, net ⁽²⁾	\$ (1,865)	\$ (295)	\$ 1,312	\$ 110	\$ 1,773	\$ (143)	\$ 72	\$ 774	
Equity in losses (earnings) of unconsolidated businesses ⁽³⁾	(64)	6	13	1	(5)	12	13	9	
Impairment charges	4,591	—	—	—	186	—	—	—	
Severance charges	1,818	—	—	—	204	—	—	—	
Loss on spectrum license auction	—	—	—	—	—	1,195	—	—	
Acquisition and integration related charges ⁽⁴⁾	187	—	—	—	—	—	—	—	
Net gain from dispositions of assets and businesses	—	—	—	(261)	—	—	—	—	
Consolidated Adjusted EBITDA	\$ 11,585	\$ 11,940	\$ 12,082	\$ 12,033	\$ 11,134	\$ 11,924	\$ 11,542	\$ 11,870	
Consolidated Operating Revenues				\$ 32,894	\$ 34,775	\$ 31,610	\$ 30,447	\$ 31,543	
Consolidated Adjusted EBITDA Margin				36.6 %	32.0 %	37.7 %	37.9 %	37.6 %	
Consolidated Adjusted EBITDA - Year Over Year Change %								(1.4)%	
Consolidated Adjusted EBITDA Margin - Year Over Year Change								100 bps	

(1) Includes Early debt redemption costs, where applicable.

(2) Includes Pension and benefits mark-to-market adjustments and Early debt redemption costs, where applicable.

(3) Includes impairment charges, where applicable.

(4) Excludes depreciation and amortization expense, where applicable.

Non-GAAP Reconciliations - Consolidated

Adjusted Earnings per Common Share (Adjusted EPS)

(dollars in millions except per share amounts)

Unaudited				3 Mos.				3 Mos.
	Pre-tax	Tax	After-Tax	Ended	Pre-tax	Tax	After-Tax	Ended
				9/30/19				9/30/20
EPS				\$ 1.25				\$ 1.05
Net pension remeasurement charge	\$ 291	\$ (76)	\$ 215	0.05	\$ 1,092	\$ (279)	\$ 813	0.20
Net gain from dispositions of assets and businesses	(261)	37	(224)	(0.05)	—	—	—	—
	\$ 30	\$ (39)	\$ (9)	\$ —	\$ 1,092	\$ (279)	\$ 813	\$ 0.20
Adjusted EPS				\$ 1.25				\$ 1.25
Year over year change %								— %

Unaudited				9 Mos.				9 Mos.
	Pre-tax	Tax	After-Tax	Ended	Pre-tax	Tax	After-Tax	Ended
				9/30/19				9/30/20
EPS				\$ 3.42				\$ 3.19
Net pension remeasurement charge	\$ 195	\$ (51)	\$ 144	0.03	\$ 1,427	\$ (364)	\$ 1,063	0.26
Early debt redemption costs	1,544	(404)	1,140	0.28	102	(26)	76	0.02
Loss on spectrum license auction	—	—	—	—	1,195	(281)	914	0.22
Net gain from dispositions of assets and businesses	(261)	37	(224)	(0.05)	—	—	—	—
	\$ 1,478	\$ (418)	\$ 1,060	\$ 0.26	\$ 2,724	\$ (671)	\$ 2,053	\$ 0.50
Adjusted EPS				\$ 3.68				\$ 3.69
Year over year change								\$ 0.01

Note:

Adjusted EPS may not add due to rounding.

Net Unsecured Debt and Net Unsecured Debt to Consolidated Adjusted EBITDA Ratio

(dollars in millions)

Unaudited	12/31/18	3/31/19	6/30/19	9/30/19	12/31/19	3/31/20	6/30/20	9/30/20
Debt maturing within one year	\$ 7,190	\$ 8,614	\$ 8,773	\$ 7,830	\$ 10,777	\$ 11,175	\$ 6,651	\$ 5,770
Long-term debt	105,873	105,045	104,598	101,769	100,712	106,561	106,190	109,790
Total Debt	113,063	113,659	113,371	109,599	111,489	117,736	112,841	115,560
Less Secured debt	10,076	10,386	11,252	8,800	12,369	12,989	10,607	10,092
Unsecured Debt	102,987	103,273	102,119	100,799	99,120	104,747	102,234	105,468
Less Cash and cash equivalents	2,745	2,322	1,949	3,020	2,594	7,047	7,882	8,983
Net Unsecured Debt	\$ 100,242	\$ 100,951	\$ 100,170	\$ 97,779	\$ 96,526	\$ 97,700	\$ 94,352	\$ 96,485
Net Unsecured Debt to Consolidated Adjusted EBITDA Ratio				2.1x	2.0x	2.1x	2.0x	2.1x
Net Unsecured Debt year over year change								\$ (1,294)

Non-GAAP Reconciliations - Consolidated

Free Cash Flow

	(dollars in millions)	
Unaudited	9 Mos. Ended 9/30/19	9 Mos. Ended 9/30/20
Net Cash Provided by Operating Activities	\$ 26,748	\$ 32,472
Capital expenditures (including capitalized software)	(12,332)	(14,168)
Free Cash Flow	\$ 14,416	\$ 18,304
Year over year change		\$ 3,888
Year over year change %		27.0 %

Non-GAAP Reconciliations - Segments

Segment EBITDA and Segment EBITDA Margin

Consumer

	(dollars in millions)				
	3 Months	3 Months	3 Months	3 Months	3 Months
	Ended	Ended	Ended	Ended	Ended
Unaudited	9/30/19	12/31/19	3/31/20	6/30/20	9/30/20
Operating Income	\$ 7,489	\$ 6,886	\$ 7,282	\$ 7,064	\$ 7,437
Add Depreciation and amortization expense	2,806	2,772	2,820	2,849	2,862
Segment EBITDA	\$ 10,295	\$ 9,658	\$ 10,102	\$ 9,913	\$ 10,299
Total operating revenues	\$ 22,706	\$ 24,207	\$ 21,765	\$ 21,113	\$ 21,736
Operating Income Margin	33.0 %	28.4 %	33.5 %	33.5 %	34.2 %
Segment EBITDA Margin	45.3 %	39.9 %	46.4 %	47.0 %	47.4 %
Segment EBITDA - Year over year change					— %
Segment EBITDA Margin - Year over year change					210 bps

Business

	(dollars in millions)				
	3 Months	3 Months	3 Months	3 Months	3 Months
	Ended	Ended	Ended	Ended	Ended
Unaudited	9/30/19	12/31/19	3/31/20	6/30/20	9/30/20
Operating Income	\$ 977	\$ 666	\$ 954	\$ 946	\$ 923
Add Depreciation and amortization expense	1,010	1,007	1,014	1,014	1,027
Segment EBITDA	\$ 1,987	\$ 1,673	\$ 1,968	\$ 1,960	\$ 1,950
Total operating revenues	\$ 7,885	\$ 8,071	\$ 7,681	\$ 7,482	\$ 7,749
Operating Income Margin	12.4 %	8.3 %	12.4 %	12.6 %	11.9 %
Segment EBITDA Margin	25.2 %	20.7 %	25.6 %	26.2 %	25.2 %
Segment EBITDA - Year over year change					(1.9)%
Segment EBITDA Margin - Year over year change					— bps