CONTRARIAN STOCKS

Lumen Technologies

Dead or left for dead?

Intelligent speculation: A situation where the future is uncertain, but the odds are so irrationally skewed against the investor that a rationally sized position is both logical and compelling.

In this market, where high quality companies are trading at extraordinary multiples to earnings and cash flows, intelligent analysts have no choice but to go snooping around the dumpsters to find something reasonably priced (or mispriced). Even then, in today's age, it can be tough, because "small" and "cheap" is often taken private or acquired by bigger fish. What gets left behind is simply not worth touching. At least, that's what I've heard.

Situations like these, where rational investors are struggling for ideas, don't last forever, of course, and one option is just to wait, sit back and do nothing for a few years. It's understandably both a rational and mature decision to make.

As for me, I relish the challenge that this market provides. There's always, always, always something to buy as a small investor and if you can't find anything, you simply aren't looking hard enough. On to this month's pick…

Lumen Technologies has been completely discarded by the market and, as you'll find out, there's good reason for this. The balance sheet is a mess and that's shown by annual interest expense exceeding $1.1b (a figure larger than the current market cap of Lumen).

What I have found is that, despite the tremendous leverage, there is still plenty of untapped value within Lumen. Here's one brief example – estimates suggest that recreating Lumen's fiber network could cost up to $150b. That fiber network is a necessary asset for the USA.

Furthermore, management is making a calculated bet on defeating leverage, not by playing defence, but by spending their way out on growth initiatives that generate returns high enough to delever through cash flows. The market hasn't bought into this plan and seemingly think it to be far-fetched and risky.

For reasons that will be discussed below, I think the turnaround is increasingly looking more viable as legacy businesses get harvested for cash and potential consolidation aids Lumen in their growth initiatives.

Buy - Overweight

NYSE: LUMN

Price: $1.07

Price target: $3

Date: 20/06/2024

Asset management

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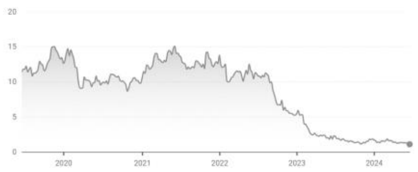
Price Performance



Brief Metrics (ttm)

P/E: n/a

P/B: 2.15x

P/S: 0.08x

EV/EBITDA: n/a

ROE: n/a

Debt/Equity: 38x

*Source: Google Finance, Stock Analysis

Share Data

Price: $1.07

Shares outstanding: 1.02b

Market cap: $1.09b

EPS (ttm): n/a

Dividend yield: n/a

*Source: Finviz

Introduction

The telecoms industry is one that most householders are familiar with offering internet connectivity, landline communication and better television options. In more precise terms, telecoms are predominately responsible for both the transfer of information over long distances and the enablement of communication. This is also true for government and corporations (though, customer requirements are slightly different, of course).

Of course, the industry is not nearly as exciting as Generative AI (with many quick to suggest that growth is stagnating), but certainly the savviest telecoms industry can help quicken AI's evolution through better network speeds and investments into edge computing. As you are probably aware, the largest telecom players in the USA are Verizon, AT&T, Comcast and T-Mobile. Lumen is a smaller player in an oligopoly market and, ultimately, that gives us a catalyst should consolidation occur (TL; DR- it probably will). A key difference between Lumen and the other larger telecoms is that Lumen isn't really fighting the same battle as AT&T, T-Mobile and Verizon, for example. Those three, specifically, are targeting 5G and residential consumers whereas Lumen are focussing their efforts on targeting enterprise. Make no mistake, though, companies like Verizon and AT&T are still competitors to Lumen through their sheer scale.

The telecoms industry is one that has a few constants. The most obvious constant is that the industry incurs high capital expenditures (maintenance capex alone can be very costly). Since much of the necessary infrastructure has already been built, I think it is unlikely that new players (successfully) enter the market. What's more important, from an analysis perspective, is to know what each company is targeting in the space and try to find the company that's taking the right steps forward.

