The Sunday Brief: What They Said – Second Quarter Clues from Analyst Conferences (Part 2)

Greetings from Louisiana, Texas and Missouri. Pictured is Quincy Hall, a former schoolhouse converted to a local town center, in Quincy, Missouri. Fastwyre applied for a grant to serve this area through the USDA Community Connect program. We hope to hear good news later this summer.

This week, after a full market commentary, we will look for additional clues concerning the second quarter from several analyst conferences and other news items. There is a lot of information to cover.

Our July 9 Brief will take a holiday turn, with less analysis of current events and more focus on several spring interviews that we think shape the longer-term future of the telecom industry. It's likely that we will publish this edition on Saturday.

The Fortnight That Was

FAB FIVE	Ticker	Shares outstanding (end of yr unless noted)			Stock Price (last trading day of year)			Equity Value ($B)				2023 YTD PERFORMANCE			Current market cap			1-wk change	2-wk change
Stock Name	**Symbol**	**Dec-21**	**Dec-22**	**Mar-23**	**Dec-20**	**Dec-21**	**Dec-22**	**Dec-19**	**Dec-20**	**Dec-21**	**Dec-22**	**23-Jun**	**% change**	**Value Gained/ Lost ($B)**		**9-Jun**	**16-Jun**		
Apple	AAPL	16,319.4	15,821.9	15,728.7	$ 131.97	$ 177.57	$ 129.93	$ 1,284	$ 2,216	$ 2,898	$ 2,056	$ 186.68	44%	$ 893	$ 2,954	$ 803	$ 865	$ 28	$ 90
Alphabet (Google)	GOOG	661.0	12,807.0	12,697.0	$ 1,751.88	$ 2,893.59	$ 88.73	$ 923	$ 1,181	$ 1,913	$ 1,136	$ 123.02	39%	$ 435	$ 1,576	$ 433	$ 449	$ (13)	$ 2
Microsoft	MSFT	7,496.9	7,443.8	7,435.5	$ 222.42	$ 336.32	$ 239.82	$ 1,199	$ 1,678	$ 2,521	$ 1,785	$ 335.02	40%	$ 708	$ 2,494	$ 647	$ 762	$ (54)	$ 61
Amazon	AMZN	508.8	10,247.3	10,260.4	$ 3,256.93	$ 3,334.34	$ 84.00	$ 920	$ 1,640	$ 1,697	$ 861	$ 129.33	54%	$ 465	$ 1,325	$ 405	$ 426	$ 39	$ 61
Facebook/ Meta	FB	2,765.9	2,592.6	2,562.7	$ 273.16	$ 336.35	$ 120.34	$ 585	$ 778	$ 930	$ 312	$ 288.73	140%	$ 432	$ 749	$ 371	$ 412	$ 20	$ 61
Totals								**$ 4,911**	**$ 7,492**	**$ 9,959**	**$ 6,150**			**$ 2,932**	**$ 9,097**	**$ 2,658**	**$ 2,913**	$ 19	$ 275
Change								*$ 1,579*	*$ 2,581*	*$ 2,467*	*$ (3,809)*					$ (122)	$ 255		
Cumulative Change									*$ 4,159*	*$ 6,626*	*$ 2,817*								

