

The Sunday Brief: Searching for Value

President's Day week greetings from Iowa, Missouri, and Mexico. We picked a good week to be away from the Midwest with a nearly 90 degree temperature differential most mornings between the frozen tundra and warm Cancun sands. After eight days out of the country, it's good to be back, just in time for our seasonal warmup.

Like many of you, we like a good book on the beach during vacation. This winter, it was Dan Caruso's Bandwidth: The Untold Story of Ambition, Deception, and Innovation That Shaped the Internet Age and Dot-Com Boom. We'll spend a portion of this Brief describing why this 500+ page chronicle should be on your (digital) bookshelf (Amazon link [here](#)).



The remainder of this week's Brief will be spent on market commentary and earnings analysis. This week's title reflects a small portion of the overall landscape covered below.

The Fortnight That Was

FAB FIVE	Shares outstanding (end of yr unless noted)					Stock Price (last trading day of year)			Equity Value (\$B)			2025 YTD PERFORMANCE			Current market cap				
	Stock Name	Ticker Symbol	Dec-22	Dec-23	Dec-24	Dec-22	Dec-23	Dec-24	Dec-22	Dec-23	Dec-24	21-Feb	% change	Value Gained/Lost (\$B)	Current market cap	7-Feb	14-Feb	1-wk change	2-wk change
	Apple	AAPL	15,821.9	15,441.9	15,022.1	\$ 129.93	\$ 192.53	\$ 250.42	\$ 2,056	\$ 2,994	\$ 3,785	\$ 245.55	-2%	\$ (73)	\$ 3,689	\$ (342)	\$ (87)	\$ 14	\$ 269
	Alphabet (Google)	GOOG	12,807.0	12,433.0	12,190.0	\$ 88.73	\$ 140.93	\$ 190.44	\$ 1,136	\$ 1,764	\$ 2,331	\$ 181.58	-5%	\$ (108)	\$ 2,213	\$ (40)	\$ (44)	\$ (64)	\$ (68)
	Microsoft	MSFT	7,443.8	7,430.4	7,434.0	\$ 239.82	\$ 376.04	\$ 421.50	\$ 1,785	\$ 2,795	\$ 3,134	\$ 408.21	-3%	\$ (99)	\$ 3,035	\$ (87)	\$ (97)	\$ (2)	\$ (11)
	Amazon	AMZN	10,247.3	10,387.4	10,597.7	\$ 84.00	\$ 151.94	\$ 219.39	\$ 861	\$ 1,570	\$ 2,307	\$ 216.58	-1%	\$ (30)	\$ 2,295	\$ 103	\$ 98	\$ (128)	\$ (133)
	Facebook/ Meta	FB	2,592.6	2,549.0	2,533.7	\$ 120.34	\$ 353.96	\$ 585.51	\$ 312	\$ 910	\$ 1,478	\$ 683.55	17%	\$ 248	\$ 1,732	\$ 327	\$ 383	\$ (135)	\$ (78)
	Totals								\$ 6,150	\$ 10,033	\$ 13,035			\$ (61)	\$ 12,964	\$ (40)	\$ 253	\$ (315)	\$ (22)
	Change								\$ (3,809)	\$ 3,883	\$ 3,002								
	Cumulative Change								\$ 2,817	\$ 6,700	\$ 9,703								

TELCO TOP FIVE	Shares outstanding (end of yr unless noted)					Stock Price (last trading day of year)			Equity Value (\$B)			2025 YTD PERFORMANCE			Current market cap				
	Stock Name	Ticker Symbol	Dec-22	Dec-23	Dec-24	Dec-22	Dec-23	Dec-24	Dec-22	Dec-23	Dec-24	21-Feb	% change	Value Gained/Lost (\$B)	Current market cap	7-Feb	14-Feb	1-wk change	2-wk change
	AT&T	T	7,129.9	7,150.0	7,178.2	\$ 18.41	\$ 16.78	\$ 22.77	\$ 131	\$ 120	\$ 163	\$ 26.62	17%	\$ 28	\$ 191	\$ 13	\$ 22	\$ 5	\$ 15
	Verizon	VZ	4,199.9	4,204.1	4,209.7	\$ 39.40	\$ 37.70	\$ 39.99	\$ 165	\$ 158	\$ 168	\$ 42.76	7%	\$ 12	\$ 180	\$ (0)	\$ 4	\$ 7	\$ 12
	T-Mobile	TMUS	1,219.4	1,186.9	1,141.7	\$ 140.00	\$ 160.33	\$ 220.73	\$ 171	\$ 185	\$ 256	\$ 265.17	20%	\$ 51	\$ 303	\$ 29	\$ 57	\$ (6)	\$ 22
	Comcast	CMCSA	4,216.1	3,971.9	3,781.0	\$ 34.97	\$ 43.85	\$ 37.53	\$ 147	\$ 176	\$ 144	\$ 36.24	-3%	\$ (5)	\$ 137	\$ (12)	\$ (8)	\$ 3	\$ 7
	Charter	CHTR	152.7	145.2	141.9	\$ 339.10	\$ 388.68	\$ 342.77	\$ 52	\$ 57	\$ 49	\$ 361.00	5%	\$ 3	\$ 51	\$ 1	\$ 2	\$ 0	\$ 2
	Totals								\$ 667	\$ 698	\$ 780			\$ 88	\$ 862	\$ 30	\$ 78	\$ 10	\$ 58
	Change								\$ (212)	\$ 31	\$ 82								
	Cumulative Change since 1/1/2019								\$ (16)	\$ 15	\$ 98								