The second constant is less spoken about. Telecoms require constant innovation and thought towards the future to thrive. Ex-management of Lumen got this wrong, took their foot off the gas pedal and played in a defensive manner to appease or satisfice shareholders that didn't really understand the industry that they were dealing with (i.e examples would be cutting back on capex or returning too high a percentage of cash flows to shareholders…). As a result, they lost market share (and an element of competitiveness) from competitors whose management were more courageous and less concerned about explaining their every move to (the wrong types of) shareholders. Returning close to $15b to shareholders in the form of dividends and share buybacks (between 2019 to 2023) was a grave error. Of course, the reverse can be true in that it can also be said that the braver firms that innovate in the “wrong” direction can destroy themselves. To an extent, that risk could be relevant here with present management as you’ll later see.

History

If we briefly look at the operating history of Lumen, it can be traced back to the Oak Ridge Telephone Company, founded in 1930. In 1946, it was purchased by the Williams family and renamed Marion Telephone Company. By 1967, through inorganic growth, it became known as Central Telephone & Electronics and they were serving 10,000 customers. In 1978, Central Telephone Enterprises (yes, it was renamed again) went public and over the next twenty years they went on an acquisitive spree (including Pacific Telecom in 1997 for $1.5b). By 1999, they were in the S&P500. After acquiring Embarq in 2009, they changed their name to CenturyLink. Through the 2010s more acquisitions occurred including Savvis (2011), Qwest (2011), Tier 3 (2013), Level 3 Communications (2017) and in 2020 they rebranded themselves as Lumen Technologies.

The problems for Lumen were realised shortly after the pandemic. All these acquisitions (coupled with a leveraged balance sheet) just weren’t really creating value and the focus has been lost. As a result, in 2021, they sold their Latin American business to Stonepeak for $2.7b and their ILEC business to Apollo for $7.5b. But rates went up and problems didn’t stop… in November 2023, Lumen were forced to sell their EMEA business to Colt Technology Services for $1.8b.

Accounting, Valuation and some Recent History

Lumen Technologies are exactly what most value investors would quickly deem to be a "value trap." In recent years revenues have fallen off a cliff, massive one-time charges have been taken, cash flows have plummeted resulting in a dividend halt and the share price has taken a pounding as the company have been forced to sell non-core assets to survive. From here, a growth story seems impossible, with analysts on Wall Street desperate to see stabilisation without really thinking about the longer-term prospects of the business.

At its core, the reason I like Lumen is that whilst it’s true that there are challenges surrounding the debt load, Lumen’s valuable fiber assets, growth initiatives and business transformation efforts suggest that it’s possible that Lumen can manage its debt burden. With the equity at distressed levels, a purchase now when the market assumes bleak prospects for the business, could be particularly lucrative if the company can find a way to operate profitably in the next couple of years.

Valued at $1.25b with revenues of $14.1b, Lumen has truly been left for dead. Even on an EV/Sales basis, Lumen is cheaper than most competitors, at 1.32x (trailing). There's good reason for this disregard from the market. If you casually eye the bottom half of Lumen's balance sheet, you will notice $500m in equity, an $18b accumulated deficit and $18.6b in long-term debt. For lack of a better word, the capital structure seems well and truly *expletive deleted*.

However, it’s not all terrible news. In January 2024, Lumen entered into an amended and restated transaction support agreement (TSA) which has extended debt maturities to 2029 and provided a $1b revolver. Of course, there’s a cost to these sorts of manoeuvres and that’s obviously a higher interest cost (through higher rates). Management have guided to a $200m higher interest expense because they chose to push out maturities and give themselves some form of runway. Well, if they believe they can survive to 2029, that's a good thing, right?

You should also understand that equity holders are the least of management’s concern right now. They don’t care about the share price, share buybacks, a dividend. Their priority is bringing some stability to Lumen and proving to bondholders that Lumen is going-concern worthy. Once bonds starting trading at healthier levels, perhaps share price volatility ceases and a narrower trading range for the stock is found. I believe we’re still many months away from this. Furthermore, it is important to realise that management’s strategy involves focussing on the numerator or improving profitability (i.e (A)EBITDA/free cash flow) to decrease leverage ratios which means not aggressively paying down debt upfront. It’s a play that the market probably won’t like because it’s a bold statement of intent with unknown variables, but if executed well, will result in wonderful returns for shareholders.

