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### Verizon Communications Inc. (VZ-US)

Diversified Telecommunication

- We reiterate our Neutral rating on VZ due to current valuation but believe the long-term opportunity in 5G, along with online content delivery, will start to create an attractive investment opportunity.
- Business Performance is starting to improve, even as VZ faces a competitive and saturated market.
- VZ has realigned its operating structure to better highlight growth drivers and opportunities.
- VZ’s strong cash flow continues to fund ongoing capital investment, strategic acquisitions, and enhance shareholder returns through ongoing dividend increases.

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**Company Note**
**Verizon Communications Inc. (VZ-US)**

Diversified Telecommunication

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**Research Action:**

Reiterate rating

 Rating: **Neutral**

 Prior Rating: **Neutral**

 Price 01/22/2020: **\$60.48**

 52 Week High / **\$62.22**

 Low: **\$52.28**
**Key Data: (TTM as of Sep-19)**

 Excess Cash per Share: **-\$0.24**

 Annual Dividend: **\$2.46**

 Dividend Yield: **4.07%**

 Avg. Volume (30 Day): **13.2M**

 Shares Outstanding: **4,135.8M**

 Float: **4,134.8M**

 Short Interest: **38.7M**

 SI % / Float **0.94%**

 Equity MV: **\$250,132.0M**

 Sales TTM: **\$131,374.0M**

 Beta: **0.73**

 EBITDAR: **\$49,374.8M**

 NOPAT: **\$23,129.3M**

 Total Invested Capital: **\$246,856.9M**

 Return on Capital: **9.94%**

 Cost of Capital: **4.55%**

 Economic Profit: **\$12,551.5M**

 Market Value Added: **\$157,640.2M**

 Current Operations Value: **\$508,892.2M**

 Future Growth Value: **(\$104,395.0)M**

- We reiterate our Neutral rating on VZ due to current valuation but believe the long-term opportunity in 5G, along with online content delivery, will start to create an attractive investment opportunity.** VZ is well-positioned to benefit from the ongoing rollout of the high-speed 5G network deployment this year. In addition, VZ has realigned its operating structure from two to three reporting Business Segments, to better align its business units to meet a changing communications market, evolving industry opportunities, and changes in customer demands. VZ's increasing focus on content delivery, mobile video, and advertising will be future drivers of growth. VZ also has a head start in launching its high-speed 5G Ultra-Wideband network in key locations across the U.S. However, in the near term, increasing competition continues to pressure margins, and the ongoing softness in Wireline revenue and ongoing secular pressures from legacy technologies continue to offset other growth drivers. We believe opportunity does exist at some point, as VZ's growth-driving initiatives in wireless and content should begin to drive positive Business Performance trends. VZ's above-market dividend yield and future growth potential could provide a positive investment opportunity as positive trends begin to gain momentum. While we still prefer AT&T (T-US, Buy Rated) at this time, VZ is beginning to emerge as an attractive long-term investment opportunity. As 5G and media growth initiatives continue to drive further acceleration in Business Performance trends, we will become more optimistic about the investment opportunity VZ presents. VZ has a current dividend yield of over 4%.
- Business Performance is starting to improve, even as VZ faces a competitive and saturated market.** For the 12 months ending September 2019, Net Sales Revenue increased by 0.64% Y/Y from \$130.54 billion to \$131.37 billion. We forecast a further increase of 2.47% to \$134.62 billion over the NTM. Economic Operating Cash Flow (EBITDAR) declined 1.50% Y/Y from \$50.13 billion to \$49.37 billion over the LTM. We forecast an increase of 6.96% to \$52.81 billion over the NTM. Net Operating Profit After Tax (NOPAT) increased 20.13% Y/Y from \$19.25 billion to \$23.13 billion over the LTM. We forecast a further increase of 7.22% to \$24.80 billion over the NTM. Return on Capital (ROC) increased from 9.06% to 9.94% over the LTM. We forecast a further increase to 9.96% over the NTM. Economic Profit increased 53.17 % Y/Y from \$8.19 billion to \$12.55 billion over the LTM. We forecast a further increase of 1.74% to \$12.77 billion over the NTM. As 5G and media growth initiatives continue to drive further acceleration in Business Performance trends, we should start to see an acceleration in shareholder value creation.