Relative Market Capitalization 9.23 14.38 15.04

This was a down week for the markets (and the Fab Five) as concerns about meeting growth targets implied in some stock price/ earnings multiples increased. Yields on government bonds, while lower than they were at the beginning of the year (great for those looking for mortgages), are higher than historical levels (10-Year Treasury bonds are currently yielding slightly more than 4.4% and the 30-year mortgage for the last 90 days is shown nearby and in [this Investopedia article](#)).

To put the recent selloff into perspective, Amazon is selling at rates not seen since the beginning of December and is up 28+% over the last twelve months. Apple, which managed to close the week higher, is within six percent of its all-time high set on December 24th (+34.6% over the last twelve months). Google, who could face significant antitrust-driven restructuring, is at mid-December share price levels and up a paltry 26.4% over the last twelve months. And Meta, after nineteen straight days of gains (which lasted through Valentine's Day) is at price levels not seen since... the beginning of February (+46% over the last twelve months).

Last 90 Days of 30-Year Mortgage Rate Average

Average of nationwide rates for 30-year fixed-rate new purchase loans with at least a 20% down payment and an applicant credit score of 680 to 739.



Chart: Investopedia / Sabrina Karl • Source: Zillow Mortgage API

Investopedia

Perspective is required: Since the beginning of 2024 (slightly less than fourteen months), the Fab Five have added nearly \$3 trillion in market capitalization (even with some pretty significant buybacks). Since the beginning of 2019 (our earliest measure of Fab Five market capitalization), the *compounded monthly appreciation* excluding dividends has been 1.85%. Through all the turmoil of the last 6+ years (including buybacks), market capitalization grew by 290%. And, as we have explored, the balance sheets of each of the Fab Five are pristine (see last week's [Brief](#) for details) with each company achieving *negative* net debt (meaning they are their own banks).

One item frequently mentioned in conjunction with this week's market selloff has been "[The Mar-a-Lago Accord.](#)" The long and short of this speculative theory is that allies would swap short-term Treasury bills for long-term (perhaps very long-term) Treasury bonds. While Treasury Secretary Scott Bessant downplayed any near-term possibility of this in a Bloomberg interview on Thursday ([here](#) –30 minutes worth watching), there are a few theorists such as Jim Bianco (see recent transcript [here](#)) that believe the long-term strategy for the US is to provide similar/ enhanced national security (he cites our naval costs) in exchange for allies entering into the aforementioned swap. It wouldn't be a Trump administration without conjecture, even if that borders on the verge of conspiracy. We have been long-term fans of Jim Bianco but believe that his recent comments belie reality and that any duration rebalancing would take many years if not decades.

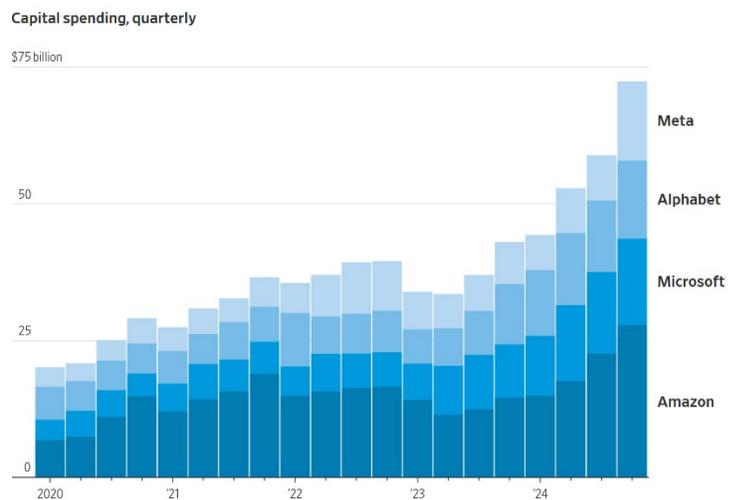
Back to the Fab Five. In the last full [Brief](#), we discussed the capital spending plans of Amazon, Google/ Alphabet, Microsoft, and Meta and the associated implications to the telecommunications industry (see nearby chart from The Wall Street Journal's [chronicle](#) of fourth quarter conference calls). Amazon's spending (and their call to spend close to \$100 billion in 2025 across all their businesses) has generated the most interest.