What you should also note about the asset side of the balance sheet is that 22% of assets are intangible. The percentage is likely to be closer to 25% when you consider that leases are classified as “Other” assets on the balance sheet and, as of year-end 2023, as a percentage of total assets, leases accounted for about 3.6% of total assets. What I’m trying to tell you is that there’s no liquidation value here. If everything goes rotten, Lumen file for bankruptcy and competitors mop up. Of course, it’s important to understand what led us to get into this situation --

It has been said the go-to way for rapid growth in the telecoms industry is inorganic – i.e acquisitions are very popular, especially because it has been quite easy (in the last three decades) for management to quickly raise debt, increase top lines and use the word “synergies” than to actively (and tediously) look to find ways to improve the business organically. This has generally encouraged bad practices in the industry and these inefficiencies, whilst they have caused Lumen's implosion, have also allowed Lumen a potential way back in (we'll get there, don't worry).

Just to hammer the point home, impairments of goodwill in this industry mean so much than in other industries because it's a direct admission to shareholders that the synergies that management thought they had found just weren't there. In a way, we can blame incentives (adjusted EBITDA, by definition, encourages debt-fuelled acquisitions) and a weak Board of Directors for Lumen's mistakes. But that's not where I want to go with this. Lumen, in the past two financial years, have taken goodwill impairments of just shy of $14b. That is an insult to shareholders and it's no surprise that the market cap of the company has tanked from $13b at the end of 2021 to a lowly $1.25b today.

To make matters even worse is that you have an unfunded pension bearing a cost of $2.5b, which can be split into two parts – the combined pension plan which is unfunded by $736m and the post-retirement benefit plan, unfunded by $1.725b. Somehow this will have to be sorted out, too, in the future. Of course, there is time to fix this and many of the accounting assumptions blur reality. It's just an added pressure that shareholders should look out for.

It makes sense that, given the above, the market is yearning for some material free cash flow generation to afford interest and (maybe) repurchase some debt. However, since 2023, aggregate (unadjusted) free cash flows have been negative (at $374m) and Kate Johnson, CEO, has been taking the heat for these poor results. What the market has failed to consider was the state of the business when Ms Johnson came to Lumen. It's more than a little unfair to have such high expectations when a total reorganisation of the business just had to happen.

Remember, the numbers are only half of the story and, to me, the market's got so caught up with the terrible numbers, they have failed to realise the real growth opportunities that Lumen has to their advantage. They have also failed to acknowledge the vision of Ms Johnson's that should count for something, even if it can't be properly estimated.

I'm not arrogant enough to even try to forecast free cash flows or anything of the sort for the next few years (sell-side can have at it but it's not the business I'm in). Frankly, it's a ridiculous ask and, in fact, I even don't really consider management's forecasts (of revenue and AEBITDA). The truth is that there are too many unknowns in this type of company to use discounting as a ballpark guide to value. If Lumen survives, they will flourish and if they don't flourish, they don't survive. It's really as simple as that and to determine whether the company survives or not, you have to understand the business Lumen are trying to build.

That being said, I have shown exactly how I look at the cash flow of Lumen. Since cash interest expense is so material to Lumen it makes no sense to use EBITDA and instead I just back depreciation and amortisation out of GAAP earnings. I have also adjusted for one-time events (impairments, early retirement of debt, losses on sale of business) to try to give myself a clearer picture of what's going on.

Having considered capex after, I look at the cash flows and add back some of the provisions and other noncash charges. However, I exclude both SBC and retirement benefits from my analysis, since neither are "core" to the cash flow generation of Lumen. If you want to go even further, you can take out losses on investments etc. which I have done as well in a separate sheet not included here. It goes without saying that working capital also must be considered but I've separated it to provide two sets of (adjusted) free cash flows. As you can see, the results are all over the place and it's why I cannot see how anyone can sensibly try to map out the next five quarters!