TELCO TOP FIVE	Ticker	Shares outstanding (end of yr unless noted)			Stock Price (last trading day of year)			Equity Value ($B)				2023 YTD PERFORMANCE			Current market cap			1-wk change	2-wk change
Stock Name	**Symbol**	**Dec-21**	**Dec-22**	**Mar-23**	**Dec-20**	**Dec-21**	**Dec-22**	**Dec-19**	**Dec-20**	**Dec-21**	**Dec-22**	**23-Jun**	**% change**	**Value Gained/ Lost ($B)**		**9-Jun**	**16-Jun**		
AT&T	T	*7,126.0*	7,129.9	7,149.0	$ 28.75	$ 24.60	$ 18.41	$ 276	$ 205	$ 175	$ 131	$ 15.45	-16%	$ (21)	$ 110	$ (18)	$ (17)	$ (4)	$ (4)
Verizon	VZ	4,197.8	4,199.9	4,204.0	$ 58.73	$ 51.96	$ 39.40	$ 252	$ 243	$ 218	$ 165	$ 35.51	-10%	$ (16)	$ 149	$ (17)	$ (12)	$ (4)	$ 0
T-Mobile	TMUS	1,249.3	1,219.4	1,199.9	$ 134.85	$ 115.98	$ 140.00	$ 67	$ 167	$ 145	$ 171	$ 132.80	-5%	$ (9)	$ 159	$ (10)	$ (11)	$ 2	$ 2
Comcast	CMCSA	4,533.2	4,216.1	4,168.8	$ 52.40	$ 50.33	$ 34.97	$ 203	$ 241	$ 228	$ 147	$ 40.09	15%	$ 21	$ 167	$ 22	$ 26	$ (5)	$ (1)
Charter	CHTR	172.7	152.7	150.6	$ 661.55	$ 651.97	$ 339.10	$ 104	$ 128	$ 113	$ 52	$ 326.28	-4%	$ (2)	$ 49	$ (2)	$ 0	$ (2)	$ (0)
Totals								**$ 903**	**$ 985**	**$ 879**	**$ 667**			**$ (27)**	**$ 635**	**$ (24)**	**$ (14)**	$ (13)	$ (3)
Change								*$ 220*	*$ 82*	*$ (106)*	*$ (212)*					$ 13	$ 10		
Cumulative Change since 1/1/2019									*$ 302*	*$ 196*	*$ (16)*								
Relative market cap								**5.44**	**7.61**	**11.33**	**9.23**				**14.32**				

"How high can the Fab Five go?" was a question several of you posed over the last month. This week, we started to get that answer, with Microsoft down $54 billion and Google down $13 billion. Despite these dips, the overall group netted a $19 billion gain last week and had a very healthy $275 billion gain over the last two weeks.

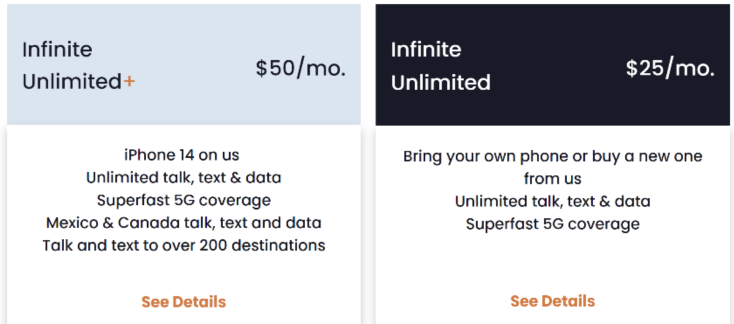
As the above table shows, the worst performing stock in the Fab Five (Google) is still up 39% in 2023, and Apple and Microsoft are back to their 2021 pandemic-driven highs. As investors contemplate the acceleration of new technologies (particularly the development of Large Language Models or LLMs and the associated software that enables increased productivity), companies like Google, Meta, Microsoft, and Amazon *should* be leading the enthusiasm parade.

Investors will be looking for clues of adoption and interest in 2Q earnings calls, and each of the Fab Five will answer differently. Microsoft, Amazon and Google have large commercial cloud customer bases and their embrace should be a good leading indicator. Our view is that many are creating linear extrapolations from what is likely going to follow a curve-like shape. There will undoubtedly be early success stories, but AI alone will not change how we learn, work, or heal. Changing behavior and altering daily routines take time.

The Telco Top Five had modest losses this week, and were basically flat for the last fortnight, with T-Mobile recovering some of May's decline.   AT&T remains the loss leader through the midpoint of 2023 (down $21 billion and flirting with the $100 billion market capitalization level). Comcast is the only one of the group that has actually gained value.

The biggest news since the last Brief, however, is Dish's announcement that they have launched their next-generation wireless network (dubbed Project Genesis) across 70% of the US population (announcement here).

Dish Wireless does business under Boost Mobile, Boost Infinite, and Gen Mobile. Infinite's $25 price point, from the first device, is compelling. Where Dish has a wireless coverage gap, they have AT&T and T-Mobile networks to fall back on (presumably with deprioritized data). We checked several towns and it appears that they are more likely to be using AT&T than the T-Mobile network.



It's a little too early to call Infinite a winner or a loser. The Boost distribution network continues to be intact (albeit a fraction of their peak 15 years ago). The early reviews of the network are generally positive, and a $25 forever price point plays well to the cost-conscious family segment. While it's hard to see meaningful postpaid adoption (which is why we see this as a complement to AT&T's overall network strategy), we see Boost Infinite as a major threat to Verizon's Tracfone transformation.

