

CHICAGO--([BUSINESS WIRE](#))--Fitch Ratings has assigned an 'A-' rating to Verizon Communications Inc.'s (NYSE: VZ) proposed senior unsecured fixed- and floating-rate notes due 2017. VZ will use the proceeds primarily to repay some or all of the borrowings under the three-year tranche - due February 2017 - of its term loan facility in the amount of \$3.3 billion, and for general corporate purposes. Fitch currently rates VZ's IDR 'A-' with a Stable Rating Outlook.

KEY RATING DRIVERS

--The February 2014 acquisition of the remaining Verizon Wireless (VZW) stake pressures VZ's near-term credit metrics, pushing pro forma leverage at closing to approximately 2.6x. Actual gross leverage at March 31, 2014 was 2.5x, with total debt at \$109.8 billion. With the close of the acquisition, Fitch expects VZ to materially reduce debt over the next few years. EBITDA growth, combined with debt reductions is expected to reduce leverage to approximately 2x by the end of 2016. Fitch believes this level is appropriate for an 'A-' rating.

--While leverage will be outside an appropriate range for an 'A-' rating for several years, Fitch believes metrics will return to a level appropriate for the rating due to VZ's strong position in the wireless industry and the significant cash flows generated by the wireless business. This is in combination with VZ management's commitment to delever, as evidenced by the aggressive delevering following the acquisition of Alltel Corporation in early 2009. Other supporting factors include the absence of operations-related execution risk.

--A key to debt reduction over the next several years will be the continued generation of strong free cash flow (FCF) at VZW. VZW's simple FCF (EBITDA less capital spending) in 2013 was approximately \$24.8 billion. VZ's consolidated FCF (after dividends and capital spending but before distributions to Vodafone) was \$16.3 billion in 2013. Owing to the acquisition of the remaining VZW stake, Fitch estimates VZ's FCF will be at least 50% lower in 2014 as a result of transaction-related interest costs, higher dividend requirements due to the shares issued to Vodafone equity holders and higher cash taxes.

--The strong competitive position of VZW as evidenced by industry-low churn rates,

high margins and the most developed LTE network in the U.S. support expectations for VZ's cash flow stability and the longer rating horizon embodied in the rating.

VZ's liquidity is supported by its consolidated cash balances, which were \$2.9 billion at March 31, 2014, and by a \$6.2 billion credit facility. Fitch expects VZ to maintain aggregate commercial paper balances within a level fully backed by the facility. The credit facility has no ratings triggers or other restrictive covenants, such as leverage or interest coverage tests. In August 2013, the facility was extended for a year and now matures in August 2017. After the effect of letters of credit (LOCs), approximately \$6.1 billion is available on the facility.

To provide additional liquidity, a \$2 billion, 364-day revolving credit facility became effective in February 2014. This facility has a 3.5x leverage covenant. On a consolidated basis, VZ and its subsidiaries have scheduled debt maturities of approximately \$0.8 billion and \$2.6 billion in 2014 and 2015, respectively.

In 2014, Fitch expects consolidated capital spending to range from \$16.5 billion to \$17 billion, comparable to or slightly higher than the \$16.6 billion spent in 2013. Investment in the wireless network continues to be an area of emphasis due to the strong demand for 4G LTE capacity for rapidly growing data services.

RATING SENSITIVITIES

Fitch believes a positive rating action is unlikely in the foreseeable future, given the leverage incurred in the Vodafone transaction.

Conversely, Fitch may take negative rating action if:

--Operating performance causes delevering to take place at a materially slower than anticipated pace;

Fitch Rates Verizon Communications' Proposed Offering 'A-'; Outlook Stable

Written by Australian Business

--A weakening of VZW's competitive position that would jeopardize the stability of cash flows.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (May 28, 2014);

--'Rating Telecom Companies - Sector Credit Factors' (Aug. 9, 2012).

Applicable Criteria and Related Research:

Rating Telecom Companies

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=682323

Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749393

Additional Disclosure

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