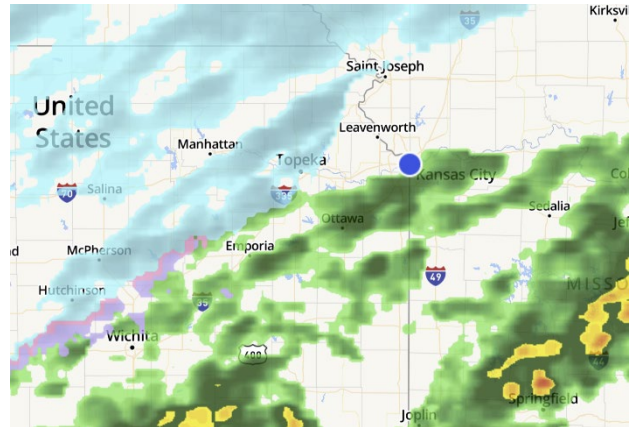


The Sunday Brief: Third Quarter Earnings Review (Part 1) – The Build Cycle

Greetings from Missouri, where, as our multi-color weather radar picture clearly shows, we are experiencing the “summer-to-winter” weather change this weekend. And just on time, the last two weeks have been full of earnings news, some of which was received as frostily as November mornings in the Midwest.



This week, we will have a normal market commentary followed by a topic-focused earnings analysis. We have chosen the “build cycle” as the measuring rod for this Brief as we believe it explains a lot about earnings sensitivity and quickly summarizes where each of the Telco Top Five are in their attempts to grow coverage and capacity.

For those of you who are not aware, Apple is the only company of the ten we track that has not reported 3Q earnings. After all companies have reported, we will update share counts, net debt balances, etc. When we distribute next weekend’s interim Brief (available online at www.sundaybrief.com), each of those fields will be updated.

Also, there is still a lot of movement with the iPhone 15 Pro and Pro Max. We will likely run two more updates (later today and next weekend) as we believe that all of the backlog issues will be resolved by then. They are also available on the Sunday Brief website.

The Fortnight That Was

FAB FIVE		Shares outstanding (end of yr unless noted)			Stock Price (last trading day of year)			Equity Value (\$B)				2023 YTD PERFORMANCE							
Stock Name	Symbol	Dec-21	Dec-22	Jun-23	Dec-20	Dec-21	Dec-22	Dec-19	Dec-20	Dec-21	Dec-22	27-Oct	% change	Value Gained/Lost (\$B)	Current market cap	13-Oct	20-Oct	1-wk change	2-wk change
Apple	AAPL	16,319.4	15,821.9	15,634.2	\$ 131.97	\$ 177.57	\$ 129.93	\$ 1,284	\$ 2,216	\$ 2,898	\$ 2,056	\$ 168.22	29%	\$ 599	\$ 2,662	\$ 765	\$ 671	\$ (73)	\$ (166)
Alphabet (Google)	GOOG	661.0	12,807.0	12,609.0	\$ 1,751.88	\$ 2,893.59	\$ 88.73	\$ 923	\$ 1,181	\$ 1,913	\$ 1,136	\$ 123.40	39%	\$ 437	\$ 1,580	\$ 629	\$ 605	\$ (168)	\$ (191)
Microsoft	MSFT	7,496.9	7,443.8	7,429.8	\$ 222.42	\$ 336.32	\$ 239.82	\$ 1,199	\$ 1,678	\$ 2,521	\$ 1,785	\$ 329.81	38%	\$ 669	\$ 2,455	\$ 653	\$ 645	\$ 23	\$ 15
Amazon	AMZN	508.8	10,247.3	10,317.8	\$ 3,256.93	\$ 3,334.34	\$ 84.00	\$ 920	\$ 1,640	\$ 1,697	\$ 861	\$ 127.74	52%	\$ 451	\$ 1,309	\$ 472	\$ 425	\$ 27	\$ (21)
Facebook/ Meta	FB	2,765.9	2,592.6	2,573.2	\$ 273.16	\$ 336.35	\$ 120.34	\$ 585	\$ 778	\$ 930	\$ 312	\$ 296.73	147%	\$ 454	\$ 769	\$ 500	\$ 485	\$ (31)	\$ (46)
Totals								\$ 4,911	\$ 7,492	\$ 9,959	\$ 6,150			\$ 2,610	\$ 8,775	\$ 3,019	\$ 2,831	\$ (222)	\$ (410)
Change								\$ 1,579	\$ 2,581	\$ 2,467	\$ (3,809)					\$ 40	\$ (188)		
Cumulative Change									\$ 4,159	\$ 6,626	\$ 2,817								