A line item on the cash flow statement that I would pay close attention to is "changes in other noncurrent assets and liabilities." Now, the footnotes aren't particularly useful in determining exactly where the movements are coming from, but having spoken to the very helpful IR team, they have said that "a large portion" is driven by increases in deferred revenue and non-cash add-back to net income related to amortisation of operating lease assets (offset by payments on the operating lease liabilities).

Lumen Cash Flow Analysis					
$m	**Q1 24**	**Q4 23**	**Q3 23**	**Q2 23**	**Q1 23**
Revenue	3290	3517	3641	3661	3738
COGS	1652	1737	1850	1740	1817
SGA	823	896	791	790	721
Loss on sale of business	22	9	22	13	77
D&A	748	751	755	746	733
Goodwill imp	0	1900	0	8793	3348
Opex	3245	5293	3418	12082	6696
OI	45	-1776	223	-8421	-2958
Interest expense	-291	-290	-295	-294	-279
Early retirement of debt	275	0	0	9	609
Other income	73	-76	-13	16	-40
Total other income	57	-366	-308	-269	290
Income tax expense	45	-147	-7	46	169
Net Income	57	-1995	-78	-8736	-2837
AEBD&A	552	665	699	807	712
Capex	713	821	843	796	640
AEaCapex	**-161**	**-156**	**-144**	**11**	**72**
Deferred income tax	8	-30	-8	0	46
Provision for uncollectable amounts	23	23	30	20	27
Debt modification costs	-79	0	0	0	0
Loss on investments	-20	1	15	1	80
Change in other noncurrents a + l	198	536	62	148	-16
Other	-60	-39	8	79	-28
A/R	-25	99	39	-50	14
A/P	-7	50	-136	-3	-8
A/I	772	-189	15	-1154	143
Other CA/CL	-261	-743	524	44	-374
AFCF	***388***	***-448***	***405***	***-904***	***-44***
AFCF w/out w/c changes	**-91**	**335**	**-37**	**259**	**181**

**Source: Lumen 10Q/K filings*

Business Overview

There are three core brands that Lumen operate; including Lumen (serving enterprise and wholesale markets), CenturyLink (mass-market copper services, managed for cash flow), and Quantum Fiber (fiber-based services to residential and small businesses).

Rather than just mention the brands, it is important to really highlight the few key segments to Lumen that need more explaining.

If we start with the business segment that made up 79% of revenue in 2023, it can be broken up into a few more categories:

1. Large Enterprise: Products and services to large enterprises, including multinationals and global enterprise customers.
2. Mid-Market Enterprise: Products and services to medium sized enterprises.
3. Public Sector: Products and services to public sector (US Federal govt, state + local govt, research + education institutions).
4. Wholesale: Products and services to a wide range of other communication companies providing wireline, wireless, cable, voice and data center services.

The business segments can only again be split up into one of four subcategories with the services/products provided being mentioned:

1. Grow: Products and services that should grow:

    1. Dark Fiber: Unlit optical fiber that has been laid out but without necessary equipment to transmit data.
    2. Edge Cloud services: Access to public + private cloud solutions that allow customers to optimise cost and performance.
    3. Internet Protocol: Global Internet Access provider.
    4. Managed Security Services: Enterprise security solutions secure networks, mitigate malicious attacks and identify potential security threats
    5. Software-defined wide area networks ("SD WAN"): reduce the complexity and business risk of network transformation on a single, automated platform that coordinates the full spectrum of connectivity types.
    6. Secure access service edge ("SASE"): comprehensive network and security solution using a cloud-first architecture, centred around zero-trust security principles.

7. Unified Communications and Collaboration ("UC&C"): individual, license-based service models and more robust options that transform a customer's inbound and outbound calling platform
8. Wavelengths services: high bandwidth optical wavelength networks to customers requiring an end-to-end solution with ethernet technology for a scalable amount of bandwidth connecting sites or providing high-speed access to cloud computing resources.

