8th Annual Brooks Case Competition – Spring 2017

Verizon’s Acquisition of Yahoo: Deal or No Deal?

I. The Situation

On Tuesday, July 26, 2016, Alex Harrington, Equity Analyst for Brooks Associates, Inc., was working on his quarterly industry report when he received a notification alerting that Yahoo’s management had decided to accept an acquisition offer by Verizon. Brooks Associates had a significant number of Verizon’s shares in its Artemis Global Growth Fund and Harrington felt the need to discuss the fund’s exposure to the impending acquisition with the fund’s Managing Director, Rachel Adams, as soon as he could. The fund was set up to achieve a superior long-term capital return by investing mainly in large cap stocks of both domestic and foreign companies. The fund had about $650 million under management and its benchmark index was the FTSE Global Large Cap Equity Series.

A quick glance of the alert indicated that the deal was worth about $4.83 billion, which was far below Yahoo’s market value of $37.2 billion as of July 22, 2016. However, the deal excluded Yahoo’s 15% stake in Alibaba, a Chinese online retailer, and its 35.5% stake in Yahoo Japan, which were estimated to have a combined value of approximately $40 billion. Hence, investors were essentially putting a negative valuation on Yahoo’s core businesses, but Verizon was willing to pay a significant premium to acquire Yahoo to get a hold of its media content and internet advertising market share. Harrington realized that the deal represented a significant risk for Verizon and the success of the acquisition would depend on Verizon’s ability to incorporate Yahoo’s internet business into its operation.

II. Company Background

Yahoo Inc.

Yahoo was founded by Jerry Yang and David Filo, who were graduate students at Stanford University in 1994. They created a simple index of webpages called ‘Jerry and David's guide to the World Wide Web’, which quickly attracted many users to find content on the internet. The company was incorporated in 1995 and was listed on Nasdaq in April 1996. By the late 1990s, Yahoo was considered as one of the pioneering internet companies and was growing rapidly by adding various services and acquiring other companies. It also survived the dot-com collapse, which decimated many technology companies in the early 2000s. Yahoo added its own search engine in 2004 to compete directly against Google. However, Yahoo struggled in the late 2000s when internet user preferences shifted toward Google’s services.

In February 2008, Microsoft offered $44.6 billion to acquire Yahoo, which represented a significant premium (62%) over the market price. At that time, Microsoft was under pressure to build internet search and advertising businesses that would rival Google, and acquiring Yahoo was a quick way to propel the company into the growing internet advertising market. However, Yahoo's management rejected the offer, claiming it to be a substantial undervaluation of its businesses and reportedly told Microsoft that they wanted more than a 100% mark-up in premium. The negotiation between Microsoft and Yahoo eventually broke down and the deal was called off three months later in May 2008.

After the failed merger with Microsoft, Yahoo's businesses continued to struggle and the company went through a series of layoffs and reorganizations. Its next two non-interim CEOs, Carol Bartz and Scott Thompson, cut a large portion of its workers and eliminated many business lines to save costs. In 2012, Yahoo hired Marissa Mayer as its president and CEO. Mayer was a long-time executive at Google and she oversaw many of Google's core product developments. Within her first year alone, Mayer made about 20 acquisitions to refocus Yahoo's product offerings. Mayer's key deals included Tumblr, which was acquired for $1.1 billion to strengthen Yahoo's business reach in social media, and BrightRoll, which was acquired for $640 million to enhance Yahoo's video advertising.

Despite these efforts, Yahoo's financial performance deteriorated even further. In 2015, its revenue reached $4.97 billion, almost unchanged from 2011 ($4.98 billion). Its operating losses totaled $134.9 million in 2015, compared to $824.8 million operating profits in 2011. Yahoo's stock price rose to $33.26 at the end of 2015 from $16.13 at the end of 2011, but this was a drop from $50.51 at the end of 2014.

In February 2016, Yahoo had to take a $4.5 billion write-down in the value of many of its key brands, including a $230 million charge in the devaluation of Tumblr. Consequently, Yahoo announced it was laying off 15% of its workforce with the goal of settling on 9,000 employees by year-end, a 42% reduction from its 2012 count. While this would free up $400 million in cash, Yahoo would gain an additional $1-2 billion from selling off its nearly 1,000 patents, along with its real estate holdings and other non-core assets. Yahoo discontinued seven of its digital magazines, including those focusing on food, parenting, and health.

Yahoo's long-term goal was to simplify its product portfolio, and focus (going forward) on its core assets, which include search, mail, video sites, social network Tumblr, and its information platforms relating to news, sports, finance, and lifestyle. Much of its value was derived from obtaining user data for online advertising purposes. Yahoo eventually wanted to grow their advertising revenue to a level whereby they could compete against Google and Facebook. According to CEO Marissa Mayer, the aim was to move further toward mobile phones and shift the company's emphasis away from Alibaba and desktop computers.

In early 2016, Yahoo was under significant pressure from some of its hedge-fund backers (e.g. – Spring Owl Asset Management) and activist investors (e.g. – Starboard Value) to put themselves up for sale via auction in the upcoming summer months. Otherwise, the threat of a proxy fight loomed, which could lead to the overthrow of Yahoo's nine-member Board of Directors and its CEO Marissa Mayer. The investors' discontent with Mayer's tenure as CEO was based upon a record of wasteful spending and extravagant missteps. Examples included $2.8 billion spent on failed acquisitions that did not relate directly to Yahoo's core businesses, $450 million on free food for Yahoo employees, $9 million on free smartphones for Yahoo employees, and $7 million on a *Great Gatsby*-themed holiday party.

Mayer was also criticized for micromanaging her staff and rolling back Yahoo's previous policy of allowing its employees to telecommute. Mayer's defenders countered that high-risk acquisitions and the generous expensing of employee benefits were standard practices in Silicon Valley, and more importantly, they claimed that Mayer's efforts of turning around Yahoo were doomed from the start. A fairer question might be whether Yahoo's decline was more due to a failed vision and strategic plan 15 years earlier (when Google exploded onto the scene at Yahoo's expense) rather than the alleged mismanagement under Mayer's recent term as CEO.

By April 2016, Mayer finally gave in to the pressure from activist investors to spinoff Yahoo's stake in Alibaba and sell the remaining company to outside bidders. The initial list of possible suitors included Google, Microsoft, Verizon and several private equity firms such as General Atlantic, TPG and KKR. Also, in early May 2016, AT&T ended a 15-year partnership with Yahoo, which had previously contributed about $100 million annually to Yahoo's bottom line.

On the positive side, about 1 billion users each month collectively visited Yahoo's catalogue of web properties. In addition, there were 600 million users of Yahoo mobile devices, and Yahoo hoped to increase this count further as it expands its mobile search capabilities. These numbers were considered high enough for analysts to put a preliminary value of Yahoo's core businesses anywhere from $3.4 – 4.3 billion. The reason why this figure was positive despite Yahoo's market cap falling several billion dollars short of the estimated value of its ownership holdings in Alibaba and Yahoo Japan was that the positive valuation assumed Yahoo would sell all of its stock holdings (while also paying the full corporate tax rate).

Verizon Communications Inc.

Verizon traced its roots to Bell Atlantic, which was one of the Baby Bells that were spun off from AT&T following the U.S. Department of Justice antitrust suit in 1982. Bell Atlantic changed its name to Verizon in 2000 and it became the largest local telephone company in the U.S. In addition, Verizon formed a wireless communications joint venture, Verizon Wireless, when it combined its wireless business with Vodafone's AirTouch and GTE's wireless division in 2000. In 2004, Verizon replaced AT&T as a member of the Dow Jones Industrial Average.

In the mid-2000s, Verizon began divesting its wireline operations and phone directory business to concentrate its efforts in wireless, internet data and TV/video business. It sold off its wireline businesses in many states to FairPoint Communications in 2007 and to Frontier communications in 2009 and 2015. Verizon also made a series of acquisitions to grow its core business; it bought MCI for $7.6 billion in 2005, Terremark for $1.4 billion in 2011, Telematics for $612 million in 2012, and AOL for $4.4 billion in 2015. The company also bought out the joint venture stake in Verizon Wireless from Vodafone for $130 billion in 2013.

Verizon's financial performance remained solid in 2015 with total revenue of $131.6 billion, operating profits of $33.0 billion, and net income of $17.9 billion, which showed marked improvements over the corresponding 2011 numbers, when they had sales of $110.8 billion, operating profits of 12.9 billion, and net income of $2.4 billion. By the second quarter of 2016, Verizon was leading the U.S. wireless industry with 142.7 million subscribers and quarterly revenue of $16.7 billion. By comparison, its closest competitor, AT&T, had 131.8 million subscribers and quarterly revenue of $14.9 billion. However, not every aspect of Verizon's business was rosy; its FiOS TV service grew at a significantly slower rate of 4% in 2015, a dramatic decline from the annual average growth rate of over 20% prior to 2011.

Meanwhile, the communication and media industries faced enormous challenges as consumers began shifting away from traditional TV, voice and texting services. Instead, they were seen migrating toward online data, streaming, and mobile content. Hence, Verizon was under increasing competitive pressure, not only from telecommunication firms such as AT&T, but also from media/cable companies like Comcast. To improve its mobile streaming and digital video advertising business, Verizon increasingly focused on acquiring media assets and invested heavily in internet TV (IPTV) technology, which led to its interest in acquiring Yahoo when the company announced that it was putting their core internet business up for sale.