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- **VZ has realigned its operating structure to better highlight growth drivers and opportunities.** VZ has changed its reporting structure from two Business Segments, Wireless and Wireline, to three operating segments to better highlight how VZ will address future business customer opportunities. Highlighted as Verizon 2.0, VZ now reports in new, more customer-centric Business Segments: Verizon Consumer Group, Verizon Business Group, and Verizon Media Group. The change reflects a company-wide transformation that realigns business groups and talent for a more effective go-to-market strategy, creates greater operating efficiencies, and improves capital returns. The changes also underline VZ's expectations for considerable growth in 2020. VZ's Business Group is increasing its focus on higher growth in higher-margin services including Cloud and Security as well as new technology and IoT (Internet of Things) opportunities. VZ's Media Group will continue to focus on opportunities and online content delivery, mobile video, and gaining greater market share in online advertising. VZ has also been looking to sell its Huffington Post website as it increases its focus on its other media properties and communication services.
- **VZ's strong cash flow continues to fund ongoing capital investment, strategic acquisitions, and enhance shareholder returns through ongoing dividend increases.** We estimate that VZ will generate \$52.81 billion in Economic Operating Cash Flow (EBITDAR) over the NTM, providing significant cash to fund its 5G high-speed network rollout along with other growth initiatives and ongoing dividend increases. In September 2019, VZ increased its quarterly dividend by over 2% from \$0.6025 to \$0.6150 per share. VZ has a current annual dividend yield of over 4%.

**Investment Thesis**

VZ is the leading and largest telecom service provider in a very crowded and very competitive global telecom industry and is continually challenged on service and pricing by both large global and smaller upstart competitors. Intense competition, together with the ongoing need for investment in new product offerings, new technologies, and additional spectrums make growth and significant market outperformance harder to achieve. We do believe VZ's dividend yield, which is currently above the S&P 500 average, and potential size advantage in the nationwide ramp-up of 5G high-speed connectivity, could provide an attractive investment opportunity at some point in the near future, but we still prefer AT&T (T-US, Buy Rated) at this time.

**Company Overview**

**Verizon Communications Inc. (VZ-US)** is an integrated telecommunications service provider offering wireline voice and data services, wireless services, and Internet services. Verizon is the number-two wireless phone service provider in the U.S. with close to 120 million subscribers. Verizon Wireless provides wireless voice and data services and equipment sales to consumers, businesses and government customers. Verizon provides Wireline services to over 22 million customers, offering local telephone, long-distance, Internet access, and digital TV services to residential, commercial, and wholesale customers. Verizon also offers a wide range of telecom services including managed networks and IT services that include data center-hosted cloud services to enterprise and government clients in over 150 countries. Verizon also provides content along with video and advertising service capabilities through its acquisitions of AOL and Yahoo, along with several online publications, including Engadget, Huffington Post, and TechCrunch.

Verizon Communications was created through the merger of Bell Atlantic and GTE Corp. Verizon expanded its service offerings through the acquisition of MCI Corp, a leader in long-distance and data networking. Verizon operates one of the most extensive wireless networks in the U.S. and is the largest 4G LTE provider, covering more than 98% of the U.S. population. Verizon is currently in the process of rolling out its high-speed nationwide 5G network.

**Verizon operates and reports revenue by three Business Segments:** Effective Q2 2019, Verizon reorganized its operations and changed its reporting from two to three Business Segments as part of its new Verizon 2.0 operating structure.

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**Verizon Consumer Group:** (69% of revenue) provides retail wireless and wireline communication data services.

**Verizon Business Group:** (24% of revenue) provides voice & data services, video communication services, broadband video and data, corporate networking services, data center services, cloud services, security, and managed network services, along with local and long-distance voice services. Verizon Business provides services to Wholesale resellers, Public-sector, and other Small & Medium businesses and Global Enterprises services.

**Verizon Media Group:** (7% of revenue) includes its media assets from its Yahoo acquisition, which include Yahoo media verticals and its advertising platform.

