

Lumen Technologies Stock Analysis – NYSE: LUMN

Quick Summary & Comparison

I started this analysis with a positive thought:

If the current yield of 10% is sustainable, then it will soon be a 5% yield. Thus, the investment thesis would be that you get paid 10% while you wait for 100% upside – what can beat that, right?

Then I started to look for the key drivers and found the following:

- **The management is focused on managing what they have** – in the book Common Stocks and Uncommon Profits, Fisher describes how what makes a great investment is when the business grows faster than the underlying industry. For that you need a competitive advantage, a way to increase margins, a way to beat the competition and keep beating it etc. All characteristics not present with Lumen Technologies which makes the stock a possible ugly value investment because they are focused on defense. But defensive playing is a reason why the yield is 10%.
- **Missing margin of safety** - Ugly value investments are a buy when you have a large margin of safety, you are buying well below book and when you know that whatever happens you will be ok. Another thing LUMN doesn't have because if inflation goes up, Lumen will not be able to increase prices due to the high competitiveness in the environment, the degradation of the legacy copper business while costs will go up. Further, if following inflation, interest rates go up, the already junk rated debt could get junkier and things could get even funkier. Not saying it will happen, but that it can happen.
- **Junk debt** - Keep in mind we are looking at a highly leveraged company within the best time ever for below investment grade companies to borrow – if junk doesn't shine now, with rock bottom rates, I don't know when it will. Big part of the debt is variable rate.
- **10% return expected** - Lumen's intrinsic value for a 10% investing return is around the current valuation which makes it a potentially great investment compared to zero interest rates. So, we could say LUMN stock is undervalued and cheap. But, really see how it fits you because no matter how small the chance for the ugly scenario to develop is, it could develop, and that is something to always keep in mind. Are you still ok if the negative scenario develops? If yes, then you can invest and your portfolio exposure will be in line with the risk.
- **My personal perspective**; this is investing, you look and look, and the goal is to turn 100 stones to find one that will look decent, follow that one, and over 10 years you have 30 decent stones that you follow of which 10 will likely make amazing investments at some point in time over a decade. Lumen looks good, but it is just not for me because it involves timing on debt and competition, macro betting on rates, and playing in a highly competitive, capital intensive environment with fast developing technologies.

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Lumen Technologies stock price and history overview

Lumen Technologies was named in 2020 when Century Link changed its name. In 2016 Century announced a \$25 billion acquisition of Level Three Communications which was the largest acquisition of many over the last 4 decades for Century Link (the \$12 billion acquisition of Qwest and 2008 \$6 billion Embarq stick out).