Verizon's long-term goal, which might only be possible via mergers and acquisitions, was to compete with Google and Facebook for ad revenue, which currently formed a near oligopoly in market share. Verizon had spent over $10 billion on digital purchases since 2015 since they could no longer rely on cell phone subscriber growth to become larger due to that market being saturated. Verizon was only interested in acquiring Yahoo's core assets, and the deal would not include Alibaba, Yahoo-Japan, or Yahoo's patents in any possible scenarios. It was thought that Verizon might be especially well suited to turn Yahoo around, as they could combine Yahoo's web businesses with its own growing online advertising businesses.

III. The Proposed Acquisition

For Verizon, buying Yahoo would be consistent with their new mobile-video strategy, where free contents were subsidized by advertising dollars. Verizon's main competitor was AT&T, which had recently achieved growth by selling Direct TV to their customers. Verizon's wireless business had matured to the point where further subscriber growth was unlikely, so they needed to seek growth opportunities elsewhere to keep up with AT&T. In fact, Verizon spent over $10 billion on digital purchases since 2015. Furthermore, other cellular providers (like T-Mobile) had been eating into Verizon's wireless market share by offering lower prices and forcing Verizon to cut their prices in order to compete against them.

Compared to other potential bidders for Yahoo's core assets, which were mostly private-equity or venture capital firms, Verizon was able to offer a higher price since they were less constrained by the necessity for Yahoo to yield a future profit stream to justify the sale to their investors. However, Verizon was also trying to improve their credit rating, which took a hit following the mammoth $130 billion purchase of Vodaphone's stake in the wireless joint venture in 2013. Thus, they could not afford to be perceived as overpaying for Yahoo, especially since many analysts believed that Yahoo's fair valuation was continually shrinking along with its revenues and profits. Furthermore, Yahoo's managers, including CEO Marissa Mayer, did not address questions about Yahoo's future prospects to a high enough degree of satisfaction for many financial analysts.

The $4.83 billion purchase price of Yahoo by Verizon, announced in late July 2016, included not only Yahoo's core assets (which at that time had sunk to about $3 billion of the total) but some of its real estate holdings. Verizon was expected to retain the Yahoo brand rather than enveloping it with their own name. The Yahoo acquisition would further diversify Verizon's asset portfolio, which already included Huffington Post, Tech Crunch, and go90 (their upstart online video attempt). Verizon's goal was to achieve $20 billion in revenue and 2 billion users by 2020, and Yahoo certainly would help them in these regards. It was revealed that, in the last round of the auction, Verizon had to raise their bid by $1 billion for Yahoo in order to fend off a bid from Dan Gilbert, owner of both Quicken Loans and the 2016 NBA champion Cleveland Cavaliers. In the end, Gilbert actually matched Verizon's $4.8 billion price, but Yahoo decided to go with Verizon anyway because they thought that Verizon's existing asset portfolio was a better fit for what Yahoo offered, which in turn made the Yahoo core asset portfolio more valuable.

One of the key players in the acquisition was former AOL CEO Tim Armstrong, who was retained by Verizon when AOL was acquired in 2015. With Verizon, he promoted 'empire-building plans' to grow their digital advertising share, and he considered that purchasing Yahoo was a step in the right direction. Yahoo, through its approximately 1 billion users, offered the tremendous scale necessary for micro-level mass advertising to gain traction in the display ad market. Verizon's purchase of AOL also helped in this capacity, but did not provide the necessary scale for Verizon to make a serious splash. Many analysts felt that Armstrong would succeed Marissa Meyer if a Verizon/Yahoo merger took place since he was more well-received by big-name Madison Avenue advertising firms.

Marni Walden, Verizon's President of product innovation and new business, along with Tim Armstrong, was expected to lead efforts to transition Verizon into a digital information powerhouse following the acquisition of Yahoo. At the time of the announced sale, Yahoo was still the world's 3rd-most visited website with total ad revenue of $4.2 billion. However, both Google (at $67.4 billion) and Facebook (at $17.1 billion) were outperforming Yahoo and Verizon by a wide margin, especially in the fast-growing mobile ad market. Hence, Verizon hoped that the Yahoo acquisition would enable them to grow internet ad revenues to compete better against Google and Facebook.

IV. Security Breaches Following the Merger Announcement

On September 22, 2016, more than 2 months after the merger announcement date, Yahoo disclosed for the first time that it was exposed to a significant security breach back in 2014. More specifically, about 500 million of its users had their e-mail accounts hacked, the information of which might have been possibly sold to a foreign intelligence agency. Among those hacked were 150,000 U.S. Government and military employees. In addition to e-mail content, leaked data included personal calendars, contact lists, and travel plans. Consequently, anyone with a Yahoo account was asked to change his or her password as a result.

The key issue, from Verizon's perspective, was whether or not this new information would have a 'material adverse effect' on the valuation of Yahoo's core businesses. If so, Verizon could contractually back out of the deal (if they choose to do so), or at least renegotiate for a lower purchase price. Another alternative was that the existing purchase price of $4.8 billion could be retained, conditioned on Yahoo assuming sole financial responsibility for any future liabilities resulting from the hack; however, this would assume that Yahoo's overall value (including its reputation) was not significantly disrupted by the security breach.

On December 15, 2016, while Verizon and Yahoo continued to sort out the details from the first hack, a second, even larger, breach was announced; it reportedly occurred back in 2013. This time, 1 billion users were potentially affected, although some of these could be the same accounts that were hacked in the 2014 breach. Investors worried that the deal would dissolve after this second announcement, but so far, the main negative impact from the breaches (besides increased liabilities from the additional exposure) was a postponement of the potential merger closing date from March 2017 to June 2017.

Another worrisome sign was that the SEC started investigating whether Yahoo should have disclosed either or both of the security breaches prior to the sale announcement in July 2016; some believed that Yahoo might have known about the hacks before the announcement. Incidentally, on January 16, 2017, Yahoo was officially renamed Altaba. It was also announced (as expected) that Yahoo's CEO, Marissa Meyer, was expected to resign at the conclusion of the pending sale.

Questions/Issues of Emphasis for Oral Presentation/Written Report:

Instructions: You are REQUIRED to answer questions 1 AND 2. In addition, you are required to address **at least one out of four additional questions from questions 3, 4, 5, and 6**. Your responses to these three (or more) questions must be included in your written report.

Due to time constraints, **you are allowed to answer just questions 1 and 2 during your oral presentation**. However, you may include answers to the remaining question(s) if you are inclined to do so.

Caution: With the exception of Question 6, **you MAY NOT rely on any information about what happened to Yahoo and Verizon after the case date (July 23, 2016)**; you may make future projections, and can use any historical data up to the valuation date, but you will lose points if you make unsupported decisions just to replicate what actually transpired between July 23, 2016 and today.

1) What is the motivation for each company to enter into this merger? More specifically, how does Verizon benefit from buying Yahoo, and how does Yahoo benefit (structurally) from giving up a large portion of its core business to another entity? In your answer, discuss the strengths and weaknesses of both companies that may relate to the primary reasons for this deal.

2) Ignoring the Alibaba and Yahoo-Japan portions of the company, estimate the fair market value for the Yahoo's remaining core assets. Your answer must include WACC estimates for both Yahoo and Verizon, plus your reasoning for selecting the appropriate discount rate for the valuation. Based on your analysis, determine which of the two companies (Yahoo or Verizon) is getting a better deal at the actual proposed price of $4.83 billion. Also, comment on the idea that the winning buyer of an auction may have to overpay to win the deal.

3) Evaluate the recent financial performance for both companies with respect to their industry peers. For example, use the balance sheets and income statements provided to perform a financial statement analysis. In addition, how does each company stack up relative to its competitors in size, growth rates, and advertising revenue?

4) Are there any regulatory concerns that might arise if both Verizon and Yahoo continue with their plans to complete the merger? For example, are there any antitrust/competitive concerns within either industry? You may cite previous proposed mergers that the Justice Department has blocked.

5) Was Yahoo's decline from the time of the Internet bubble (1999-2001) to more recent years (2015-2016) more due to decisions that were made about 15 years earlier, or decisions that were made under CEO Marissa Mayer's leadership? Is there anything Mayer could have done differently to turn around Yahoo?

6) Discuss the impact of the two Yahoo's security breach announcements on Verizon's continued intent to complete the merger. Comment on how the purchase price for Yahoo could be affected, or on the need to develop contractual obligations to cover future liabilities from each hack's fallout.