**Verizon reports revenue in one Geographic Segment:** United States (100% of revenue).



Company Report – Research Update

Verizon Communications Inc. (VZ-US)

Diversified Telecommunication

Financial Data

Report Basis	LTM	LTM	LTM	LTM	LTM	LTM	NTM	5 Yr	3 Yr	Current
Reported Period Ending	09/30/2014	09/30/2015	09/30/2016	09/30/2017	09/30/2018	09/30/2019	09/30/2020	Average	Average	Trend
<b>Net Sales Revenue</b>	\$124,952.0	\$130,558.0	\$127,894.0	\$124,419.0	\$130,537.0	\$131,374.0	\$134,615.6	\$128,956.4	\$128,776.7	\$132,994.8
Sales Growth	4.54%	4.49%	-2.04%	-2.72%	4.92%	0.64%	2.47%	1.06%	0.95%	1.55%
Sales Growth Trend	4.57%	4.51%	0.57%	-2.45%	1.86%	2.35%	1.74%	1.37%	0.59%	2.04%
<b>Operating Cash Flow (EBITDAR)</b>	\$41,641.8	\$47,686.7	\$44,533.9	\$51,893.2	\$50,126.4	\$49,374.8	\$52,810.6	\$48,723.0	\$50,464.8	\$51,092.7
EBITDAR Margin	33.33%	36.53%	34.82%	41.71%	38.40%	37.58%	39.23%	37.81%	39.23%	38.41%
EBITDAR Growth	29.93%	14.52%	-6.61%	16.53%	-3.40%	-1.50%	6.96%	3.91%	3.87%	2.73%
<b>Net Operating Profit Before Tax (NOPBT)</b>	\$22,393.8	\$28,940.7	\$24,953.9	\$31,808.2	\$28,419.4	\$28,345.8	\$30,922.5	\$28,493.6	\$29,524.5	\$29,634.1
NOPBT Margin	17.92%	22.17%	19.51%	25.57%	21.77%	21.58%	22.97%	22.12%	22.97%	22.27%
NOPBT Growth	72.40%	29.24%	-13.78%	27.47%	-10.65%	-0.26%	9.09%	6.40%	5.52%	4.42%
<b>Cash Operating Income Tax</b>	\$5,910.6	\$9,286.1	\$8,234.8	\$10,496.7	\$9,165.3	\$5,216.5	\$6,122.7	\$8,479.9	\$8,292.8	\$5,669.6
Economic Tax Effective Rate	26.39%	32.09%	33.00%	33.00%	32.25%	18.40%	19.80%	29.75%	27.88%	19.10%
<b>Net Operating Profit After Tax (NOPAT)</b>	\$16,483.2	\$19,654.6	\$16,719.1	\$21,311.5	\$19,254.2	\$23,129.3	\$24,799.9	\$20,013.7	\$21,231.7	\$23,964.6
NOPAT Margin	13.19%	15.05%	13.07%	17.13%	14.75%	17.61%	18.42%	15.52%	16.49%	18.01%
NOPAT Growth	27.60%	19.24%	-14.94%	27.47%	-9.65%	20.13%	7.22%	8.45%	12.65%	13.67%
<b>Cash &amp; Equivalents</b>	\$8,761.0	\$5,141.0	\$7,187.0	\$4,944.0	\$3,991.0	\$5,578.0	\$5,674.9	\$5,368.2	\$4,837.7	\$5,626.4
<b>Total Assets</b>	\$226,293.0	\$242,073.0	\$239,498.0	\$254,682.0	\$265,562.0	\$284,875.0	\$289,823.1	\$257,338.0	\$268,373.0	\$287,349.1
<b>Non - Interest Bearing Liabilities (NIBLs)</b>	\$99,095.0	\$115,207.0	\$110,924.0	\$108,734.0	\$96,533.0	\$93,791.0	\$95,420.1	\$105,037.8	\$99,686.0	\$94,605.6
<b>Net Assets</b>	\$125,807.0	\$125,462.0	\$127,051.0	\$144,345.0	\$167,437.0	\$189,693.0	\$192,987.9	\$150,797.6	\$167,158.3	\$191,340.4
<b>Economic Asset Adjustments</b>	\$52,676.2	\$55,713.9	\$58,336.6	\$61,964.0	\$51,174.6	\$57,163.9	\$58,156.8	\$56,870.6	\$56,767.5	\$57,660.4
<b>Net Operating Assets</b>	\$178,483.2	\$181,175.9	\$185,387.6	\$206,309.0	\$218,611.6	\$246,856.9	\$251,144.7	\$207,668.2	\$223,925.8	\$249,000.8
<b>Debt &amp; Debt Equivalents</b>	\$120,231.2	\$125,335.9	\$122,779.6	\$133,358.0	\$131,296.6	\$154,364.9	\$157,046.2	\$133,427.0	\$139,673.2	\$155,705.5
<b>Equity &amp; Equivalents</b>	\$16,577.0	\$13,138.0	\$20,460.0	\$26,848.0	\$54,495.0	\$58,921.0	\$59,944.4	\$34,772.4	\$46,754.7	\$59,432.7
<b>Total Capital - Financing Sources</b>	\$136,808.2	\$138,473.9	\$143,239.6	\$160,206.0	\$185,791.6	\$213,285.9	\$216,990.6	\$168,199.4	\$186,427.8	\$215,138.3
<b>Capital Adjustments</b>	\$41,675.0	\$42,702.0	\$42,148.0	\$46,103.0	\$32,820.0	\$33,571.0	\$34,154.1	\$39,468.8	\$37,498.0	\$33,862.6
<b>Net Capital Financing Sources</b>	\$178,483.2	\$181,175.9	\$185,387.6	\$206,309.0	\$218,611.6	\$246,856.9	\$251,144.7	\$207,668.2	\$223,925.8	\$249,000.8
<b>Net Working Capital</b>	(\$1,472.4)	(\$2,290.1)	(\$71.3)	\$6,759.0	\$7,574.9	\$7,197.7	\$7,322.7	\$3,834.0	\$7,177.2	\$7,260.2