Most of this spending is on lots of land acquisition and data center construction. This may also include payments to power companies to purchase large amounts of energy in advance (or, in many cases, to pay larger non-recurring expenses to power companies that can then be amortized over the life of the data center). Other expenses include fiber Indefeasible Right to Use contracts with companies such as Lumen (IRUs – see their year-over-year deferred revenue balance increase in their trending schedule [here](#) and last August's announcement [here](#)). These investments are stacked with proprietary servers using Nvidia (or soon to be company-developed) chipsets. They connect directly to large inter-city fiber networks (such as AT&T, Verizon, Cogent, Zayo and Lumen/ Level(3)) and may, in the future, connect to the largest cell towers in metropolitan areas.

The head-scratching question for us is "Why lease when you can own?" Wouldn't it be easier for Microsoft to absorb the \$18 billion debt remaining on Lumen's balance sheet (less than the debt required to purchase Activision Blizzard in 2023), and enter into a long-term agreement with AT&T (or T-Mobile) to upgrade and manage the network? As we have discussed in the past, each of Microsoft's divisions benefit from faster and more consistent bandwidth speeds. AT&T could easily increase capacity to cover most if not all of the remaining Lumen metropolitan areas (and the benefits to AT&T's wireless costs/ performance would also be significant). And with the right branding (and agreement term), AT&T could extend their network across the fast-growing South and West. If Microsoft retained ownership of the fiber assets, antitrust concerns could be assuaged. Just a thought for a Sunday afternoon...

Some Thoughts on Dan Caruso's New Book

Over the last couple of weeks, Jim has been digesting (and reliving) the last three decades of telecom through Dan Caruso's new book (see full title above – we are going to simply refer to it as [Bandwidth](#)). Given its length, the book is a

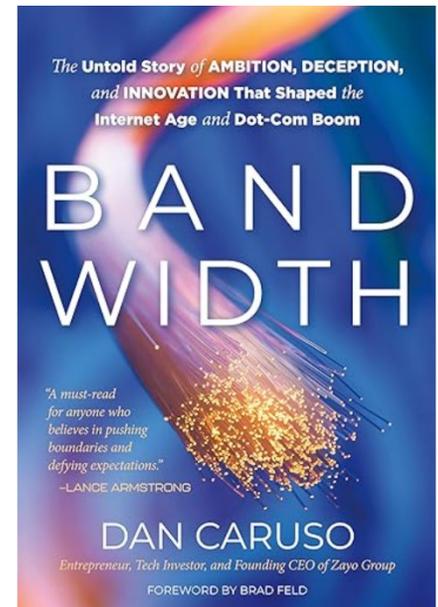


Note: Data in this chart and those below reflect purchases of property and equipment. This chart shows data for each calendar quarter. Microsoft's fiscal year ends June 30.
Source: the companies

remarkably quick read. Whether it was Napoleon Bonaparte or Winston Churchill who penned the phrase “History is written by the winners” can be debated, but Dan’s ability to create tens of billions of dollars in returns for his investors over multiple decades is not in doubt.

Caruso’s focus is not surprisingly on the inter-city networks that power the Internet. From Jim Crowe’s early presentation to the MFS management team through Zayo’s consolidation of a dozen or so companies after the Dot-com bust, he describes his methodology of value creation which is “buy low, sell high.” If you are new to the telecom industry and think that AI is the first bubble created in the last generation, this book is a must read. If you think that accounting for access expenses (a well-defined period expense driven by commercial agreements) could somehow be capitalized (and legal), then this book is for you. If you think that reciprocal capacity swaps are a new phenomenon, then Dan’s chronicling of the Qwest and Global Crossing transactions (which Level(3) smartly avoided) is required reading.

Our only criticism of the book is that it’s uniquely focused on inter-city networks. There are acknowledgements of the development of DOCSIS and other cable activity (we think the development of cable’s Triple Play accelerated the demise of some local telephone companies), and small discussions on the rise of wireless (particularly Craig McCaw’s pioneering role), but these “winners” spawned the resurrection of Apple and the creation of Netflix among others. To that extent, reading Bandwidth leaves us yearning for Volume Two (wireless) and Volume Three (broadband to the home and small business).