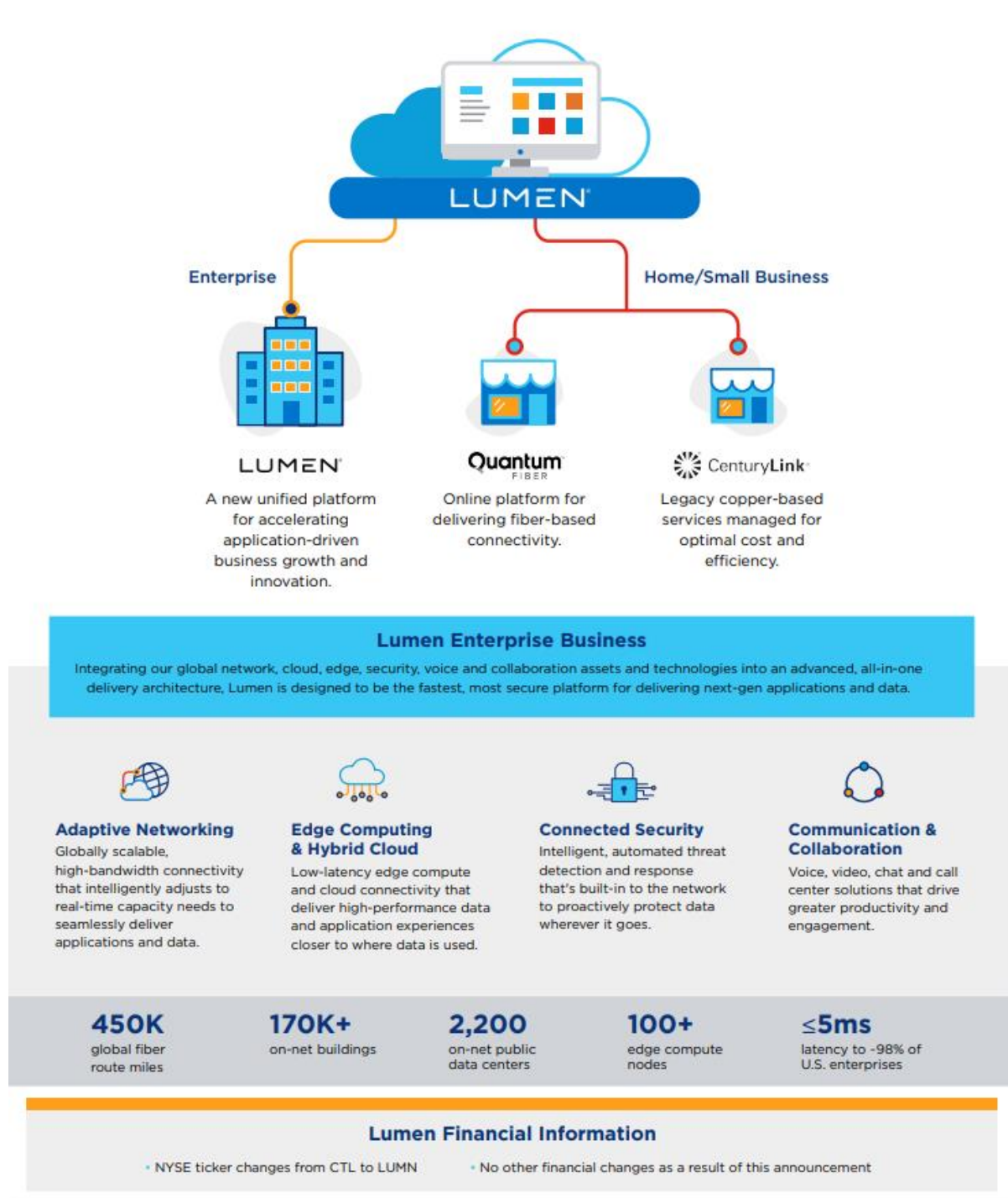
A lot of acquisition mumbo jumbo and the stock is now where it was in 1992, the market cap is \$11.25 billion and it is time to make a deep value dive to see whether this is a strong buy, or a stock to avoid because of too much risk.



Lumen Technologies stock price

Lumen Technologies business overview

Lumen is a combination of old and new. We have Century Link, the legacy copper based services, and we have fiber, 450k miles of fiber routes across the globe.



Lumen Technologies Overview – Source: [Lumen IR](#)

Lumen is banking on data requirement growth and offering the following:

Lumen is Well-positioned for the Platform

Next-gen applications require →

- Highly distributed compute
- High performance networking
- Multi-cloud orchestration and connectivity
- Embedded security
- Cloud-native digital experience

- ~450K** **Global fiber route miles**
Low-latency connectivity with broad reach
- 6400+** **Internet AS's connected**
Deepest peered IP network in the world
- 2200+** **Public and Private data centers on-net globally**
Dynamic connections to cloud providers
- 100+** **Edge compute nodes underway**
Designed to cover > 98% of U.S. enterprise demand within 5ms of latency



Lumen Technologies business overview – Source: [Lumen IR Presentation](#)

Lumen’s product offerings:

Lumen product offerings

A deep portfolio of solutions and services



Lumen Technologies product offerings – Source: [Lumen IR Presentation](#)

We could say Lumen is focused on what works at the moment and that could be another reason for the negative sentiment surrounding the stock. The world we live in is focused on growth. Even Morgan Stanley discusses how SpaceX will dominate global communications with satellites. So, on one hand you have space promises and on the other hand you have earthly cash flows. The investing decision should be easy but the space cowboys are getting richer day by day.