Cost of Net Working Capital	(\$12.6)	(\$84.9)	(\$59.0)	\$169.5	\$373.1	\$335.7	\$341.5	\$146.9	\$292.8	\$338.6
% of Revenue	-0.01%	-0.06%	-0.05%	0.14%	0.29%	0.26%	0.25%	0.11%	0.23%	0.25%
<b>Operational Capital</b>	\$99,460.8	\$93,283.8	\$99,531.3	\$109,241.9	\$113,393.4	\$141,857.6	\$144,321.6	\$111,461.6	\$121,497.7	\$143,089.6
Cost of Operational Capital	\$4,534.8	\$4,347.0	\$4,816.1	\$5,292.3	\$5,794.6	\$5,800.6	\$5,901.4	\$5,210.1	\$5,629.2	\$5,851.0
% of Revenue	3.63%	3.33%	3.77%	4.25%	4.44%	4.42%	4.38%	4.04%	4.37%	4.40%
<b>Productive Capital</b>	\$205,118.8	\$213,060.8	\$220,600.3	\$236,842.9	\$246,330.4	\$270,124.6	\$274,816.6	\$237,391.8	\$251,099.3	\$272,470.6
Cost of Productive Capital	\$9,375.0	\$9,431.3	\$10,832.0	\$11,596.0	\$12,575.7	\$11,736.5	\$11,940.4	\$11,234.3	\$11,969.4	\$11,838.4
% of Revenue	7.50%	7.22%	8.47%	9.32%	9.63%	8.93%	8.87%	8.72%	9.30%	8.90%
<b>Total Operating Capital</b>	\$175,969.8	\$182,562.8	\$184,595.3	\$207,585.9	\$221,147.4	\$247,847.6	\$252,152.6	\$208,747.8	\$225,527.0	\$250,000.1
Cost of Total Operating Capital	\$6,683.3	\$8,086.1	\$9,170.9	\$9,941.7	\$11,158.8	\$10,658.0	\$10,843.1	\$9,803.1	\$10,586.1	\$10,750.5
% of Revenue	5.35%	6.19%	7.17%	7.99%	8.55%	8.11%	8.05%	7.60%	8.22%	8.08%
<b>Non - Operating Capital</b>	\$2,513.4	(\$1,386.9)	\$792.3	(\$1,277.0)	(\$2,535.9)	(\$990.7)	(\$1,007.9)	(\$1,079.6)	(\$1,601.2)	(\$999.3)
Cost of Non - Operating Capital	\$1,249.0	\$25.4	(\$14.9)	(\$12.3)	(\$99.2)	(\$80.1)	(\$81.5)	(\$36.2)	(\$63.9)	(\$80.8)
% of Revenue	1.00%	0.02%	-0.01%	-0.01%	-0.08%	-0.06%	-0.06%	-0.03%	-0.05%	-0.06%
<b>Total Capital</b>	\$178,483.2	\$181,175.9	\$185,387.6	\$206,309.0	\$218,611.6	\$246,856.9	\$251,144.7	\$207,668.2	\$223,925.8	\$249,000.8
Cost of Total Capital	\$7,932.2	\$8,111.5	\$9,156.0	\$9,929.4	\$11,059.6	\$10,577.8	\$10,761.6	\$9,766.9	\$10,522.3	\$10,669.7
% of Revenue	6.35%	6.21%	7.16%	7.98%	8.47%	8.05%	7.99%	7.58%	8.17%	8.02%
<b>Cost of Capital (WACC)</b>	4.56%	4.51%	5.00%	5.07%	5.21%	4.55%	4.55%	4.87%	4.94%	4.55%
<b>Capital Structure</b>										
<b>Debt &amp; Debt Equivalents</b>	\$120,231.2	\$125,335.9	\$122,779.6	\$133,358.0	\$131,296.6	\$154,364.9	\$157,046.2	\$133,427.0	\$139,673.2	\$155,705.5
Debt & Debt Equivalents % of Market Value	36.69%	41.45%	36.69%	39.78%	37.31%	38.21%	38.21%	38.60%	38.40%	38.21%
<b>Preferred Equity</b>	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Preferred Equity % of Market Value	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Market Value of Common Equity</b>	\$207,458.5	\$177,042.2	\$211,886.2	\$201,889.9	\$220,604.1	\$249,649.0	\$253,985.3	\$212,214.3	\$224,047.6	\$251,817.1
Common Equity % of Market Value	63.31%	58.55%	63.31%	60.22%	62.69%	61.79%	61.79%	61.40%	61.60%	61.79%
<b>Total Economic Market Value (MV)</b>	\$327,689.7	\$302,378.1	\$334,665.8	\$335,247.9	\$351,900.6	\$404,013.9	\$411,031.4	\$345,641.3	\$363,720.8	\$407,522.7
Total %	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
<b>Excess Cash</b>	\$2,513.4	(\$1,386.9)	\$792.3	(\$1,277.0)	(\$2,535.9)	(\$990.7)	(\$1,007.9)	(\$1,079.6)	(\$1,601.2)	(\$999.3)
<b>Economic Enterprise Value</b>	\$325,176.3	\$303,765.0	\$333,875.5	\$336,524.8	\$354,436.5	\$405,004.6	\$412,039.3	\$346,720.9	\$365,322.0	\$408,522.0
<b>Average Capital</b>	\$173,901.9	\$179,829.6	\$183,281.8	\$195,848.3	\$212,460.3	\$232,734.3	\$249,000.8	\$200,830.8	\$213,680.9	\$240,867.5
Capital Δ	\$9,162.5	\$2,692.8	\$4,211.7	\$20,921.4	\$12,302.6	\$28,245.3	\$4,287.8	\$13,674.8	\$20,489.8	\$16,266.6