2. Nurture: More mature offerings, including ethernet and VPN data networks services
3. Harvest: Legacy services managed for cash flow, including Time Division Multiplexing ("TDM") voice ((primary rate interface service, local inbound service, switched one-plus, toll free, long distance and international services)), private line (direct circuit or channel specifically dedicated for connecting two or more organizational sites) and other legacy services.
4. Other: Equipment sales, IT solutions and other services

Before we move to the second segment, I feel it is better to stop here and fully understand this business segment of Lumen, which is the most important to Lumen's overall prospects. Of course, analysts will be looking for more "growth" revenue and will be analysing revenue trends that Lumen have provided. But I'm also keen to see how fast the "harvest" segment drops off. If the "harvest" segment can continue to show some sort of stability, it benefits Lumen in terms of cash flow which allows them to reinvest/retire debt. (It should be noted that Lumen will only be engaging in maintenance capex in the harvest segments.)

Of the four business segments, large enterprise generates the largest revenues of 33% of total business segment revenue. Of that 33%, roughly half fitted the growth subcategory with about 15% of revenues attributable to the harvesting segment. This is Lumen's bet and, ultimately, it's what will make/break the business.

The second largest business segment was the wholesale category, generating 28% of business revenue. In this case, though, growth and harvesting are roughly equal at 35%. In the first quarter, it is important to note that wholesale was down by 11% year-over-year (YoY).

The third largest business segment was mid-market, with growth revenue increasing slightly YoY, accounting for 43% of revenues. Harvesting revenues were about 17% of revenues.

Finally, public sector revenues were about 16% of total business revenues. Of that 16%, all four categories were split quite equally with growth accounting for 30% of revenues and nurture accounting for 21%. Other revenue and harvested revenues were somewhere in the middle. Despite public sector revenues being the smallest, CFO, Chris Stansbury, has made the claim that public sector will be the first segment to return to growth. Therefore, analysts should keep a keen eye on that.

But as I mentioned above, these results (and results this year) aren't testament to the potential opportunity that Lumen provides. "Lumen Digital" results will be shared in more detail in the second half of the year, according to management. Really, though, an equity investment now can only begin to yield crop from 2025 onwards. Patience is clearly required for this turnaround to take place (remember, this is still a company doing $14b revenues!). For now, though, we can briefly discuss some of what's going on and where the largest opportunities for the future lie.

Firstly, we can talk about NaaS (Network-as-a-service) which management have voiced their excitement for. NaaS uses a cloud-like model to simplify network services. The NaaS provider owns, installs and operates the equipment and unlike traditional networks, Lumen does not charge a standard monthly rate that doesn't consider how you use the service. Rather, Lumen uses an hourly billing rate, providing cost efficiencies for the user. The benefit to NaaS is simple – you can expand/decrease your capacity in real time depending on seasonality, traffic, or other factors. Furthermore, a company's IT team don't have to be faffing around on sorting out network problems, resulting in efficiency for that company. And, finally, the company doesn't have to invest in useless technology that goes untouched. In essence, companies will want to use a NaaS approach because it's cost-effective, flexible and still allows them to scale. Lumen's management believe that NaaS is theirs to win because they own a high-performing fiber network, they already have a large and established customer base and it fully aligns with their mission to cloudify traditional telecom services.

Secondly, we can mention ExaSwitch – a collaboration between Lumen, Google Cloud and Microsoft Azure. This is designed for corporations needing simplified, low latency, high-capacity, direct cloud connectivity to meet the demands of hyperscaler peering. This solves a problem because it is a provider for faster, more reliable transfers of data compared to other third-parties (whilst also enhancing security by keeping everything private).

We can also discuss Edge Cloud which combines edge computing with cloud capabilities to process data and run applications closer to where they are generated or consumed. Edge Cloud enables enterprises to run latency-sensitive applications, data processing, machine learning models, and IoT workloads closer to where data is generated for enhanced real-time performance.

Finally, Black Lotus Labs needs some recognition. The role of Black Lotus Labs is to keep your network clean to protect businesses. This is done through global network data flows and machine learning. This initiative keeps Lumen's customers at ease regarding their security and boosts their reputation for having customers at their core.