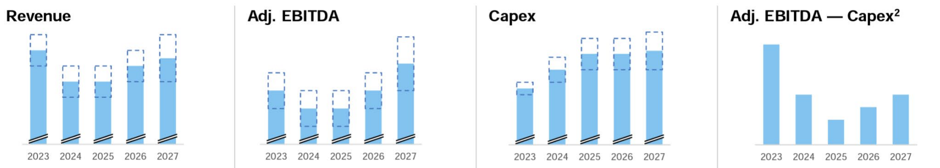
When Dish announces their earnings in August, will the stock magically pop back to 2019 levels? Probably not. As the nearby chart from Bloomberg shows, Dish has a long climb to restore investor confidence. The company needs to show that it can acquire material market share, increase the use of the Dish-owned and operated network to above 60% of total data consumed by the end of 2023, and demonstrate that the open RAN technology is not only stable, but better than legacy network architectures. That's a lot to prove, and, while we are skeptical, we are hopeful that Dish pulls it out.

We are less bullish on Lumen. They recently held an Investor Day where they forecasted deep EBITDA reductions in mass markets as they overbuild their copper infrastructure. The classic "hockey stick" profitability picture is shown here:

FINANCIAL OUTLOOK

Mass Markets Segment Outlook

High margins in fiber unit economics as program scales



Financial Metric[1]	2023	2024	2025	2026	2027
Revenue	**$3.0B - $3.2B**	$2.8B - $3.0B	$2.8B - $3.0B	$2.9B - $3.1B	$2.9B - $3.2B
Adjusted EBITDA	**$1.6B - $1.8B**	$1.5B - $1.7B	$1.5B - $1.7B	$1.6B - $1.8B	$1.7B - $2.0B
Capital Expenditures	**$0.8B - $1.0B**	$1.0B - $1.4B	$1.2B - $1.7B	$1.2B - $1.7B	$1.2B - $1.8B
Quantum Enablement Capex	**~$0.6B - $0.7B**	~$0.8B - $1.1B	~$1.0B - $1.5B	~$1.0B - $1.5B	~$1.0B - $1.5B
Adjusted EBITDA - Capex[2]	**~$0.8B**	~$0.4B	~$0.2B	~$0.3B	~$0.4B
Adjusted EBITDA - Capex/Revenue[2]	**~24%**	~14%	~5%	~9%	~14%

41

Note: All Mass Markets outlook projections exclude potential impacts of the Broadband Equity Access and Deployment (BEAD) program.
1. Projections exclude unallocated corporate/other costs of ~$3.9B - $4.3B and capital expenditures of ~$0.4B - $0.6B.
2. Assumes mid-point of outlook metrics.

LUMEN®

Lumen has the two-fold challenge of increased competition (AT&T and BlackRock's Gigapower joint venture is clearly taking aim at the West in their latest announcements), as well as very tight marketing budgets (which need to reconvince customers that this time it will be different). Unlike their Brightspeed peers, they need to do this in the quarterly spotlight of a public company. Not impossible, but we think Lumen needs a Fab Five partner for mass markets more than Boost/ Infinite/ Dish does. As we will describe below, a bet for Lumen is a bet against Comcast and Cox. We like the odds for the latter much better.

Finally, it's the season for FCC nominations and renominations. Last Thursday, the US Senate held a hearing to discuss the renomination of Commissioners Brendan Carr and Kansas City-born Geoffrey Starks. They also questioned Anna Gomez, the latest nominee of the Biden administration and a former Sprint colleague. Full coverage of the hearing from *Fierce Telecom* and *Light Reading* are here and here. If each are (re)confirmed, Brendan Carr and Nathan Simington (confirmed in 2020) would be the Republican commissioners, while current Chair Jessica Rosenworcel, Geoffrey Starks, and Anna Gomez would be the Democrat commissioners.

With no major wireless spectrum auctions on the near-term horizon, the Commission's focus will turn to broadband deployment and compliance, particularly as Connect America Fund (CAF) and Rural Development Opportunity Fund (RDOF) deadlines approach. The FCC and DOJ will also need to enforce Dish's commitment to build to 75% of the US population (the extra 5% involves a lot more towers) by the end of 2025.