Source: Company Data, Financial statements and Tigress Research

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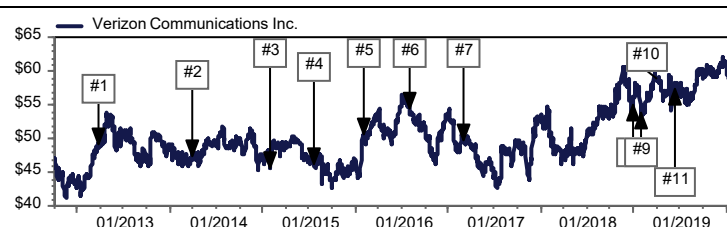
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**Verizon Communications Inc. (VZ-US)**
**Diversified Telecommunication**
**Ratings History**

Verizon Communications Inc. (VZ-US)				
Item #	Date	Research Action	Rating	Price
#11	06/17/2019	Reiterate Rating	Neutral	\$57.25
#10	04/01/2019	Reiterate Rating	Neutral	\$59.09
#9	01/30/2019	Reiterate Rating	Neutral	\$54.00
#8	12/28/2018	Reiterate Rating	Neutral	\$55.27
#7	02/27/2017	Reiterate Rating	Neutral	\$49.94
#6	08/01/2016	Reiterate Rating	Neutral	\$54.50
#5	02/03/2016	Reiterate Rating	Neutral	\$50.62
#4	07/22/2015	Reiterate Rating	Neutral	\$46.45
#3	01/30/2015	Reiterate Rating	Neutral	\$45.71
#2	03/31/2014	Reiterate Rating	Neutral	\$47.57
#1	03/25/2013	Initiation of Coverage	Neutral	\$49.16