The screenshot shows a CNBC article from October 22, 2020. The article is titled "Morgan Stanley expects SpaceX will be a \$100 billion company thanks to Starlink and Starship". The author is Michael Sheetz. The article is categorized under "INVESTING IN SPACE". The article text includes a "KEY POINTS" section with three bullet points. The third bullet point is circled in red in the original image. To the right of the article is a "TRENDING NOW" section with two items.

INVESTING IN SPACE

Morgan Stanley expects SpaceX will be a \$100 billion company thanks to Starlink and Starship

PUBLISHED THU, OCT 22 2020-2:06 PM EDT | UPDATED THU, OCT 22 2020-2:25 PM EDT

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KEY POINTS

- Morgan Stanley doubled its long-term valuation estimate for Elon Musk's SpaceX on Thursday, now expecting the company to be worth at least \$100 billion some day.
- "SpaceX continues to solidify its place as 'mission control' for the emerging space economy," Morgan Stanley analyst Adam Jonas wrote.
- In Morgan Stanley's base case, SpaceX's rockets business reaches an \$11.7 billion valuation while its Starlink satellite internet business grows to \$80.9 billion, and the company adds point-to-point space travel as an \$8.7 billion value.

TRENDING NOW

1 Here's wh a second under the package

2 American down \$6C checks a ' better tha

Starlink satellite internet business – Source: [CNBC](#)

However, if you read what they say, space is not competition as the expectation is that space internet will be used by 5% of the global population by 2040. By 2040 the global population will be 20% larger, so there will still be business for old companies using super speed fiber.

Morgan Stanley expects Starlink will burn about \$33 billion in cash before it turns cash flow positive in 2031. But at that point the firm expects Starlink's subscriber base will have grown substantially. Morgan Stanley estimates Starlink will capture as many as 364 million subscribers by 2040 – or nearly 5% of the current global population. At that point, Morgan Stanley estimates Starlink will bring in \$21 in monthly revenue per customer – as opposed to a current estimated \$25 per month.

“In recent months, SpaceX's Starlink project has continued to widen the lead vs. its LEO mega-constellation peers in several key areas,” Jonas said.

Starlink satellite internet business – Source: [CNBC](#)

Back to business after the space digression.

Lumen Technologies business in numbers

The above is translated into the following revenue contributions.

Consolidated Revenue

The following table summarizes our consolidated operating revenue recorded under each of our eight above described revenue categories:

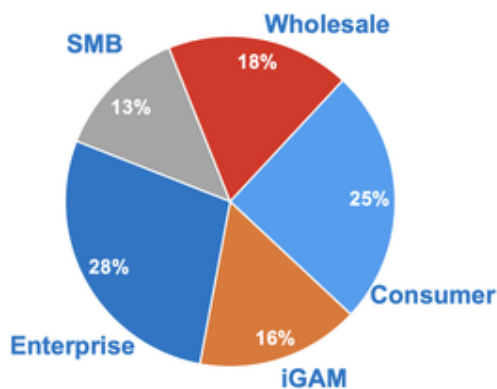
	Year Ended December 31,		% Change	Year Ended December 31,		% Change
	2019	2018		2018	2017	
	(Dollars in millions)			(Dollars in millions)		
IP and Data Services	\$ 7,000	6,961	1%	6,961	3,594	94%
Transport and Infrastructure	5,203	5,433	(4)%	5,433	3,663	48%
Voice and Collaboration	4,021	4,309	(7)%	4,309	3,304	30%
IT and Managed Services	535	624	(14)%	624	644	(3)%
Broadband	2,876	2,822	2%	2,822	2,698	5%
Voice	1,881	2,173	(13)%	2,173	2,531	(14)%
Regulatory	634	729	(13)%	729	731	—%
Other	251	392	(36)%	392	491	(20)%
Total operating revenue	\$ 22,401	23,443	(4)%	23,443	17,656	33%

Lumet Technologies revenues per segment – Source: [Lumen Technologies 2019 Annual Report](#)

Over 2020, the situation hasn't improved much but keep in mind this is the Covid year where SMB revenues, which are a significant part of Lumen's revenue split are particularly hit.