There is also the mass market segment (i.e CenturyLink and Quantum Fiber), which provides products and services to residential and small businesses, that can also be split into one of three subcategories:

1. Fiber broadband: high speed broadband services to residential and small business customers utilising fiber.
2. Other broadband: lower speed broadband services to residential and small business customers utilising copper.
3. Voice and Other: revenues from (i) providing local and long-distance voice services, professional services, and other ancillary services, and (ii) federal broadband and state support programs

The mass market segment has a total of 2.7m subscribers, a decline of 9% YoY, of which 952k (up 11% YoY) are using fiber and 1.76m (down 17% YoY) are using copper. The average revenue per unit for the overall mass market segment is $61, up from $60 in Q1 2023. According to New Street analysts, the mass market segment is most likely to be sold in 2026 to one of T-Mobile, Verizon or AT&T.

CFO, Chris Stansbury, did comment that Lumen will certainly not be the consolidator in the mass markets segment and that the consumer segment is "screaming" for consolidation. With the economics of the consumer segment requiring larger investments for longer pay-backs and better visibility (compared to the enterprise segment), it certainly seems that Lumen will look for ways to monetise it through the wholesale of some fiber, joint ventures etc. In the long-term, however, it seems inevitable that Lumen will sell this asset to "double down" (in the words of Mr Stansbury) on the enterprise segment. (This is the risk of innovating in the "wrong direction" mentioned above. Management are willing to bet everything on the enterprise segment and, to be honest, I respect it.)

It's worth noting that in 2023 the mass markets segment did revenues of $3b with an AEBITDA of just under $1.6b. In the first quarter of 2024, the revenues declined from an average of $756m in 2023 to under $700m with an AEBITDA of $376m. If we lazily annualise that figure, we get $1.5b. And at 5x AEBITDA the mass markets segment can be sold for roughly $7.5b (assuming no dramatic churn between now and whenever the M&A markets take off). Of course, this is a rough estimate (erring on the side of conservatism) and the mass markets segment should, of course, be watched closely over the next few quarters.

It is also worth mentioning that Lumen, at year-end 2023, were sitting on just under $800m of federal NOLs. Should Lumen achieve profitability (a milestone I deem to be necessary for the long-term viability of the company), they are able to offset taxable income for at least a few years, further enhancing the value proposition for equity investors.

There is also another potential risk that cannot be determined currently. Top of the pile is the toxic lead cable suspicions that could cost the telecoms industry billions of dollars. Lumen executives do not believe that it's a massive concern with CFO Chris Stansbury saying, "Based on our initial analysis, we currently estimate that less than 5% of our approximately 700,000-mile copper network contained lead, of which we believe the majority, is buried and conduit-based infrastructure." He went on to make the comment "the net of all of it is, I think, the exposure for us is very low." Regardless, we must continue to monitor the situation. Executives do lie and even if Kate and Chris look great from the outside, we know better than to take it all at face value. If it turns out that Lumen is heavily exposed to the claims that AT&T and others are, it will obviously change the long-term viability of Lumen and my perspective on the management. It's incredibly likely I would sell.

Management

This wouldn't be a complete piece on Lumen if we didn't tap into the minds of those who are running the company. In the last couple of years, the executive team at Lumen has changed a little. It was these changes that initially got me excited about the opportunity.

If we start at the top with Kate Johnson, you'll notice through interviews, conference calls etc. that she really puts an emphasis on culture and vision. She has made it clear that she is not scared of going against the grain to recreate Lumen and grow in the process. This is highlighted by her ambitious goals– of course, there are numerous cases of ambitious leaders doing awful things to keep their house of cards standing and in Lumen's case, the market just hasn't believed her. And, with results yet to bear fruit, why would they?