What They Said – Second Quarter Clues from Analyst Conferences (Part 2)

In Part 1 of this second quarter earnings preview, we posed two specific questions:

- *How will Verizon's myPlan impact Big Red's revenue growth (specifically ARPA) and gross add trajectory? Is disaggregation enough to lure postpaid customers away from AT&T and T-Mobile?*
- *Will this be the quarter where AT&T will begin to grow their total cash flow as they take away share from wireless and wireline competitors? What will be different this time?*

You can go back to that edition and read the responses, but we are sanguine on a rapid Verizon or AT&T customer metrics turnaround (note: thanks to aggressive managerial relocation policies like the one described in this Bloomberg article, we don't think that AT&T will have any difficulty reducing costs and improving overall profitability. Space does not permit us to say more, except we are shocked that Chicago and former AT&T headquarters San Antonio did not make the list).

We will address two questions for the cable industry (specifically Comcast and Charter) in this Brief:

- *How can cable acquire and retain more mobile customers faster, reducing the exposure from Internet-only customers?*
- *How much share can cable lose without significantly impacting scale costs?*

In response to the first question, we turn to Comcast Cable CEO Dave Watson's wide-ranging and deep interview at the JP Morgan Global Technology, Media and Communications conference (link to transcript here). Phil Cusick, the JP Morgan telecom senior analyst, asks Dave if investors should think about Comcast's market position the same way that they thought about small business over a decade ago (this was internally referred to within Comcast as then-Comcast Business CEO Bill Stemper's "scorched earth" small business strategy). Dave replies:

> "We're clearly a challenger. It's good to be a challenger in a line of business, business services and mobile. But with mobile, I think we're uniquely positioned in terms of by the gig and unlimited. But what I said earlier in terms of how we manage going after broadband, very similar way with mobile, where we focus on acquisition, base management, upgrades, downgrades and then retention.
>
> Mobile is such a huge part of all 3 of those efforts. And one of the things that we've done in the last 1.5 years or so, we've rolled out higher tiers of unlimited in terms of performance, in terms of capabilities, and it comes at a higher price point. So our mobile ARPU is hanging in there as well because we manage things that way.
>
> And one of the things, too, that we have, we have this companion, which is just great WiFi, and being able to have WiFi do a lot of the lifting in the home, the 20 million hotspots that we have. So we talked to our customers, not just about that we're at the low end of the marketplace. We talk about mobile as if we're the leader because we have built the next-generation mobile capability when you combine great WiFi with great mobile service.
>
> So we have a wonderful wholesale deal with Verizon, really like our positioning there, but it helps us compete in every single segment. And we think we -- whatever they do, we get access to. So I think we're in a good position to compete in every single segment. And not surprisingly, our focus does start in the high end, but we'll compete in every single segment."

What Dave describes here is not a *down* market movement (although one could argue that by the Gig already satisfies that segment need), but rather *up* market. Comcast is clearly focused on acquiring bundle-hungry postpaid multi-line families. Here is the current Comcast rate card:

	Unlimited Per line per month			By the Gig shared data		
Lines on account	Intro	Plus	Premium	1 GB	3 GB	10 GB
1	$45	$55	$65	$15/mo	$30/mo	$60/mo
2	$30 each	$40 each	$50 each	$15/mo	$30/mo	$60/mo
3	$30 each	$40 each	$50 each	$15/mo	$30/mo	$60/mo
4	$30 each	$40 each	$50 each	$15/mo	$30/mo	$60/mo
5-10	+$20 each added line	+$30 each added line	+$40 each added line	$15/mo	$30/mo	$60/mo

While a lot has been made of the $30/ line unlimited Intro price point (which the company is quick to point out applies to as few as two lines), Comcast is clearly not stopping there, and is eager to offer "like" premium data amounts with features like Hotspot for $40 and $50 per line.

Further, Comcast, unlike Spectrum, charges taxes and fees on top of the rates shown above (Spectrum's $30/mo./ line includes all taxes and fees, important in areas like New York City). Spectrum also prices their "By the Gig" pricing for $14 (taxes included) which is a significant savings for many low-end or voice-centric subscribers. This explains much of what we think will be a net additions gap for 2023 between the two companies. More subscribers for Charter, but less profit.

Fast-forward to the end of 2024, when Comcast will be widely offering their 1 and 2 Gbps bundles to most homes. Wireless will be important, but we think communications will be more video-focused, especially in the home. A premium Wi-Fi connection will be critical (Xfinity has a strong device), and the phone screen will be docked and pointing away from the user in the home (see nearby picture from the Apple WWDC – we think the announcement of "Facetime is coming to Apple TV" was the most underreported and most impacting parts of the presentation – more starting at roughly 1:02 in this link).