3Q20 Revenue

Revenue (\$ in millions)	3Q20	YoY% Change ⁽²⁾	QoQ% Change
International & GAM ⁽¹⁾	\$835	(3.6%)	(1.6%)
Enterprise	\$1,439	0.8%	0.4%
SMB	\$635	(5.8%)	(1.7%)
Wholesale	\$949	(6.7%)	0.1%
Consumer	\$1,309	(4.1%)	(0.5%)
Total Revenue	\$5,167	(3.4%)	(0.5%)



(1) On a constant currency basis, iGAM declined 2.6% YoY and 2.4% QoQ
 (2) Reflects certain reclassifications due to accounting changes made in the first quarter of 2020, which were announced in the Company's 8-K report filed with the SEC on April 30, 2020

Lumen Q3 2020 revenue – Source: [Lumen Q3 2020 presentation](#)

Just a quick look at the revenues and you immediately see the issue, there is no growth which should make Lumen a no growth, cash cow investment; something not cool these days as we have seen above given the growth focus.

The key here is that costs have declined faster than the revenues. Goodwill impairments are not a cash cost. Lumen knows that due to the high competition and actual overcapacity in the sector, and those constant technological improvements that, for example, enable me to work from a 5 house village somewhere in the Slovenian mountains with a copper line, make it really hard to make money by having competitive advantages for the long-term.

Operating Expenses

These expense classifications may not be comparable to those of other companies.

The following tables summarize our operating expenses:

	Years Ended December 31,		% Change	Year Ended December 31,		% Change
	2019	2018		2018	2017	
	(Dollars in millions)			(Dollars in millions)		
Cost of services and products (exclusive of depreciation and amortization)	\$ 10,077	10,862	(7)%	10,862	8,203	32%
Selling, general and administrative	3,715	4,165	(11)%	4,165	3,508	19%
Depreciation and amortization	4,829	5,120	(6)%	5,120	3,936	30%
Goodwill impairment	6,506	2,726	139%	2,726	—	nm
Total operating expenses	\$ 25,127	22,873	10%	22,873	15,647	46%

nm Percentages greater than 200% and comparison between positive and negatives values or to/from zero values are considered not meaningful.

Lumen Technologies revenues per segment – Source: [Lumen Technologies 2019 Annual Report](#)

With such businesses, earnings are not the key, the key are the cash flows because you make a big upfront investment that you depreciate over time which is a non-cash expense and therefore earnings are one thing, while cash flows are another thing.

Given the declining costs, EBITDA is growing which means that the savings from the merger work and the company can optimize on costs – but you can only do that for so long!

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in millions)		
Operating revenue			
International and Global Accounts	\$ 3,596	3,653	1,382
Enterprise	6,133	6,133	4,186
Small and Medium Business	2,956	3,144	2,418
Wholesale	4,074	4,397	3,026
Consumer	5,642	6,116	6,451
Total segment revenue	\$ 22,401	23,443	17,463
Operations and Other ⁽¹⁾	—	—	193
Total operating revenue	\$ 22,401	23,443	17,656

(1) On May 1, 2017 we sold a portion of our data centers and colocation business. See Note 3—Sale of Data Centers and Colocation Business to our consolidated financial statements in Item 8 of Part II of this report, for additional information.