Exhibit 1. Yahoo Inc. – Balance Sheet ($ millions)

FY	2011	2012	2013	2014	2015
Cash & Equivalents	2,055.6	4,184.0	3,407.9	7,995.3	5,886.7
Net Receivables	1,042.8	1,050.2	1,017.0	1,116.2	1,435.7
Inventories	-	-	-	-	-
Prepaid Expenses	81.9	74.3	103.1	132.3	87.8
Other Current Assets	272.3	344.3	497.9	455.3	97.1
Total Current Assets	**3,452.5**	**5,652.7**	**5,025.9**	**9,699.1**	**7,507.3**
Net PP&E	1,730.9	1,685.8	1,488.5	1,487.7	1,547.3
Investments at Equity	4,749.0	2,840.2	3,426.3	2,489.6	2,503.2
Other Investments	506.0	2,681.9	1,614.6	42,383.1	32,394.0
Intangibles	4,155.4	3,980.7	5,097.5	5,634.5	1,155.4
Deferred Charges	-	-	-	-	-
Other Assets	189.0	261.9	152.2	266.4	96.7
TOTAL ASSETS	**14,782.8**	**17,103.3**	**16,805.0**	**61,960.3**	**45,204.0**
Accounts Payable	166.6	184.8	138.0	238.0	208.7
Taxes Payable	10.9	10.6	107.0	3,017.3	4.2
Accrued Expenses	588.0	593.1	572.2	660.1	684.8
LT Debt Due In One Year	-	-	-	-	-
Notes Payable	-	-	-	-	-
Other Current Liabilities	441.9	501.7	523.0	613.2	379.7
Total Current Liabilities	**1,207.4**	**1,290.2**	**1,340.3**	**4,528.6**	**1,277.4**
Long Term Debt	-	-	1,110.6	1,170.4	1,233.5
Deferred Taxes	407.8	11.3	172.5	-	12,312.0
Other Liabilities	586.2	1,196.1	1,051.0	17,475.7	1,301.7
TOTAL LIABILITIES	**2,201.4**	**2,497.7**	**3,674.4**	**23,174.8**	**16,124.5**
Common Stock	1.2	1.2	1.0	0.9	1.0
Capital Surplus	9,825.9	9,563.3	8,688.3	8,496.7	8,807.3
Retained Earnings	3,130.2	6,363.7	4,585.8	30,956.7	21,146.8
Less: Treasury Stock	416.2	1,368.0	200.2	712.5	911.5
Common Equity	12,541.1	14,560.2	13,074.9	38,741.8	29,043.5
Stockholder's Equity - Parent	12,541.1	14,560.2	13,074.9	38,741.8	29,043.5
Nonredeemable Noncontrolling Int.	40.3	45.4	55.7	43.8	35.9
Stockholder's Equity - Total	**12,581.3**	**14,605.6**	**13,130.6**	**38,785.6**	**29,079.4**
TOTAL LIABILITIES & EQUITY	**14,782.8**	**17,103.3**	**16,805.0**	**61,960.3**	**45,204.0**

Source: Compustat

Exhibit 2. Yahoo Inc. – Income Statement ($ millions/millions except per share items)

FY	2011	2012	2013	2014	2015
Sales	**4,984.2**	**4,986.6**	**4,680.4**	**4,618.1**	**4,968.3**
Cost of Goods Sold	888.0	1,001.8	765.2	758.5	1,547.2
Gross Profit	4,096.2	3,984.8	3,915.2	3,859.6	3,421.1
SG&A	2,623.2	2,527.6	2,708.9	3,016.2	2,946.4
Operating Income Before Deprec.	1,473.0	1,457.1	1,206.3	843.5	474.7
Depreciation & Amortization	648.2	654.6	629.0	606.6	609.6
Operating Profit	**824.8**	**802.5**	**577.3**	**236.9**	**(134.9)**
Interest Expense	5.0	5.0	14.3	68.9	71.9
Non-Operating Income/Expense	509.1	726.0	1,034.3	1,274.6	390.8
Special Items	(24.4)	4,367.2	(67.3)	10,127.6	(4,624.7)
Pretax Income	1,304.4	5,890.6	1,530.0	11,570.2	(4,440.7)
Total Income Taxes	241.8	1,940.0	153.4	4,038.1	(89.6)
Noncontrolling Interest - Inc Acc	13.8	5.1	10.3	10.4	8.0
Adjusted Net Income	**1,048.8**	**3,945.4**	**1,366.3**	**7,521.7**	**(4,359.1)**
Cash Dividends	-	-	-	-	-
Stock Price-Close Fiscal Year	16.13	19.90	40.44	50.51	33.26
Com Shares Outstanding	1,190.01	1,115.23	1,014.34	936.84	945.85

Source: Compustat

Exhibit 3. Verizon Communications Inc. – Balance Sheet ($ millions)

FY	2011	2012	2013	2014	2015
Cash & Equivalents	13,954.0	3,563.0	54,129.0	11,153.0	5,070.0
Net Receivables	11,822.0	12,598.0	12,444.0	13,997.0	13,460.0
Inventories	940.0	1,075.0	1,020.0	1,153.0	1,252.0
Prepaid Expenses	-	-	-	-	-
Other Current Assets	4,223.0	3,999.0	3,401.0	3,320.0	2,498.0
Total Current Assets	**30,939.0**	**21,235.0**	**70,994.0**	**29,623.0**	**22,280.0**
Net PP&E	88,434.0	88,642.0	88,956.0	89,947.0	83,541.0
Investments at Equity	3,403.0	3,306.0	3,329.0	677.0	796.0
Other Investments	1,909.0	1,550.0	1,285.0	3,554.0	2,974.0
Intangibles	102,485.0	107,816.0	106,181.0	105,708.0	120,244.0
Deferred Charges	-	-	-	-	-
Other Assets	3,291.0	2,673.0	3,353.0	3,199.0	14,805.0
TOTAL ASSETS	**230,461.0**	**225,222.0**	**274,098.0**	**232,708.0**	**244,640.0**
Accounts Payable	4,194.0	4,740.0	4,954.0	5,598.0	6,391.0
Taxes Payable	1,078.0	1,196.0	1,556.0	1,457.0	2,054.0
Accrued Expenses	9,417.0	10,246.0	9,943.0	9,625.0	10,917.0
LT Debt Due In One Year	2,915.0	3,869.0	3,486.0	2,397.0	6,325.0
Notes Payable	1,934.0	500.0	447.0	338.0	164.0
Other Current Liabilities	11,223.0	6,405.0	6,664.0	8,649.0	9,201.0
Total Current Liabilities	**30,761.0**	**26,956.0**	**27,050.0**	**28,064.0**	**35,052.0**
Long Term Debt	50,303.0	47,618.0	89,658.0	110,536.0	103,705.0
Deferred Taxes	25,060.0	24,677.0	28,639.0	41,578.0	45,484.0
Other Liabilities	38,429.0	40,438.0	33,335.0	38,854.0	42,557.0
TOTAL LIABILITIES	**144,553.0**	**139,689.0**	**178,682.0**	**219,032.0**	**226,798.0**
Common Stock	297.0	297.0	297.0	424.0	424.0
Capital Surplus	38,227.0	38,430.0	38,360.0	11,579.0	11,624.0
Retained Earnings	2,448.0	(1,499.0)	4,140.0	3,558.0	11,796.0
Less: Treasury Stock	5,002.0	4,071.0	3,961.0	3,263.0	7,416.0
Common Equity	35,970.0	33,157.0	38,836.0	12,298.0	16,428.0
Stockholder's Equity - Parent	35,970.0	33,157.0	38,836.0	12,298.0	16,428.0
Nonredeemable Noncontrolling Int.	49,938.0	52,376.0	56,580.0	1,378.0	1,414.0
Stockholder's Equity - Total	**85,908.0**	**85,533.0**	**95,416.0**	**13,676.0**	**17,842.0**
TOTAL LIABILITIES & EQUITY	**230,461.0**	**225,222.0**	**274,098.0**	**232,708.0**	**244,640.0**

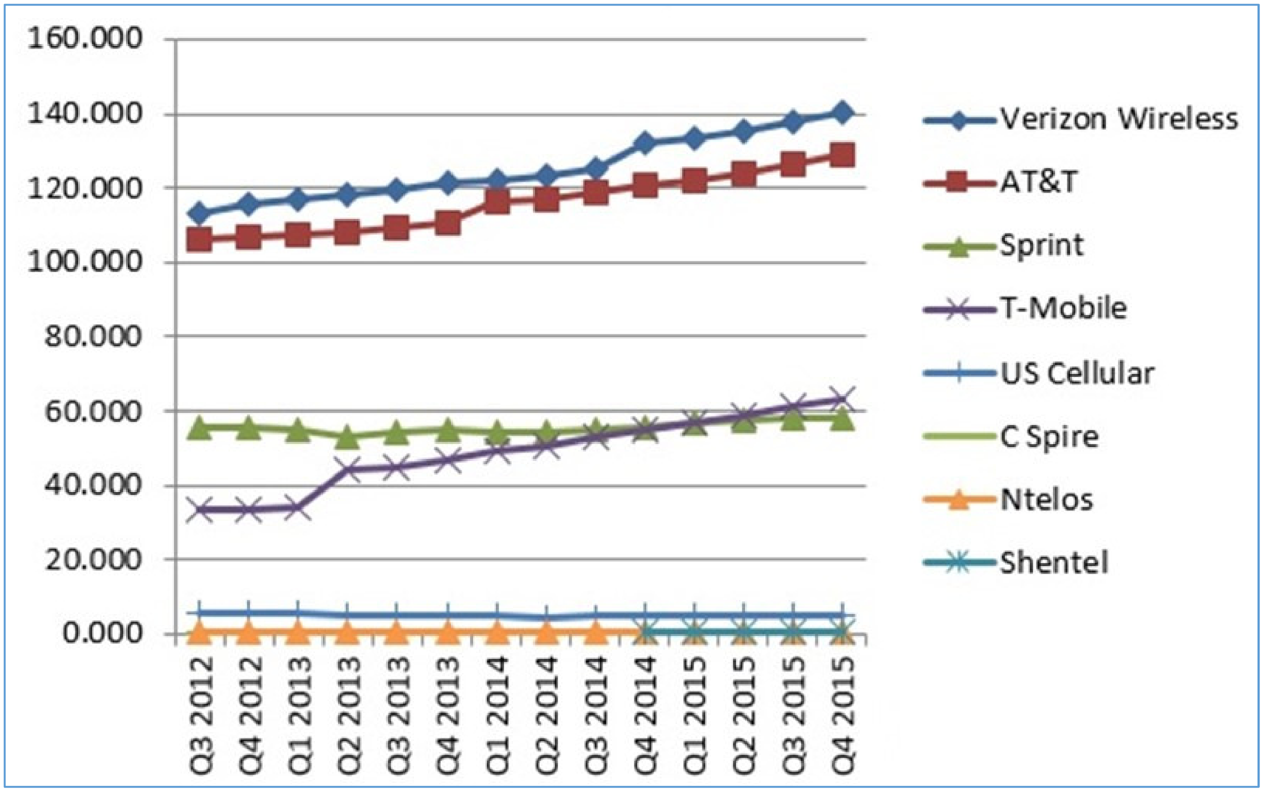
Source: Compustat

Exhibit 4. Verizon Communications Inc. – Income Statement ($ millions/millions except per share items)