TELCO TOP FIVE		Shares outstanding (end of yr unless noted)			Stock Price (last trading day of year)			Equity Value (\$B)				2023 YTD PERFORMANCE							
Stock Name	Symbol	Dec-21	Dec-22	Jun-23	Dec-20	Dec-21	Dec-22	Dec-19	Dec-20	Dec-21	Dec-22	27-Oct	% change	Value Gained/Lost (\$B)	Current market cap	13-Oct	20-Oct	1-wk change	2-wk change
AT&T	T	7,126.0	7,129.9	7,149.0	\$ 28.75	\$ 24.60	\$ 18.41	\$ 276	\$ 205	\$ 175	\$ 131	\$ 14.82	-20%	\$ (26)	\$ 106	\$ (29)	\$ (22)	\$ (4)	\$ 3
Verizon	VZ	4,197.8	4,199.9	4,204.0	\$ 58.73	\$ 51.96	\$ 39.40	\$ 252	\$ 243	\$ 218	\$ 165	\$ 33.44	-15%	\$ (25)	\$ 141	\$ (37)	\$ (33)	\$ 8	\$ 12
T-Mobile	TMUS	1,249.3	1,219.4	1,176.5	\$ 134.85	\$ 115.98	\$ 140.00	\$ 67	\$ 167	\$ 145	\$ 171	\$ 140.00	0%	\$ -	\$ 165	\$ 2	\$ (4)	\$ 4	\$ (2)
Comcast	CMCSA	4,533.2	4,216.1	4,125.1	\$ 52.40	\$ 50.33	\$ 34.97	\$ 203	\$ 241	\$ 228	\$ 147	\$ 39.64	13%	\$ 19	\$ 164	\$ 36	\$ 33	\$ (13)	\$ (17)
Charter	CHTR	172.7	152.7	149.7	\$ 661.55	\$ 651.97	\$ 339.10	\$ 104	\$ 128	\$ 113	\$ 52	\$ 372.00	10%	\$ 5	\$ 56	\$ 16	\$ 14	\$ (9)	\$ (12)
Totals								\$ 903	\$ 985	\$ 879	\$ 667			\$ (27)	\$ 630	\$ (11)	\$ (12)	\$ (15)	\$ (16)
Change								\$ 220	\$ 82	\$ (106)	\$ (212)					\$ 6	\$ (1)		
Cumulative Change since 1/1/2019								\$ 302	\$ 196	\$ (16)									
Relative market cap								5.44	7.61	11.33	9.23				13.92				

The catalyst for 3Q earnings stock appreciation was revenue growth. Beating analysts’ earnings estimates for the current quarter was not enough. And, as we saw in the case of Google Cloud, even 22% annual growth isn’t good news if another competitor (Microsoft) is growing their revenues by 29%. As a result of that one miss, Google lost nearly \$168 billion since their earnings release (and Microsoft and Amazon increased their market capitalizations over the same period).

Even with rising interest rates, transactions are beginning to emerge and FOMO is taking hold. This is likely to be the beginning of a steady stream of rumors, with some culminating in announcements.

Finally, last week, Nokia announced that they would be laying off 16% of their global workforce, expecting about 72,000 remaining after the action. As capital budgets are trimmed, profits at both Ericsson and Nokia are falling quickly. More about Nokia's woes in [this CNBC analysis](#).

Third Quarter Earnings Review (Part 1) – The Build Cycle

This is the first time since early 2021 that we have had the opportunity to really dig into each word spoken in quarterly earnings. As many of you know, we posted our initial thoughts from each of the Telco Top Five earnings to the website (except Charter's Friday earnings call – we will discuss that in some detail below). If you did not catch those posts, they are [here](#) and [here](#) and [here](#) and [here](#).

The telecommunications industry is in the midst of two build cycles. Wireless companies are continuing to expand their spectrum reach (C-Band being the most popular) and wireline companies are extending fiber closer to the customer (and, in the case of AT&T, Brightspeed, Lumen, Verizon and dozens of smaller providers, to the home). There are other projects, such as AT&T's Internet Air and Comcast's CBRS deployments, which are company specific, but wireless mid-band coverage and increased local fiber deployment are the two largest build cycles in the telecom industry today.

Not surprisingly, each company is at a different point in that build cycle. And as a result, some companies are deep in the capital spending trench. AT&T (and, to a lesser extent, Verizon) has both C-Band deployments and and local fiber upgrades deepening that trench. Everyone is spending capital, but each company is at a different place in the cycle.