Reconciliation of segment EBITDA to total adjusted EBITDA is below:

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in millions)		
Adjusted EBITDA			
International and Global Accounts	\$ 2,286	2,341	821
Enterprise	3,490	3,522	2,456
Small and Medium Business	1,870	2,013	1,581
Wholesale	3,427	3,666	2,566
Consumer	4,914	5,105	5,136
Total segment EBITDA	\$ 15,987	16,647	12,560
Operations and Other EBITDA	(7,216)	(8,045)	(6,504)
Total adjusted EBITDA	\$ 8,771	8,602	6,056

For additional information on our reportable segments and product and services categories, see Note 17—Segment Information to our consolidated financial statements in Item 8 of Part II of this report.

Lumen Technologies EBITDA – Source: [Lumen Technologies 2019 Annual Report](#)

From EBITDA we have to deduct taxes, interest expenses and investments to get to free cash flows. Lumen has huge past net operating losses, so if it is profitable, it has the possibility to pay less taxes. However, that benefit declined significantly when Trump lowered taxes and should totally be exhausted in two to three years according to the CEO in the last conference call. So, I would say that we should add \$500 million in taxes per year from 2023 onward.

CENTURYLINK, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2019	2018	2017
	(Dollars in millions)		
OPERATING ACTIVITIES			
Net (loss) income	\$ (5,269)	(1,733)	1,389
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	4,829	5,120	3,936
Impairment of goodwill and other assets	6,506	2,746	—
Deferred income taxes	440	522	(931)
Loss on the sale of data centers and colocation business	—	—	82
Provision for uncollectible accounts	145	153	176
Net (gain) loss on early retirement and modification of debt	(72)	7	5
Share-based compensation	162	186	111
Changes in current assets and liabilities:			
Accounts receivable	(5)	25	31
Accounts payable	(261)	124	(123)
Accrued income and other taxes	20	75	54
Other current assets and liabilities, net	(32)	127	(614)
Retirement benefits	(12)	(667)	(202)
Changes in other noncurrent assets and liabilities, net	245	329	(174)
Other, net	(16)	18	138
Net cash provided by operating activities	6,680	7,032	3,878
INVESTING ACTIVITIES			
Capitalized expenditures	(3,628)	(3,175)	(3,106)
Cash paid for Level 3 acquisition, net of \$2.3 billion cash acquired	—	—	(7,289)
Proceeds from sale of property, plant and equipment and other assets	93	158	1,529
Other, net	(35)	(61)	(5)
Net cash used in investing activities	(3,570)	(3,078)	(8,871)
FINANCING ACTIVITIES			
Net proceeds from issuance of long-term debt	3,707	130	8,398
Proceeds from financing obligation (Note 3)	—	—	356
Payments of long-term debt	(4,157)	(1,936)	(1,963)
Net proceeds (payments) on credit facility and revolving line of credit	(300)	145	35
Dividends paid	(1,100)	(2,312)	(1,453)
Other, net	(61)	(50)	(17)
Net cash (used in) provided by financing activities	(1,911)	(4,023)	5,356
Net increase (decrease) in cash, cash equivalents and restricted cash	1,199	(69)	363
Cash, cash equivalents and restricted cash at beginning of period	518	587	224
Cash, cash equivalents and restricted cash at end of period	\$ 1,717	518	587
Supplemental cash flow information:			
Income taxes received (paid), net	\$ 34	674	(392)
Interest paid (net of capitalized interest of \$72, \$53 and \$78)	\$ (2,028)	(2,138)	(1,401)
Cash, cash equivalents and restricted cash:			
Cash and cash equivalents	\$ 1,690	488	551
Restricted cash - current	3	4	5
Restricted cash - noncurrent	24	26	31
Total	\$ 1,717	518	587

See accompanying notes to consolidated financial statements.

Lumen Technologies cash flow - Source: [Lumen Technologies 2019 Annual Report](#)

Back of a napkin, when we adjust, cash flows from operations are \$6.6 billion. I deduct the \$3.6 billion of capital investments and I get to cash flows of \$2.9 billion. In 2019 the company has used that to lower debt by \$0.5 billion, pay a dividend of \$1.1 billion and increase its cash position.