Apple just reinforced the power of the large screen, not by trying to replace it, but by interoperating with existing equipment using Apple TV. Bringing together Facetime and Apple TV favors greater in-home communication activity, and that favors Comcast (and the cable industry in general) over mobile. Just as Apple quietly and consistently replaced the SMS text with Wi-Fi based Messaging, then used a large Apple ID user base to replace 10-digit phone numbers as the source of mobile identity, now they are going to replace the dialer (a.k.a., the "Phone" app) with Facetime. When that transition is complete, where does that leave wireless carriers? More dumb and more pipe.

That's why Comcast and Charter's "let it play out" strategy makes sense. They will watch Apple and Samsung (one of the largest global TV manufacturers) wring out the last drops of value from retail wireless. Then they will use their broadband base to extract additional wholesale connectivity value from each carrier (we don't think that Charter and Comcast will have an exclusive relationship with Verizon in five years). The cable companies can play a long game, and that's a winning strategy against wireless.

What could go wrong? Is it game over? Hardly. This brings us to our last question:

- *How much share can cable lose without significantly impacting scale costs?*

To provide context to answer this question, we turn to the ACSI annual survey of Internet Service Provider (ISP) satisfaction released earlier in June. Starting with this report, they began to separate scores between fiber and non-fiber subscribers. The results are shown in two nearby tables.

Satisfaction Benchmarks by Company

Fiber Internet Service Providers

Company	2023
Fiber Internet Service Providers	75
AT&T Fiber	80
CenturyLink Fiber (Lumen Technologies)	78
Google Fiber	76
All Others	75
Verizon Fios	75
Frontier Fiber	74
Xfinity Fiber (Comcast)	73

2023 results based on data collected April 2022 – March 2023.

Non-fiber Internet Service Providers

Company	2023
Non-fiber Internet Service Providers	66
T-Mobile	73
AT&T Internet	72
Sparklight (Cable One)	71
Kinetic by Windstream	70
Xfinity (Comcast)	68
All Others	66
Xstream (Mediacom)	65
Cox	64
Spectrum (Charter Communications)	64
CenturyLink (Lumen Technologies)	62
Frontier Communications	61
Optimum (Altice USA)	58

2023 results based on data collected April 2022 – March 2023.

There is a 9-point satisfaction difference between Fiber and Non-Fiber providers. For AT&T, there is an 8-point difference between their DSL-based solution and AT&T fiber. The range in satisfaction is 14 points between Non-Fiber ISPs (removing T-Mobile's fixed wireless from the equation); Fiber ISP results are more tightly clustered.

Whether this is a function of newer plant, the allure of new and seemingly limitless technology, or the yearning for a competitive option to DSL and DOCSIS is anyone's guess. Absent a bad installation or Internet transport experience, fiber connectivity that is priced competitively is going to be tough to beat. Few will yearn for the good 'ol days of cable modems. Cable will lose share, and we think 20-30% per competitor is a likely outcome if the competition employs quality-focused construction techniques and discounts their services for share gains.

Two questions emerge from fiber competition:

1) *Is there an 80/20 rule when it comes to bandwidth? Does a subsegment of the High Speed Internet base represent a large portion of total value created?* Fortunately for cable, the answer to this question is likely "no" unless fiber manages to move a triple-play household (voice and Internet generate disproportionate margins, while video is less profitable).
2) *What are the scale impacts of a 20-30% market share loss in an urban market?* Each cable company has some indication of that today if they have faced competition from both Google Fiber and another fiber or fixed wireless provider. Our belief is that most cable companies are far down the market share curve to survive even a 30% loss from fiber. This will vary by market, however.

Bottom line: Cable has the best of both worlds right now – 1) solid scale economies and 2) increasingly attractive wireless alternatives. Wireless is a long game, and cable can continue to aggressively market to their base if housing starts/ moves continue to stagnate. The situation is different for their telco challengers.

That's it for this Brief. In two weeks, our Holiday edition will mirror the "Words of Wisdom" brief we ran over Memorial Day. Until then, if you have friends who would like to be on the email distribution, please have them send an email to sundaybrief@gmail.com and we will include them on the list (or they can sign up directly through the website). Go Royals and Sporting Kansas City!

Note: The opinions and projections in this Brief are solely those of the Patterson Advisory Group and may not reflect those of Fastwyre Broadband