FY	2011	2012	2013	2014	2015
Sales	**110,875.0**	**115,846.0**	**120,550.0**	**127,079.0**	**131,620.0**
Cost of Goods Sold	45,875.0	45,916.0	44,887.0	49,931.0	52,557.0
Gross Profit	65,000.0	69,930.0	75,663.0	77,148.0	79,063.0
SG&A	35,624.0	39,331.0	27,089.0	41,016.0	29,986.0
Operating Income Before Deprec.	29,376.0	30,599.0	48,574.0	36,132.0	49,077.0
Depreciation & Amortization	16,496.0	16,460.0	16,606.0	16,533.0	16,017.0
Operating Profit	**12,880.0**	**14,139.0**	**31,968.0**	**19,599.0**	**33,060.0**
Interest Expense	3,269.0	2,977.0	2,721.0	4,891.0	5,504.0
Non-Operating Income/Expense	972.0	814.0	930.0	462.0	684.0
Special Items	(100.0)	(2,079.0)	(900.0)	100.0	-
Pretax Income	10,483.0	9,897.0	29,277.0	15,270.0	28,240.0
Total Income Taxes	285.0	(660.0)	5,730.0	3,314.0	9,865.0
Noncontrolling Interest - Inc Acc	7,794.0	9,682.0	12,050.0	2,331.0	496.0
Adjusted Net Income	**2,404.0**	**875.0**	**11,497.0**	**9,625.0**	**17,879.0**
Cash Dividends	5,555.00	5,230.00	5,936.00	7,803.00	8,538.00
Stock Price-Close Fiscal Year	40.12	43.27	49.14	46.78	46.22
Com Shares Outstanding	2,834.02	2,858.57	2,862.00	4,154.96	4,073.18

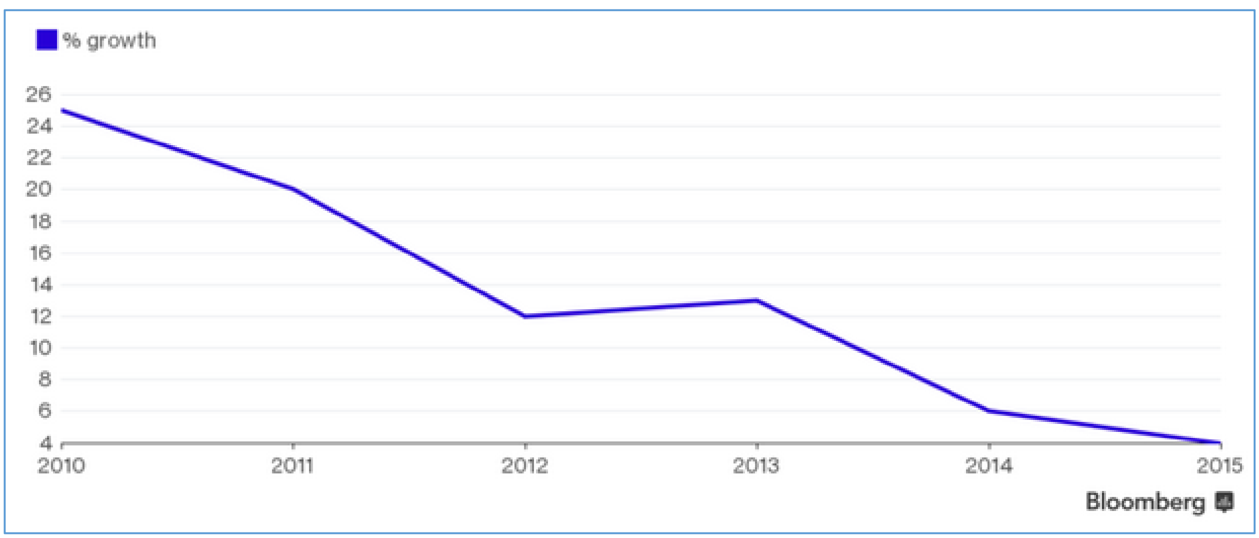
Source: Compustat

Exhibit 5. U.S. Wireless Market - Subscribers (in millions)