However, with two recent purchases on the open market, totalling $1.9m, I think shareholders should feel at some ease right now. I can't fault her passion (or, at least, her act to show passion) - in conference calls and meetings with analysts, she emphasises that

Lumen isn't out and can rebound strongly. Such consistent barrages of comments come across as a tad too much, perhaps showing her desperation for the market to trust her. As an investor, I can tell you that I prefer executives the move in silence and that don't talk too much. Ms Johnson is the opposite of my preference (and it's something I considered for a long while before choosing to back her). However, selling the fleet of company aircraft in late 2023 was a move that I respected (even if it may have been forced). Furthermore, if we move on to her recent hires, I'm encouraged by the moves she has made. It goes without saying that for a company to succeed, you need a whole team with one mission. Even with an exceptional leader alone, nothing will get done…

In February 2024, Dave Ward was made CTO of Lumen. Having been CEO of PacketFabric – a networking company specialising in NaaS – it really suits Lumen. He has also held senior roles at Cisco Systems (CTO of Engineering and Chief Architect) and Juniper Networks.

Another big hire, just a month prior to Mr Ward, was that of Satish Lakshmanan. Mr Lakshmanan was previously Global Director of AI and Machine Learning (AI/ML) Specialists at AWS. Prior to that, he spent a few years at NetApp where he developed an Edge-as-a-Service software solution. You can probably see where I'm going with this. Ms Johnson is specifically building a team to match the strengths she has seen within Lumen.

Another example is with Ryan Asdourian, Chief Marketing Officer, who spent twenty years at Microsoft, where he was a GM in the Security business. It's worth noting that earlier on between 2014-16, he was technical advisor to Satya Nadella. Ms Johnson has mentioned her admiration for Satya Nadella in conference calls and she, personally, was President of Microsoft US. These moves make sense.

But it doesn't stop there… Sham Chotai was made EVP, Product and Technology, early last year. He has had a C-Suite history with Barrick Gold, GE and HP. Furthermore, Jay Barrows was made EVP, Enterprise Sales and Public Sector, at roughly the same time. He led sales organisations at GE, Red Hat and EDB.

There are probably even more talented people coming to Lumen that I haven't picked up on. But really, my point here is that talent was required at Lumen and talented people are coming to Lumen under a new vision and CEO. It can only be taken as encouraging (albeit early) signs for investors.

I've mentioned CFO, Chris Stansbury, above, who was appointed to his role months prior to Ms Johnson assuming the role of CEO. However, he is still very well suited to his role, having served as CFO for Arrow Electronics for close to eight years and gaining experience at companies like HP and PepsiCo.

Steps that have already been taken by this “new” management team to simplify the business, cut costs and grow include decommissioning 70% of (unnecessary) IT systems that had built up through acquisitions and moving from 12 legacy data warehouses into one cloud-based platform. Furthermore, they aim to simplify product offerings, reduce the cost to serve customers with a self-serve portal and decrease the time to quote for solutions by improving workflow automation. All of this “sounds” great and investors will love these moves but, at the end, all we really care about is that bottom line. If it doesn't start to pick up in the next 24 months, it’s very hard to see a path forwards for Lumen.

Closing Remarks

Inconclusion, if Lumen can dispose of their mass markets segment for a fair price to shareholders, continue to invest for growth with a leveraged capital structure and get a little lucky in the process, they could very well continue operating (and operating strongly) for many years to come. Perhaps, they even become an acquisition target for some of the larger players if they can get their act together.

Management have cited the second half of 2025 as the point where results will really begin to come together and I’m willing to wait twelve months. If, at this point next year, nothing seems to be taking form, I will close my position.

Really, this situation has effectively become a call option on management being able to clean up the business in the near-term and being right about their strategy (cloudifying etc) in the longer term. Finally, a “reach” (that isn’t so much of a reach) is that if you really want a cheap bet on AI demand continuing to grow, buy Lumen. Fiber and cloud connectivity is necessary for moving swaths of data making them even more of a necessity in this age of generative AI.

As I conclude, hopefully you see from what I’ve pointed out above, all is not completely lost, as the market will have you believe, and, for that reason, I’ve bought Lumen shares. The hardest part about investing in this type of “contrarian” company is that everyone is so sure that there’s no way back that self-doubt can creep into your own analysis.

If you have any questions, as usual, feel free to message me.

Best investing,

HV

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