\$2.9 billion in cash flows on a market capitalization of \$11.2 billion is an amazing return. But there are two key issues that work against each other to check before calling this a great investment:

- The long-term outlook for the cash flows (competitive pricing, consumer stickiness, disruption)
- The debt pile and situation (interest rates, timing and refinancing options)

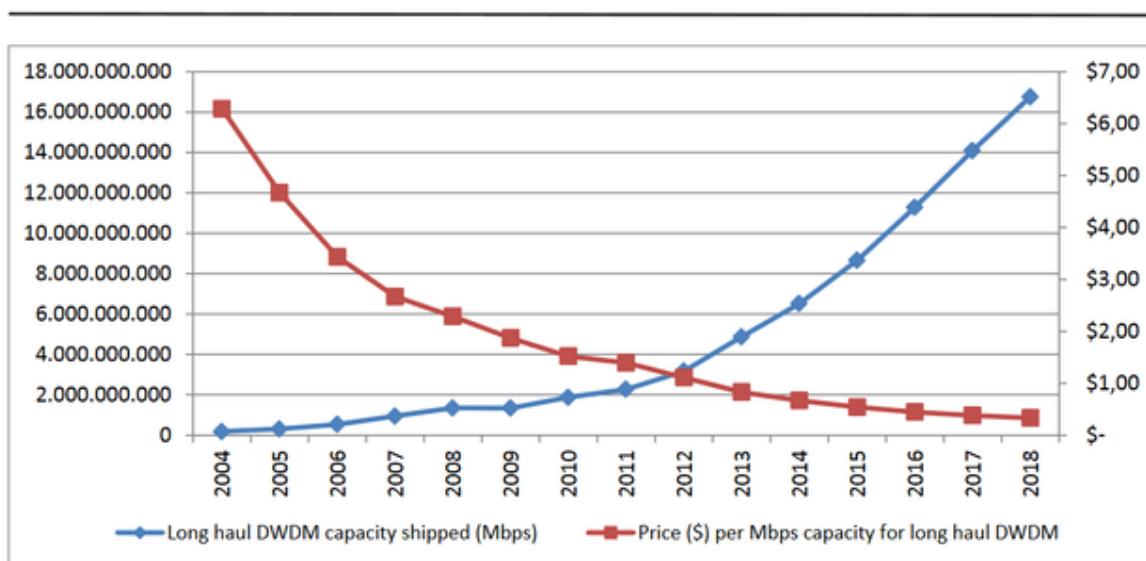
Let's look at the business outlook, the competitive advantages, the risks first and then see about the fundamentals before making an investing stock valuation.

Lumen Technologies business outlook

The outlook for landlines is not good as we are all going wireless. What is left is the global fiber part and the key business offerings. They own fiber cables across the globe and in big cities like London for example.

Given that the data usage is strong, it is likely the business will remain ok, not grow that much because the technological improvements constantly lower prices. So, flat would be great.

Figure 5: Price per Mbps (USD) and shipment quantities for long haul DWDM



If they could slow down voice decline and keep other things like IP and Data stable, alongside transport and infrastructure, we could be looking at a stable business over the next 5 years. Unfortunately, the outlook is uncertain but well skewed to the positive as we use more and more data online.