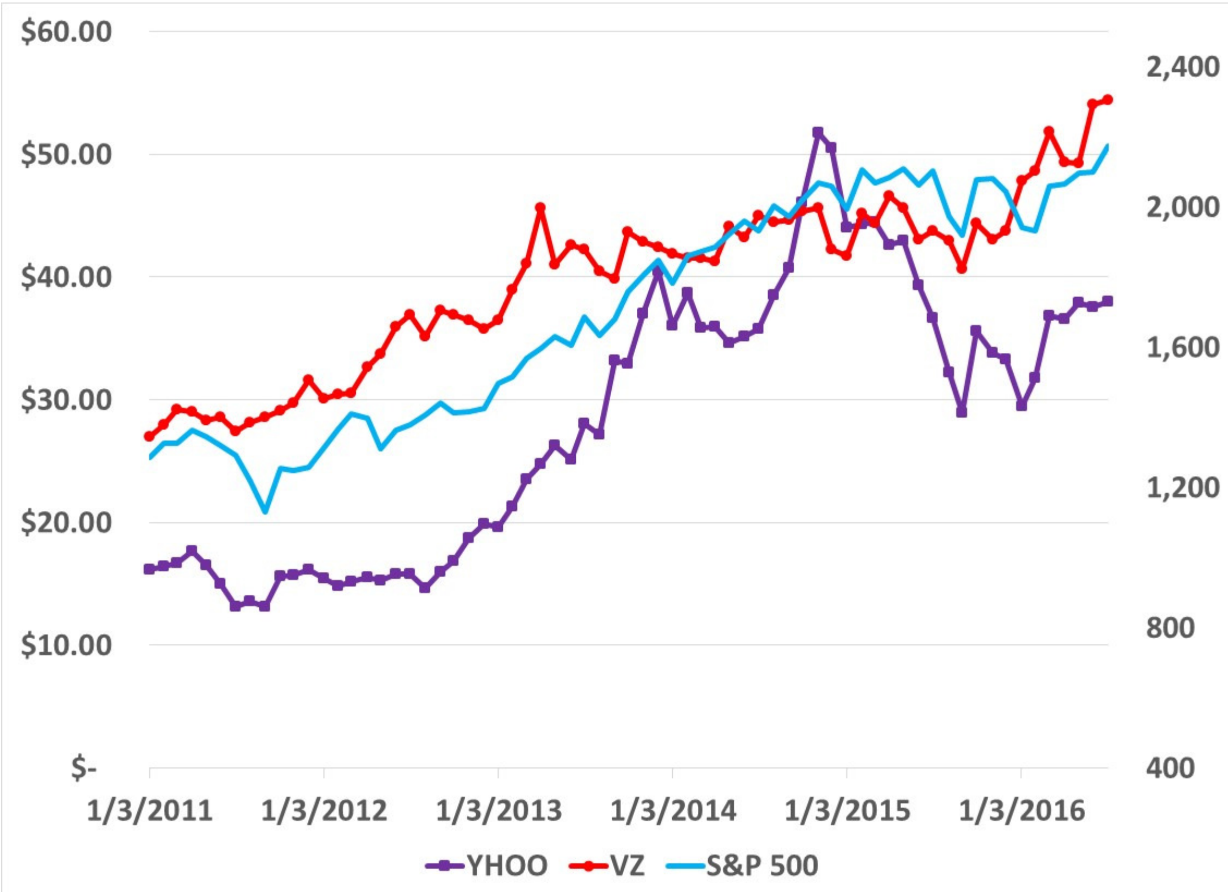
Source: Strategy Analytics

Exhibit 6. Verizon FiOS TV Subscriber Annual Growth Rates



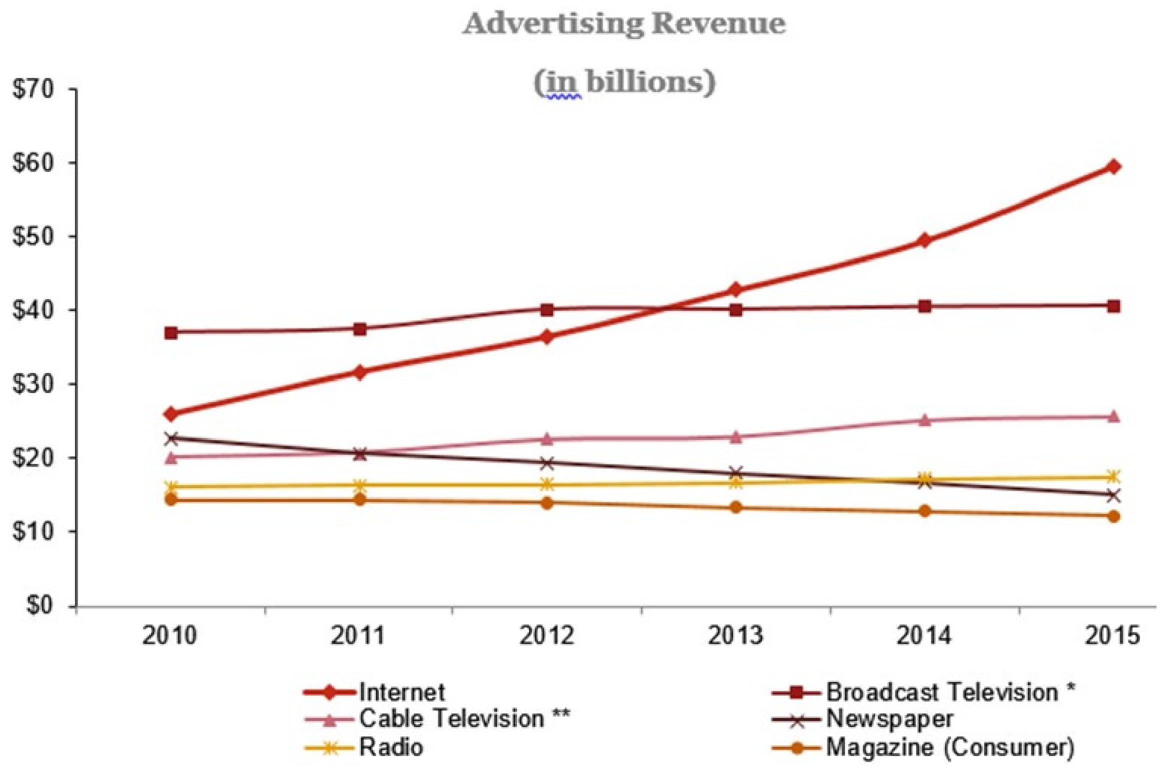
Source: Bloomberg

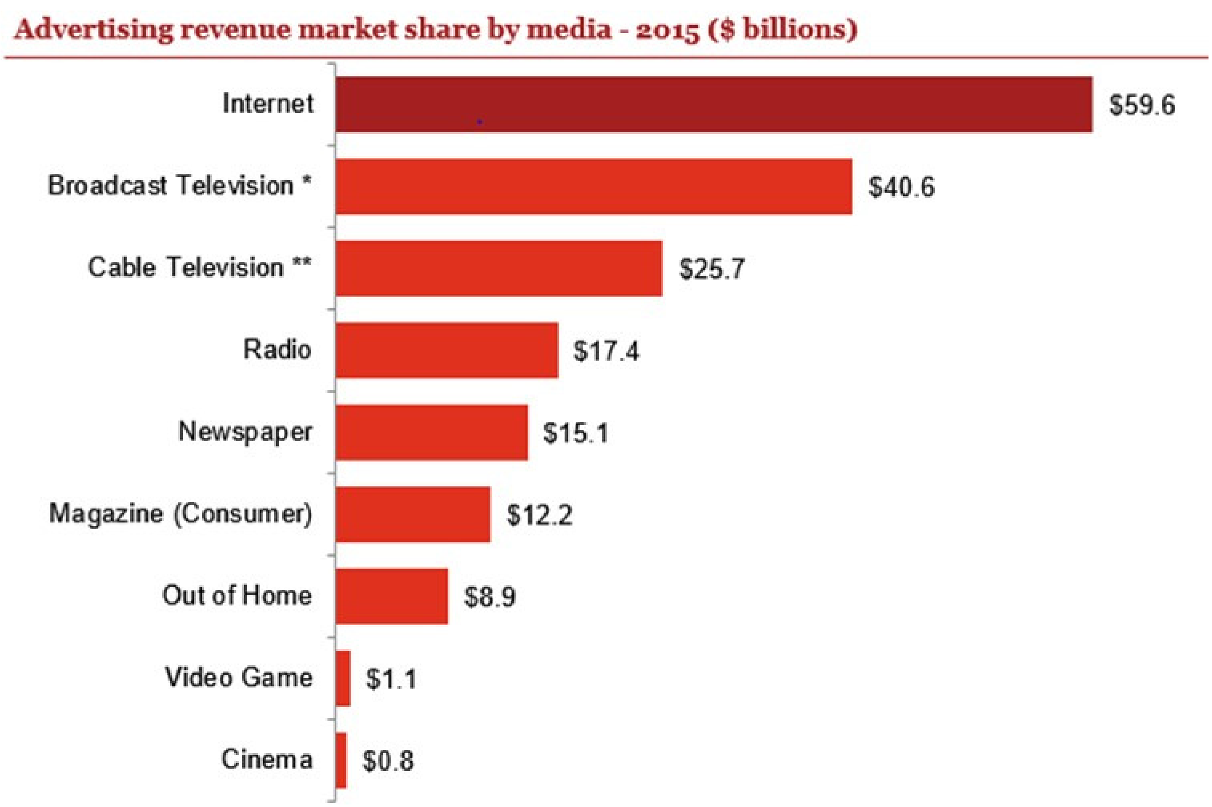
Exhibit 7. Yahoo and Verizon's Stock Performance (S&P 500 on the right axis)



Source: Yahoo! Finance

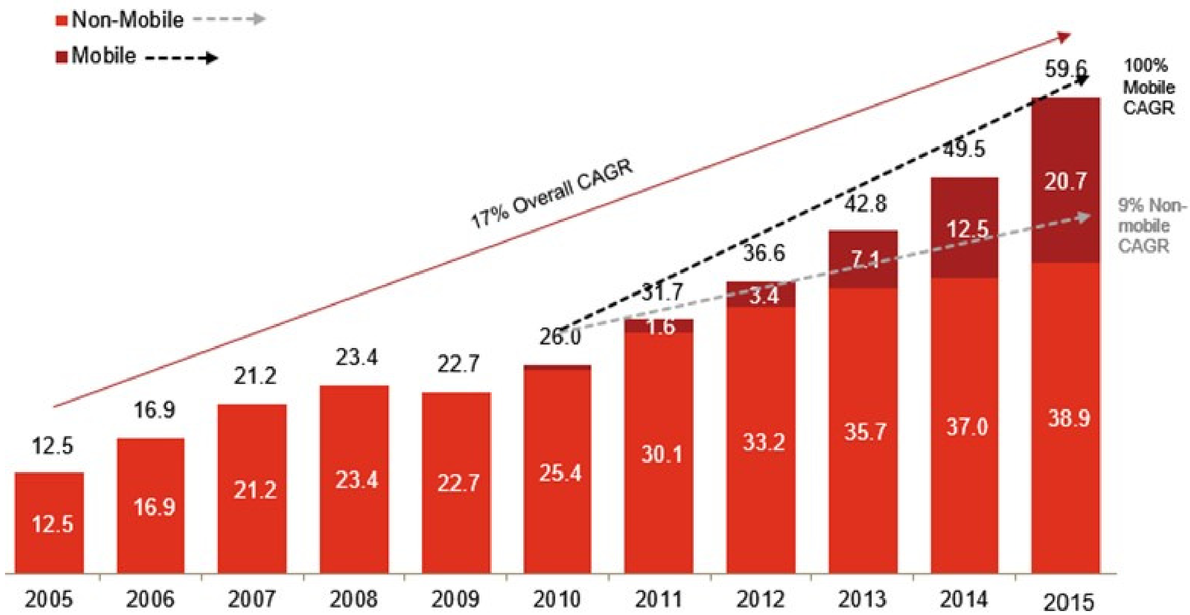
Exhibit 8. U.S. Advertising Market by Media Category