**Tigress Research Investment Rating Meanings and Distribution**

Tigress Research employs a five-tier rating system for evaluating the investment opportunity and potential return associated with owning the common equity of rated firms within our research universe. The potential return is measured on a relative basis to the general market which is represented by the S&P 500 and to the subject company's industry peer group as indicated.

**Rating: Meaning:**

<b>Strong Buy:</b>	Expect significant price gains in the price of the stock relative to its industry peer group and general market over the next 12 months.
<b>Buy:</b>	Expect out-performance for the price of the stock relative to its industry peer group and general market over the next 12 months.
<b>Neutral:</b>	Expect little or no outperformance opportunity over the next 12 months.
<b>Underperform:</b>	Expect underperformance for the price of the stock relative to its industry peer group and general market over the next 12 months.
<b>Sell:</b>	Expect price decline or significant relative market and industry underperformance over the next 12 months.
<b>Not Rated</b>	No Current Research Rating

**Rating Distribution (01/22/2020)**

Companies Under Coverage		Relationship Companies Under Coverage*	
#	%	#	%
16	13%	1	15%
57	47%	5	70%
44	36%	1	15%
5	4%	0	0%
0	0%	0	0%
NA	NA	65	NA

\*Relationship Companies under research coverage are companies in which Tigress Financial Partners LLC or one of its affiliates has received compensation for investment banking or non-investment banking services from the company, affiliated entities and / or its employees within the past twelve months or expects to do so within the next three months.

Total 122 100% 72 100%

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We employ proprietary quantitative valuation models combined with dynamic fundamental analysis based on the principles of Economic Profit to formulate timely and insightful investment ratings, analysis, strategies, and recommendations.

We make key adjustments to reported financial data eliminating GAAP-based accounting distortions and measuring all companies on a cash operating basis.

Our proprietary research framework is a multi-factor model that scores and ranks companies based on their risk-adjusted ability to create Economic Profit relative to their current market value focusing on three key components:

**Business Performance:** Measuring economic profitability, growth, and operating efficiency.

**Risk:** Measuring business sustainability, volatility, strength, and consistency.

**Valuation:** Linking business performance to market value. Measuring value created relative to capital employed and enterprise multiples of economic profit and cash flow.

We score and rank 24 key measurements of performance, risk, and value into relative market and industry investment recommendations.

**Glossary of Key Terms and Measures**

<b>Excess Cash per Share:</b>	Excess Cash per Share is the amount of excess cash divided by basic shares outstanding. Excess Cash consists of all cash and short-term securities less operating cash needed to run the business. Operating Cash is 5% of TTM net sales revenue.
<b>EBITDAR:</b>	Earnings Before Interest, Taxes, Depreciation, Amortization, and Restructuring, and Rent Costs. This is especially important when comparing companies that use a significant amount of leased assets like restaurants and retailers.
<b>NOPAT:</b>	Net Operating Profit After Tax represents a company's after-tax cash operating profit excluding financing costs.
<b>Total Invested Capital:</b>	Total Invested Capital the total cash investment that shareholders and debt holders have made during the life of the company.
<b>Return on Capital:</b>	Return on Capital equals NOPAT divided by Total Invested Capital. It is a key measure of operating efficiency. ROC quantifies how well a company generates cash flow relative to the capital invested in its business.
<b>Cost of Capital:</b>	Is the proportionately weighted cost of each category of capital – common equity, preferred equity, and debt.
<b>Economic Profit:</b>	Economic Profit is the net operating income after tax less the opportunity cost of the total capital invested. It is the most important driver of shareholder value.
<b>Current Operations Value:</b>	Current Operations Value is the portion of market value based on the discounted present value of the current earnings stream, assuming it remains constant forever.
<b>Future Growth Value:</b>	Future Growth Value is the portion of market value based on un-earned Economic Profit

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<b>Company:</b>	<b>Disclosure:</b>
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