Bottom line: Buy and read (or listen) to the book if you are in the telecom or a related industry. It’s well chronicled, the footnotes are their own novelette, and the Appendix is full of additional wit and wisdom. If you don’t like his style or believe there should be a different conclusion, write your own version.

Searching for Value

Beach time lends itself to bigger thoughts – horizons, futures, and value creation. We had originally written a few hundred words on “things you might have missed on those earnings calls” but decided to ditch that topic in lieu of something bigger and broader: the search for value.

Each of the Telco Top Five are pursuing value creation in different ways:

1. **AT&T** is undergoing a 30-45 million home fiber overbuild and effectively cross-marketing wireless and fiber broadband services to newly upgraded customers. This is one factor (of many) that has catapulted them past Verizon as the [#3 most valuable telecom company in the world](#);
2. **T-Mobile** (and to a lesser extent, **Verizon**) are pursuing asset utilization (the proper term is asset turns) strategies to deliver fixed wireless broadband services to tens of millions of customers. This generates value for a period, but will not generate the perpetuity value that they will see from their Lumos and Metronet ventures;
3. **T-Mobile** is also buying back shares rather than pursue an expensive and value destroying acquisition of one or more cable companies;
4. **Verizon** is pursuing what we believe is a value destroying acquisition of Frontier Communications;
5. **Verizon** is also pursuing an “all segment coverage” strategy by funding retail prepaid acquisition through Visible, Total Wireless, and Tracfone. As we wrote in the last [Brief](#), the verdict is still out on that strategy as it requires continuous care and feeding;
6. **Comcast**, through the Nitel acquisition, is creating value through Comcast Business, which in turn is helping all of their cable cousin’s business units (Cox, Spectrum, Altice, Mediacom) to benefit (it’s interesting to compare and contrast the “tuck in” transaction of Masergy Communications in 2021 versus last year’s Nitel announcement);

7. **Comcast** is also pursuing a vertical integration strategy, owning content creation, broadcasting, and transmission assets. AT&T tried to duplicate Comcast's success, but failed miserably, leaving a lot of debt and losses in its wake;
8. **Spectrum** tried to create value through RDOF (rural broadband development that is partially subsidized by the federal government). They have executed on this strategy remarkably well given post-COVID labor and materials cost increases, and turned back licenses when there was no hope of a return;
9. Outside of T-Mobile USA's ownership by a German parent, Comcast's ownership of Sky, and AT&T's Mexico cellular network, there is a current "**invest at home**" common theme to US telecommunications companies;
10. **Build it yourself, own assets outright, and resist sharing** have long been themes of the telecom industry. This is based on the long-standing belief that each US telecommunications company manages and operates their network better than any peer.

We are sure there are a few items missing (e.g., the MVNO strategy between Verizon and several cable companies, the pervasiveness of cost-plus as opposed to value-based pricing, etc.), but these ten strategies cover a lot of ground.

This got us to thinking about several "what ifs?"

1. What if T-Mobile used their Treasury shares to make a big acquisition, perhaps in Canada or Mexico?
2. What would the value of Verizon be if they aggressively pursued an 80-90-95% network utilization strategy for all of their fiber assets (at market rates, with more sharing, but still owned by Verizon)?
3. What if AT&T had an investor (cf: Microsoft invested in Comcast just a few decades ago), that, with some BEAD monies, enabled 90% of their current network to be equipped with fiber to the home (this could be combined with the Lumen strategy described above)?
4. Or, in a twist of the strategy described above, what if Lumen decided to make their fiber network completely open at "cost plus" rates in exchange for more money up front from carriers?
5. What if cable more aggressively deployed fiber to the home, perhaps through a "cap and grow" strategy?
6. What if Amazon (most likely) or Meta (second most likely) purchased some or all of a weakened (and #4 ranked) Verizon?

We are entering a period where value creation extends beyond engineering prowess, product development, and financial scale. Like we saw with Activision Blizzard, the Fab Five know how to play the long game and fight against the odds. Assuming that consolidation will take years to complete, value creation will need to be creative yet grounded.

That's it for this week. In the next [Brief](#), we will have our semi-annual review of capital spending across the Telco Top Five (and may include some of the earnings nuggets we found). 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](#)).

Finally – [Go Royals](#), [Sporting KC](#), and [Davidson Basketball](#)!

Important disclosure: *The opinions expressed in [The Sunday Brief](#) are those of Jim Patterson and Patterson Advisory Group, LLC, and do not reflect those of CellSite Solutions, LLC, or Fort Point Capital.*