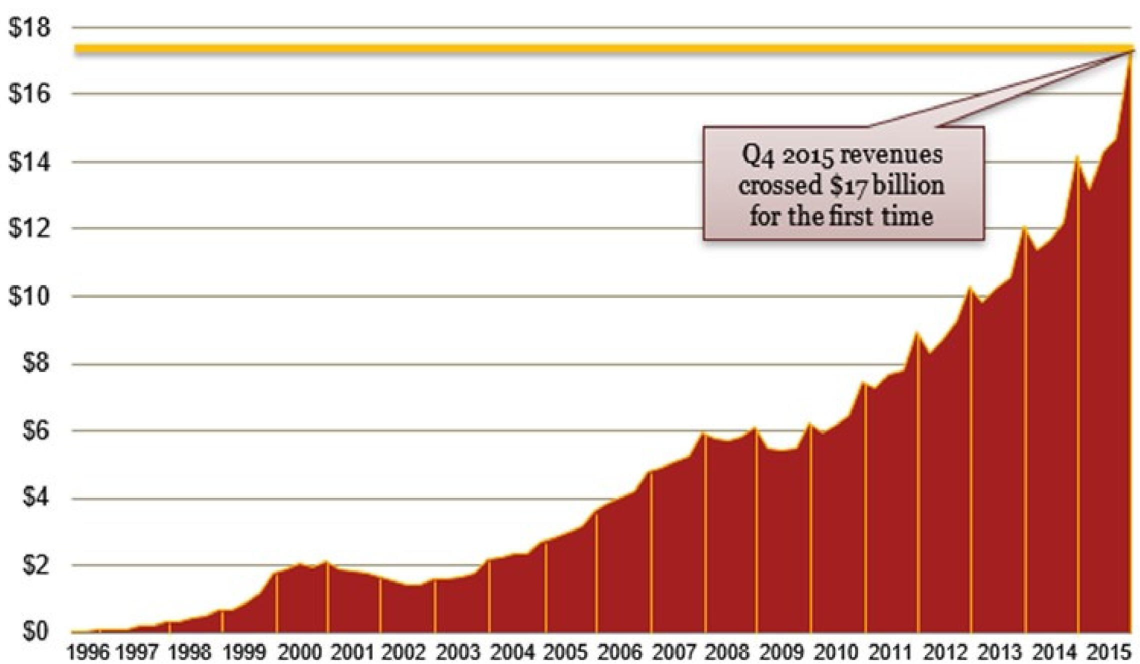




Sources: IAB/PwC Internet Ad Revenue Report, FY 2015; PwC

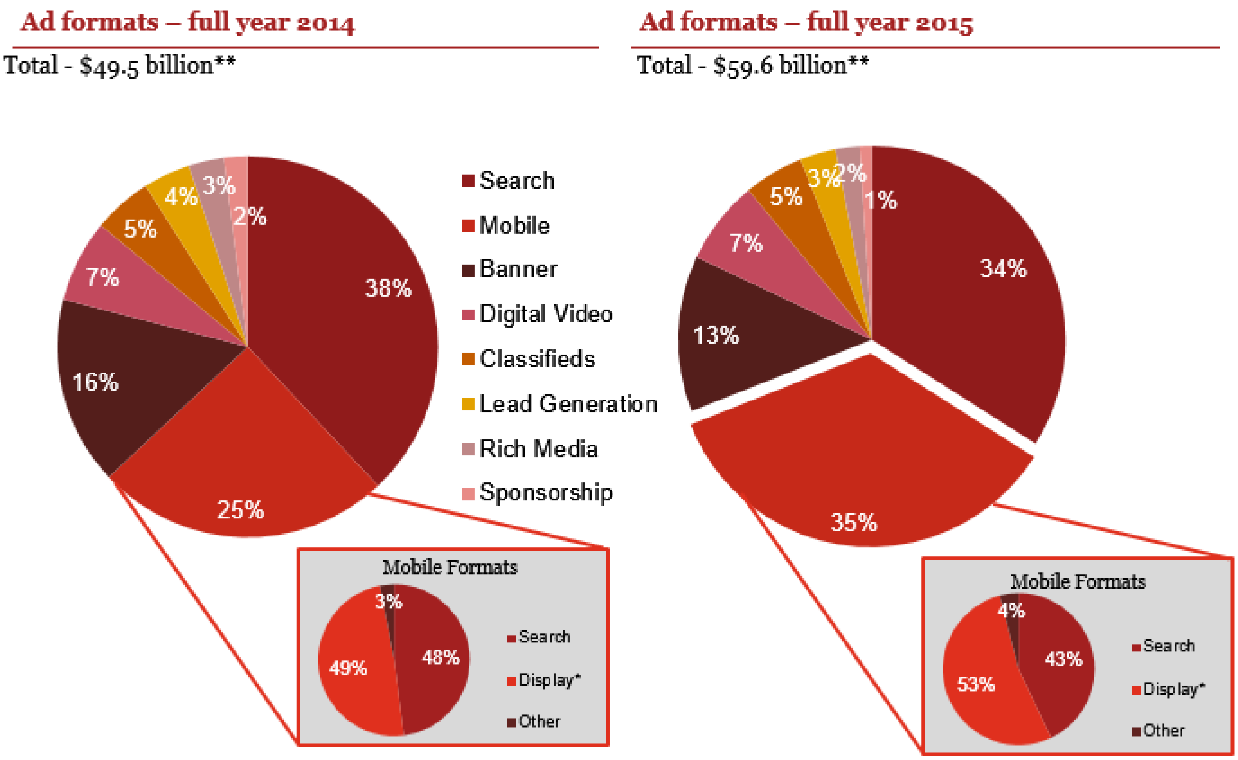
Exhibit 9. U.S. Internet Advertising: The Compound Annual Growth Rate (CAGR) and Quarterly Ad Revenue





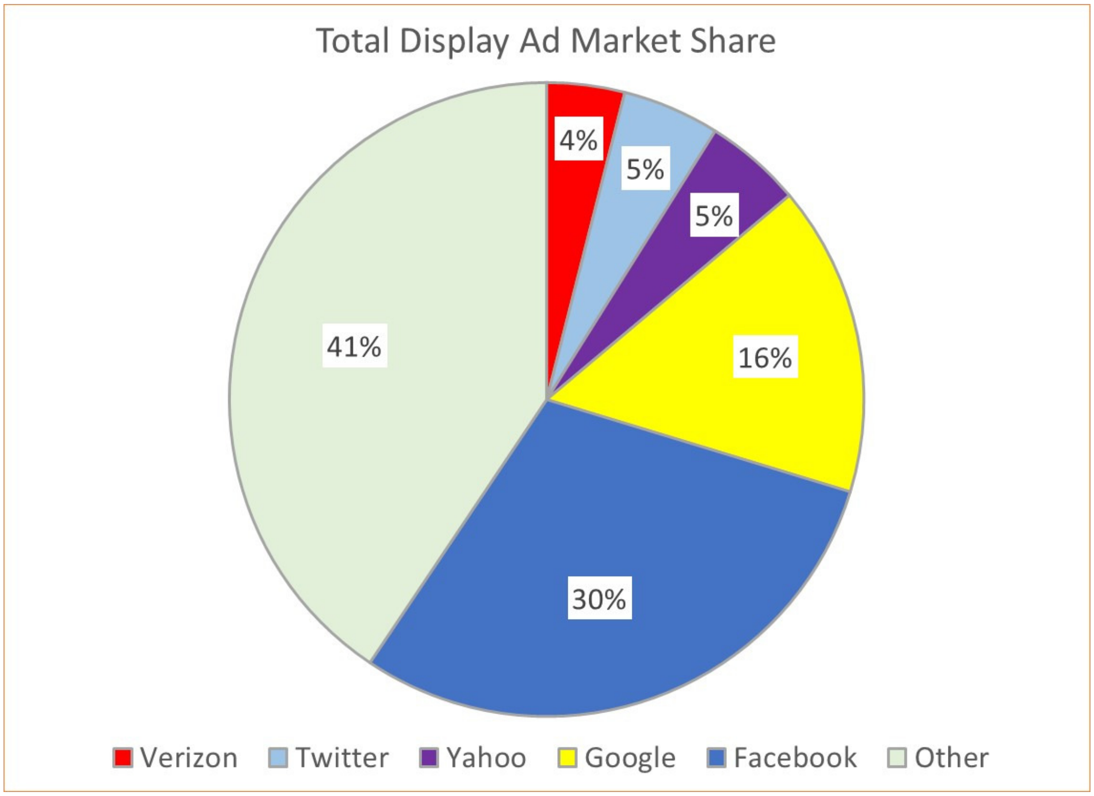
Source: IAB/PwC Internet Ad Revenue Report, FY 2015

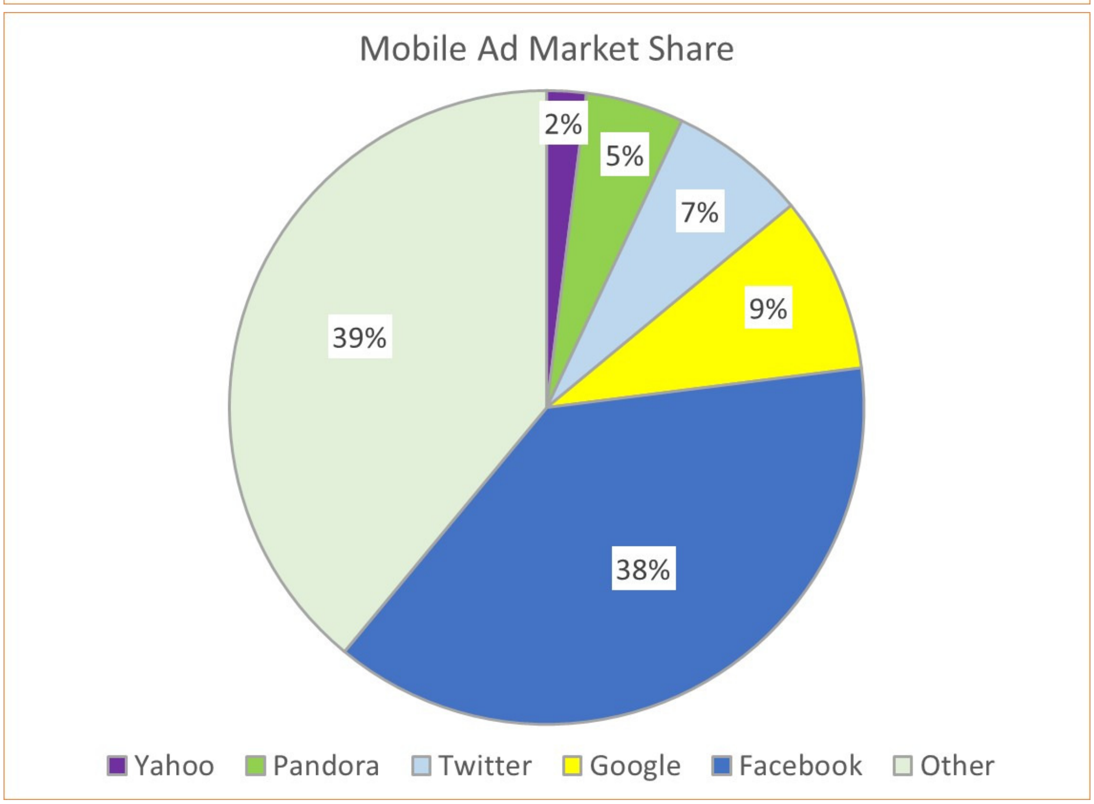
Exhibit 10. U.S. Internet Advertising Breakdown by Ad Formats



Source: IAB/PwC Internet Ad Revenue Report, FY 2015

Exhibit 11. U.S. Internet Advertising Market Share





Data Source: eMarketer U.S. Ad Spending Estimates

Exhibit 12-A. Alphabet Inc. (Google) – Balance Sheet ($ millions)