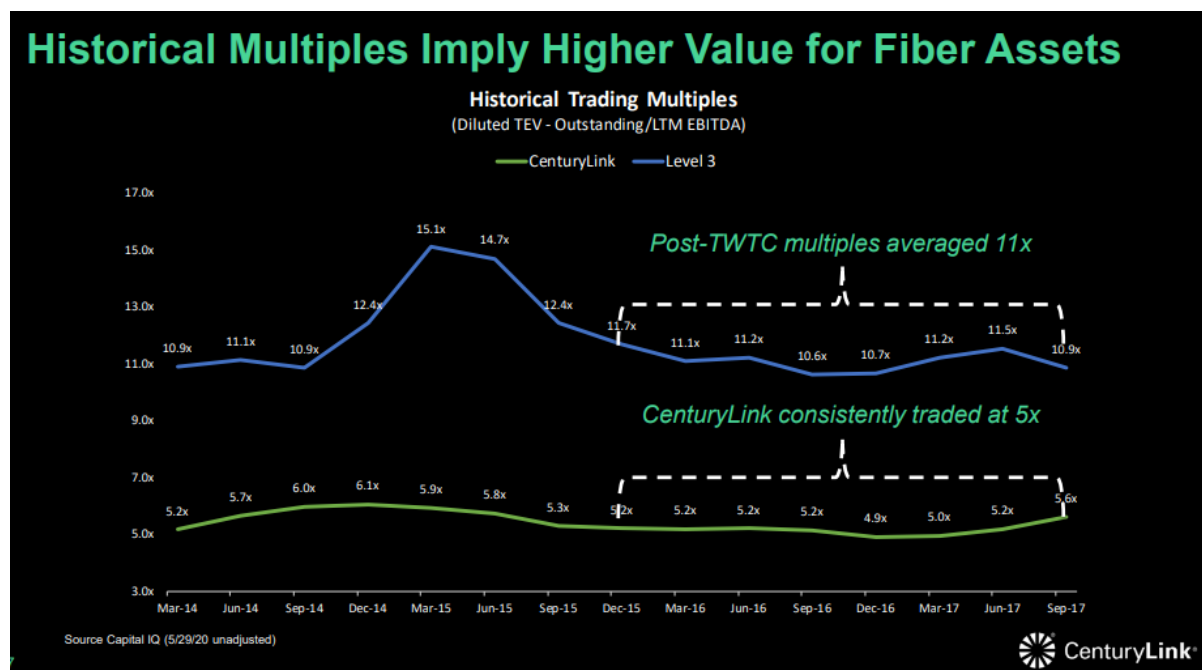
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Transport and Infrastructure	5,203	5,433	(4)%	5,433	3,663	48%
Voice and Collaboration	4,021	4,309	(7)%	4,309	3,304	30%
IT and Managed Services	535	624	(14)%	624	644	(3)%
Broadband	2,876	2,822	2%	2,822	2,698	5%
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Other	251	392	(36)%	392	491	(20)%
Total operating revenue	\$ 22,401	23,443	(4)%	23,443	17,656	33%

Lumet Technologies revenues per segment – Source: [Lumen Technologies 2019 Annual Report](#)

Another problem is that the business is 2/3 Century Link, which was always cheap and 1/3 Level 3. After the merger, the market stayed with seeing the company as Century Link, despite the name change. And the stock just got cheaper and cheaper.



[Lumen Technologies presentation](#)

Lumen Technologies stock fundamentals

An ugly value play can be bought at below book value at a large margin of safety.
Unfortunately, the balance sheet doesn't provide any.

CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2019	2018
(Dollars in millions and shares in thousands)		
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,690	488
Restricted cash—current	3	4
Accounts receivable, less allowance of \$106 and \$142	2,259	2,398
Assets held for sale	8	12
Other	808	918
Total current assets	4,768	3,820
Property, plant and equipment, net of accumulated depreciation of \$29,346 and \$26,859	26,079	26,408
GOODWILL AND OTHER ASSETS		
Goodwill	21,534	28,031
Operating lease assets	1,686	—
Restricted cash	24	26
Customer relationships, net	7,596	8,911
Other intangible assets, net	1,971	1,868
Other, net	1,084	1,192
Total goodwill and other assets	33,895	40,028
TOTAL ASSETS	\$ 64,742	70,256
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 2,300	652
Accounts payable	1,724	1,933
Accrued expenses and other liabilities		
Salaries and benefits	1,037	1,104
Income and other taxes	311	337
Current operating lease liabilities	416	—
Interest	280	316
Other	386	357
Advance billings and customer deposits	804	832
Total current liabilities	7,258	5,531
LONG-TERM DEBT	32,394	35,409
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred income taxes, net	2,918	2,527
Benefit plan obligations, net	4,594	4,319
Noncurrent operating lease liabilities	1,342	—
Other	2,766	2,642
Total deferred credits and other liabilities	11,620	9,488
COMMITMENTS AND CONTINGENCIES (Note 19)		
STOCKHOLDERS' EQUITY		
Preferred stock — non-redeemable, \$25 par value, authorized 2,000 and 2,000 shares, issued and outstanding 7 and 7 shares	—	—
Common stock, \$1.00 par value, authorized 2,200,000 and 1,600,000 shares, issued and outstanding 1,090,058 and 1,080,167 shares	1,090	1,080
Additional paid-in capital	21,874	22,852
Accumulated other comprehensive loss	(2,680)	(2,461)
Accumulated deficit	(6,814)	(1,643)
Total stockholders' equity	13,470	19,828
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 64,742	70,256