The following table outlines some of the key builds each company has announced and discussed:

The Sunday Brief				
Build Cycle Chart (Active and in Process)				
Company	Network	Activity	Next Milestone	Notes
AT&T	residential wireline	FTTH to 30 million homes + businesses	20.7 million currently serviceable as of 3Q results	9.3 million additional HHP by end of 2025. From 10-yr anniversary blog post (April 2023), company has about 5 million left in build.
AT&T	wireless	C-Band (3.7-3.98 GHz) deployment	200 million POPs by end of 2023	No plans beyond the first 200 million POPs announced
AT&T	fixed wireless	AT&T Internet Air deployment	30 markets by end of 2023	Fill in technology only
Verizon	wireless	C-Band (3.7-3.98 GHz) deployment	250 million POPs by end of 2024	Milestone source = 2022 Investor Day. Spectrum cleared four months ahead of schedule.
Comcast	residential wireline	Hi-split upgrades and DOCSIS 4.0 deployment	Deployed in Co Springs, parts of Atlanta and Philadelphia end of 2023	No firm 2024 milestones established
Comcast	wireless	Philadelphia CBRS PAL deployment	Completion of CBRS deployment (2024)	3% of geographic footprint drives 60% of data traffic
T-Mobile	wireless	mid-band (2.5 GHz) deployment	300 million POPs by end of 2023	Target achieved in October 2023
Charter	residential wireline	Hi-split upgrades and DOCSIS 4.0 deployment	Hi-split to 8+ million HHP by end of 2023; all HHP get 5 Gbps/ 1 Gbps by end of 2025	Multi-Gbps speeds available to 55+ million HHP by end of 2024 (source: Dec 2022 Investor Update)
Charter	residential wireline	RDOF deployments (FTTH)	300,000 HHP by end of 2023	Met 2023 goal in 3Q; likely 415-420K end of 2023

FTTH = Fiber to the Home
 CBRS = Citizens Band Radio Spectrum
 PAL = Priority Access License
 RDOF = Rural Development Opportunity Fund

This is not an all-inclusive project chart, but gives an indication of who has the most "build cycle" left. For example, Verizon has stated that they will build an additional 500,000 Fios passings this year, but that represents a mere 3-4% growth in the base (per the company, they covered around 15.2 million passings with fiber at the end of September).

Clearly AT&T is going to be busy as their total marketable footprint for fiber will increase by ~50% in the next nine quarters. Today that represents a cash flow drain, but 9 million additional homes can yield a lot of free cash flow, and AT&T's ARPU for fiber rose by 9% year-over-year (it appears to be a very attractive and valuable product).

Cable also has very big upgrades to their plant coming over the next 2-3 years with hi-split and DOCSIS 4.0 upgrades. Today, they are in the early innings of that upgrade cycle, but, as both Comcast and Charter have indicated, it still

leverages the existing HFC plant going into each home (we look forward to seeing the results on a broad scale vs. traditional FTTH XGPS-PON architectures).

Many analysts were concerned that Charter was prioritizing their RDOF acceleration over their plant upgrades. It's important to note that a lot of the equipment needed to fully deploy hi-split is going through the same supply chain constraints seen in the post-COVID era. While it might shift the equation to (main competitor) AT&T in some of the Texas markets (assuming Ma Bell can meet a 30 million end of 2025 target), Charter is making a good decision to advance their rural fiber build just as states are deciding which company is best capable of meeting aggressive BEAD deployment goals. We will have more to say about Charter and Comcast's earnings announcements in the next [Brief](#), but suffice it to say, we thought the selloffs in each stock were unwarranted.

This leaves us with T-Mobile. With coverage goals already achieved, capacity becomes the focus. Here are T-Mobile CEO Mike Sievert's responses concerning wireless capacity from their conference call (link [here](#)):

"Ulf and team now that they've reached 300 million people with mid-band Ultra Capacity 5G are now setting about the task of deploying all of our spectrum resources to that base. And we're only just beginning. We have the bulk of our 2.5 gigahertz now rolling out, but our target is to be at 200 megahertz around the end of this year deployed against the 300 million people. And then more room to run next year because, as I said, we have Auction 108 proceeds still pending, we have C-band that we haven't deployed, 3.45 as well as refarming potential from spectrum being used for LTE right now like AWS.... We, right now, at a broad scale, are not looking at alternatives to that from a wireless standpoint.... We remain open-minded to whether there are techniques that would allow us to deploy capital specifically for 5G broadband and make a great return for you. But so far, we haven't drawn any conclusions that, that's a scalable opportunity for us."



T-Mobile is now in capacity augment mode. That's a great place to be as a share taker, and one of the many reasons why they recently reignited their "four new lines for \$100" promotion with the opportunity to get four iPhone 15 devices for free (with eligible trade-in).

Bottom line: Different build cycle positions drive new product and marketing developments. Cable has to touch every customer over the next 2-3 years – no small task. Verizon and AT&T will need to continue to deploy mid-band spectrum to match T-Mobile – no small task. T-Mobile needs to augment capacity in the right places to take profitable market share from Verizon (including wholesale) and AT&T. Everyone is at a different point, but capacity augments tend to be easier than adding new high bandwidth capacity.

There are plenty of additional topics for future [Briefs](#). T-Mobile had some provocative comments about fiber, and both Comcast and Charter had plenty to say about DTC, Xumo, and Disney. We will begin to unpack these comments in upcoming [Briefs](#). 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).

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