FY	2011	2012	2013	2014	2015
Cash & Equivalents	44,626.0	48,088.0	58,717.0	64,395.0	73,066.0
Net Receivables	6,172.0	8,585.0	9,390.0	11,556.0	13,909.0
Inventories	-	505.0	426.0	-	-
Prepaid Expenses	-	-	-	-	-
Other Current Assets	1,960.0	3,276.0	4,353.0	4,734.0	3,139.0
Total Current Assets	**52,758.0**	**60,454.0**	**72,886.0**	**80,685.0**	**90,114.0**
Net PP&E	9,603.0	11,854.0	16,524.0	23,883.0	29,016.0
Investments at Equity	-	921.0	975.0	1,300.0	1,600.0
Other Investments	790.0	548.0	1,001.0	3,104.0	4,919.0
Intangibles	8,924.0	18,010.0	17,558.0	20,206.0	19,716.0
Deferred Charges	-	-	-	-	-
Other Assets	499.0	2,011.0	1,976.0	1,955.0	2,096.0
TOTAL ASSETS	**72,574.0**	**93,798.0**	**110,920.0**	**131,133.0**	**147,461.0**
Accounts Payable	588.0	2,012.0	2,453.0	1,715.0	1,931.0
Taxes Payable	197.0	240.0	24.0	96.0	302.0
Accrued Expenses	-	-	-	-	-
LT Debt Due In One Year	-	-	1,009.0	10.0	1,225.0
Notes Payable	1,218.0	2,549.0	2,000.0	1,999.0	2,000.0
Other Current Liabilities	6,910.0	9,536.0	10,422.0	12,985.0	13,852.0
Total Current Liabilities	**8,913.0**	**14,337.0**	**15,908.0**	**16,805.0**	**19,310.0**
Long Term Debt	2,986.0	2,988.0	2,236.0	3,228.0	1,995.0
Deferred Taxes	287.0	1,872.0	1,947.0	1,971.0	189.0
Other Liabilities	2,243.0	2,886.0	3,520.0	4,629.0	5,636.0
TOTAL LIABILITIES	**14,429.0**	**22,083.0**	**23,611.0**	**26,633.0**	**27,130.0**
Common Stock	0.3	0.3	0.3	0.7	0.7
Capital Surplus	20,263.7	22,834.7	25,921.7	28,766.3	32,981.3
Retained Earnings	37,881.0	48,880.0	61,387.0	75,733.0	87,349.0
Less: Treasury Stock	-	-	-	-	-
Common Equity	58,145.0	71,715.0	87,309.0	104,500.0	120,331.0
Stockholder's Equity - Parent	58,145.0	71,715.0	87,309.0	104,500.0	120,331.0
Nonredeemable Noncontrolling Int.	-	-	-	-	-
Stockholder's Equity - Total	**58,145.0**	**71,715.0**	**87,309.0**	**104,500.0**	**120,331.0**
TOTAL LIABILITIES & EQUITY	**72,574.0**	**93,798.0**	**110,920.0**	**131,133.0**	**147,461.0**

Source: Compustat

Exhibit 12-B. Alphabet Inc. (Google) – Income Statement ($ millions/millions except per share items)

FY	2011	2012	2013	2014	2015
Sales	**37,905.0**	**50,175.0**	**59,825.0**	**66,001.0**	**74,989.0**
Cost of Goods Sold	11,351.0	17,633.0	21,885.0	20,711.0	23,140.0
Gross Profit	26,554.0	32,542.0	37,940.0	45,290.0	51,849.0
SG&A	12,475.0	16,284.0	19,912.0	23,814.0	27,465.0
Operating Income Before Deprec.	14,079.0	16,258.0	18,028.0	21,476.0	24,384.0
Depreciation & Amortization	1,837.0	2,872.0	3,939.0	4,602.0	5,024.0
Operating Profit	**12,242.0**	**13,386.0**	**14,089.0**	**16,874.0**	**19,360.0**
Interest Expense	58.0	84.0	83.0	101.0	104.0
Non-Operating Income/Expense	642.0	522.0	670.0	738.0	395.0
Special Items	(500.0)	(438.0)	(180.0)	(252.0)	-
Pretax Income	12,326.0	13,386.0	14,496.0	17,259.0	19,651.0
Total Income Taxes	2,589.0	2,598.0	2,282.0	3,331.0	3,303.0
Noncontrolling Interest - Inc Acc	-	-	-	-	-
Adjusted Net Income	**9,737.0**	**10,737.0**	**12,920.0**	**14,444.0**	**15,826.0**
Cash Dividends	-	-	-	-	-
Stock Price-Close Fiscal Year	322.07	352.72	558.82	529.21	778.01
Com Shares Outstanding	651.57	661.77	673.51	682.04	687.35

Source: Compustat

Exhibit 12-C. Facebook – Balance Sheet ($ millions)

FY	2011	2012	2013	2014	2015
Cash & Equivalents	3,908.0	9,626.0	11,449.0	11,199.0	18,434.0
Net Receivables	547.0	1,170.0	1,160.0	1,678.0	2,559.0
Inventories	-	-	-	-	-
Prepaid Expenses	-	-	-	-	-
Other Current Assets	149.0	471.0	461.0	793.0	659.0
Total Current Assets	**4,604.0**	**11,267.0**	**13,070.0**	**13,670.0**	**21,652.0**
Net PP&E	1,475.0	2,391.0	2,882.0	3,967.0	5,687.0
Investments at Equity	-	-	-	-	-
Other Investments	-	-	-	-	-
Intangibles	162.0	1,388.0	1,722.0	21,910.0	21,272.0
Deferred Charges	-	-	-	-	-
Other Assets	90.0	57.0	221.0	637.0	796.0
TOTAL ASSETS	**6,331.0**	**15,103.0**	**17,895.0**	**40,184.0**	**49,407.0**
Accounts Payable	63.0	65.0	87.0	176.0	196.0
Taxes Payable	-	-	-	-	-
Accrued Expenses	-	146.0	283.0	486.0	665.0
LT Debt Due In One Year	279.0	365.0	239.0	114.0	7.0
Notes Payable	-	-	-	-	201.0
Other Current Liabilities	557.0	476.0	491.0	648.0	856.0
Total Current Liabilities	**899.0**	**1,052.0**	**1,100.0**	**1,424.0**	**1,925.0**
Long Term Debt	398.0	1,991.0	237.0	119.0	107.0
Deferred Taxes	-	-	-	987.0	163.0
Other Liabilities	135.0	305.0	1,088.0	1,558.0	2,994.0
TOTAL LIABILITIES	**1,432.0**	**3,348.0**	**2,425.0**	**4,088.0**	**5,189.0**
Common Stock	-	-	-	-	-
Capital Surplus	2,684.0	10,094.0	12,297.0	30,225.0	34,886.0
Retained Earnings	1,600.0	1,661.0	3,173.0	5,871.0	9,332.0
Less: Treasury Stock	-	-	-	-	-
Common Equity	4,284.0	11,755.0	15,470.0	36,096.0	44,218.0
Stockholder's Equity - Parent	4,899.0	11,755.0	15,470.0	36,096.0	44,218.0
Nonredeemable Noncontrolling Int.	-	-	-	-	-
Stockholder's Equity - Total	**4,899.0**	**11,755.0**	**15,470.0**	**36,096.0**	**44,218.0**
TOTAL LIABILITIES & EQUITY	**6,331.0**	**15,103.0**	**17,895.0**	**40,184.0**	**49,407.0**

Source: Compustat

Exhibit 12-D. Facebook – Income Statement ($ millions/millions except per share items)

FY	2011	2012	2013	2014	2015
Sales	**3,711.0**	**5,089.0**	**7,872.0**	**12,466.0**	**17,928.0**
Cost of Goods Sold	537.0	720.0	756.0	945.0	917.0
Gross Profit	3,174.0	4,369.0	7,116.0	11,521.0	17,011.0
SG&A	1,095.0	3,187.0	3,193.0	5,297.0	8,836.0
Operating Income Before Deprec.	2,079.0	1,182.0	3,923.0	6,224.0	8,175.0
Depreciation & Amortization	323.0	644.0	1,002.0	1,242.0	1,950.0
Operating Profit	**1,756.0**	**538.0**	**2,921.0**	**4,982.0**	**6,225.0**
Interest Expense	42.0	51.0	56.0	23.0	23.0
Non-Operating Income/Expense	(19.0)	7.0	6.0	(61.0)	(8.0)
Special Items	-	-	(117.0)	12.0	-
Pretax Income	1,695.0	494.0	2,754.0	4,910.0	6,194.0
Total Income Taxes	695.0	441.0	1,254.0	1,970.0	2,506.0
Noncontrolling Interest - Inc Acc	-	-	-	-	-
Adjusted Net Income	**1,000.0**	**53.0**	**1,491.0**	**2,925.0**	**3,669.0**
Cash Dividends	-	-	-	-	-
Stock Price-Close Fiscal Year	-	26.62	54.65	78.02	104.66
Com Shares Outstanding	1,330.00	2,372.00	2,547.00	2,797.00	2,845.00

Source: Compustat

Exhibit 12-E. AT&T – Balance Sheet ($ millions)

FY	2011	2012	2013	2014	2015
Cash & Equivalents	3,334.0	4,954.0	3,445.0	10,595.0	5,216.0
Net Receivables	13,606.0	12,657.0	12,918.0	14,527.0	16,532.0
Inventories	1,188.0	1,036.0	1,148.0	1,933.0	4,033.0
Prepaid Expenses	1,155.0	1,035.0	960.0	831.0	1,072.0
Other Current Assets	3,744.0	3,024.0	4,725.0	4,142.0	9,139.0
Total Current Assets	**23,027.0**	**22,706.0**	**23,196.0**	**32,028.0**	**35,992.0**
Net PP&E	107,087.0	109,767.0	110,968.0	112,898.0	124,450.0
Investments at Equity	3,718.0	4,581.0	3,860.0	250.0	1,606.0
Other Investments	-	-	-	-	-
Intangibles	130,185.0	128,548.0	131,485.0	136,655.0	225,278.0
Deferred Charges	-	-	-	-	-
Other Assets	6,327.0	6,713.0	8,278.0	10,998.0	15,346.0
TOTAL ASSETS	**270,344.0**	**272,315.0**	**277,787.0**	**292,829.0**	**402,672.0**
Accounts Payable	8,593.0	12,076.0	11,561.0	14,984.0	21,047.0
Taxes Payable	1,003.0	1,026.0	1,774.0	1,091.0	2,176.0
Accrued Expenses	10,361.0	8,835.0	9,546.0	8,608.0	9,325.0
LT Debt Due In One Year	3,453.0	3,485.0	5,477.0	6,051.0	7,632.0
Notes Payable	-	1.0	21.0	5.0	4.0
Other Current Liabilities	7,384.0	6,364.0	6,616.0	6,543.0	7,632.0
Total Current Liabilities	**30,794.0**	**31,787.0**	**34,995.0**	**37,282.0**	**47,816.0**
Long Term Debt	61,300.0	66,358.0	69,290.0	76,011.0	118,515.0
Deferred Taxes	25,748.0	28,491.0	36,308.0	37,544.0	56,181.0
Other Liabilities	46,705.0	52,984.0	45,712.0	55,068.0	56,520.0
TOTAL LIABILITIES	**164,547.0**	**179,620.0**	**186,305.0**	**205,905.0**	**279,032.0**
Common Stock	6,495.0	6,495.0	6,495.0	6,495.0	6,495.0
Capital Surplus	91,156.0	91,038.0	91,091.0	91,108.0	89,763.0
Retained Earnings	28,633.0	27,717.0	39,021.0	35,796.0	39,005.0
Less: Treasury Stock	20,750.0	32,888.0	45,619.0	47,029.0	12,592.0
Common Equity	105,534.0	92,362.0	90,988.0	86,370.0	122,671.0
Stockholder's Equity - Parent	105,534.0	92,362.0	90,988.0	86,370.0	122,671.0
Nonredeemable Noncontrolling Int.	263.0	333.0	494.0	554.0	969.0
Stockholder's Equity - Total	**105,797.0**	**92,695.0**	**91,482.0**	**86,924.0**	**123,640.0**
TOTAL LIABILITIES & EQUITY	**270,344.0**	**272,315.0**	**277,787.0**	**292,829.0**	**402,672.0**

Source: Compustat

Exhibit 12-F. AT&T – Income Statement ($ millions/millions except per share items)

FY	2011	2012	2013	2014	2015
Sales	**126,723.0**	**127,434.0**	**128,752.0**	**132,447.0**	**146,801.0**
Cost of Goods Sold	57,374.0	55,215.0	51,465.0	61,061.0	66,002.0
Gross Profit	69,349.0	72,219.0	77,287.0	71,386.0	80,799.0
SG&A	34,663.0	41,079.0	27,913.0	39,697.0	32,954.0
Operating Income Before Deprec.	34,686.0	31,140.0	49,374.0	31,689.0	47,845.0
Depreciation & Amortization	18,377.0	18,143.0	18,394.0	17,823.0	22,016.0
Operating Profit	**16,309.0**	**12,997.0**	**30,980.0**	**13,866.0**	**25,829.0**
Interest Expense	3,697.0	3,531.0	3,643.0	3,847.0	4,917.0
Non-Operating Income/Expense	1,195.0	1,149.0	1,522.0	584.0	824.0
Special Items	(7,091.0)	(176.0)	(1,082.0)	(643.0)	(1,044.0)
Pretax Income	6,716.0	10,439.0	27,777.0	9,960.0	20,692.0
Total Income Taxes	2,532.0	2,900.0	9,224.0	3,442.0	7,005.0
Noncontrolling Interest - Inc Acc	240.0	275.0	304.0	294.0	342.0
Adjusted Net Income	**3,944.0**	**7,264.0**	**18,249.0**	**6,224.0**	**13,345.0**
Cash Dividends	10,172.00	10,241.00	9,696.00	9,552.00	10,200.00
Stock Price-Close Fiscal Year	30.24	33.71	35.16	33.59	34.41
Com Shares Outstanding	5,926.51	5,581.40	5,226.32	5,186.91	6,144.94

Source: Compustat

Exhibit 12-G. Comcast Corp. – Balance Sheet ($ millions)

FY	**2011**	**2012**	**2013**	**2014**	**2015**
Cash & Equivalents	1,674.0	12,415.0	5,291.0	4,512.0	2,401.0
Net Receivables	4,351.0	5,521.0	6,376.0	6,321.0	6,896.0
Inventories	-	-	-	-	-
Prepaid Expenses	-	-	928.0	839.0	1,213.0
Other Current Assets	2,548.0	2,055.0	1,480.0	1,859.0	1,793.0
Total Current Assets	**8,573.0**	**19,991.0**	**14,075.0**	**13,531.0**	**12,303.0**
Net PP&E	27,559.0	27,232.0	29,840.0	30,953.0	33,665.0
Investments at Equity	4,880.0	1,164.0	989.0	1,019.0	678.0
Other Investments	4,974.0	5,161.0	2,781.0	2,116.0	2,546.0
Intangibles	104,415.0	104,189.0	103,791.0	103,660.0	109,255.0
Deferred Charges	-	-	4,994.0	5,727.0	5,855.0
Other Assets	7,417.0	7,234.0	2,343.0	2,333.0	2,272.0
TOTAL ASSETS	**157,818.0**	**164,971.0**	**158,813.0**	**159,339.0**	**166,574.0**
Accounts Payable	5,705.0	6,206.0	5,528.0	5,638.0	6,215.0
Taxes Payable	-	-	-	-	-
Accrued Expenses	-	-	-	-	-
LT Debt Due In One Year	1,367.0	2,376.0	3,280.0	4,217.0	3,627.0
Notes Payable	-	-	-	-	-
Other Current Liabilities	6,169.0	8,132.0	10,104.0	7,555.0	8,336.0
Total Current Liabilities	**13,241.0**	**16,714.0**	**18,912.0**	**17,410.0**	**18,178.0**
Long Term Debt	37,942.0	38,082.0	44,567.0	44,017.0	48,994.0
Deferred Taxes	29,932.0	30,110.0	31,935.0	32,959.0	33,566.0
Other Liabilities	13,034.0	13,271.0	11,384.0	10,819.0	10,637.0
TOTAL LIABILITIES	**94,149.0**	**98,177.0**	**106,798.0**	**105,205.0**	**111,375.0**
Common Stock	32.0	31.0	30.0	30.0	29.0
Capital Surplus	40,940.0	40,547.0	38,890.0	38,805.0	38,518.0
Retained Earnings	13,819.0	16,295.0	19,291.0	21,393.0	21,239.0
Less: Treasury Stock	7,517.0	7,517.0	7,517.0	7,517.0	7,517.0
Common Equity	47,274.0	49,356.0	50,694.0	52,711.0	52,269.0
Stockholder's Equity - Parent	47,274.0	49,356.0	50,694.0	52,711.0	52,269.0
Nonredeemable Noncontrolling Int.	381.0	440.0	364.0	357.0	1,709.0
Stockholder's Equity - Total	**47,655.0**	**49,796.0**	**51,058.0**	**53,068.0**	**53,978.0**
TOTAL LIABILITIES & EQUITY	**157,818.0**	**164,971.0**	**158,813.0**	**159,339.0**	**166,574.0**

Source: Compustat

Exhibit 12-H. Comcast Corp. – Income Statement ($ millions/millions except per share items)

FY	2011	2012	2013	2014	2015
Sales	**55,842.0**	**62,570.0**	**64,657.0**	**68,775.0**	**74,510.0**
Cost of Goods Sold	37,330.0	42,593.0	43,149.0	45,615.0	49,654.0
Gross Profit	18,512.0	19,977.0	21,508.0	23,160.0	24,856.0
SG&A	-	-	-	-	-
Operating Income Before Deprec.	18,512.0	19,977.0	21,508.0	23,160.0	24,856.0
Depreciation & Amortization	7,636.0	7,798.0	7,871.0	8,019.0	8,660.0
Operating Profit	**10,876.0**	**12,179.0**	**13,637.0**	**15,141.0**	**16,196.0**
Interest Expense	2,505.0	2,521.0	2,574.0	2,617.0	2,655.0
Non-Operating Income/Expense	7.0	1,951.0	254.0	151.0	169.0
Special Items	(171.0)	-	(202.0)	(210.0)	(338.0)
Pretax Income	8,207.0	11,609.0	11,115.0	12,465.0	13,372.0
Total Income Taxes	3,050.0	3,744.0	3,980.0	3,873.0	4,959.0
Noncontrolling Interest - Inc Acc	997.0	1,662.0	319.0	212.0	250.0
Adjusted Net Income	**4,160.0**	**6,203.0**	**6,816.0**	**8,380.0**	**8,163.0**
Cash Dividends	1,187.00	1,608.00	1,964.00	2,254.00	2,437.00
Stock Price-Close Fiscal Year	23.71	37.36	51.97	58.01	56.43
Com Shares Outstanding	2,705.93	2,639.49	2,606.55	2,541.07	2,442.40

Source: Compustat