See accompanying notes to consolidated financial statements.

Lumen Technologies balance sheet – Source: [Lumen Technologies 2019 Annual Report](#)

If I look at long-term debt, it went down by \$3 billion, but the current part of it went up \$1.7 billion, pension obligations went up \$200 million, deferred income taxes up \$400 million so it is not really lowering debt by \$3 billion.

Big part of the debt is variable rate, so yes, they lowered interest expenses but they increase the risk by going for variable rates.

8	Total Embarq Corporation and Subsidiaries			\$1,575
9				
0	Level 3 Financing, Inc.			
1	Level 3 Financing, Inc. Senior Notes	5.375%	15/01/2024	\$900
2	Level 3 Financing, Inc. Senior Notes	5.375%	01/05/2025	800
3	Level 3 Financing, Inc. Senior Notes	5.25%	15/03/2026	775
4	Level 3 Financing, Inc. Term Loan B	L + 1.75%	01/03/2027	3,111
5	Level 3 Financing, Inc. Sr. Secured Notes	3.400%	01/03/2027	750
6	Level 3 Financing, Inc. Senior Notes	4.625%	15/09/2027	1,000
7	Level 3 Financing, Inc. Senior Notes	4.250%	01/07/2028	1,200
8	Level 3 Financing, Inc. Senior Notes	3.625%	15/01/2029	840
9	Level 3 Financing, Inc. Sr. Secured Notes	3.875%	15/11/2029	750
0				
1	Total Level 3 Parent, LLC and Subsidiaries			\$10,126
2				
3	CenturyLink, Inc			
4	CenturyLink, Inc. Senior Notes - Series S	6.450%	15/06/2021	\$1,231
5	CenturyLink, Inc. Senior Notes - Series T	5.800%	15/03/2022	1,400
6	CenturyLink, Inc. Senior Notes - Series W	6.750%	01/12/2023	750
7	CenturyLink, Inc. Senior Notes - Series Y	7.500%	01/04/2024	1,000
8	CenturyLink, Inc Term Loan A	L + 2.00%	31/01/2025	1,123
9	CenturyLink, Inc Term Loan A-1	L + 2.00%	31/01/2025	321
0	CenturyLink, Inc. Senior Notes - Series X	5.625%	01/04/2025	500
1	CenturyLink, Inc. Senior Notes - Series D	7.200%	01/12/2025	100
2	CenturyLink, Inc. Senior Notes	5.125%	15/12/2026	1,250
3	CenturyLink, Inc. Senior Secured Notes	4.000%	15/02/2027	1,250
4	CenturyLink, Inc. Term Loan B	L + 2.25%	15/03/2027	4,963
5	CenturyLink, Inc. Senior Notes - Series G	6.875%	15/01/2028	425
6	CenturyLink, Inc. Senior Notes - Series P	7.600%	15/09/2039	519
7	CenturyLink, Inc. Senior Notes - Series U	7.650%	15/03/2042	470
8	CenturyLink Revolving Credit Facility	L + 2.00%	31/01/2025	1,075
9				
0	Total CenturyLink, Inc.			\$16,377

If the best they can do is to lower debt by \$1.5 billion per year. Thus, to lower the debt significantly they should take 10 years. Over 10 years nobody knows what can happen to the business and how much will they need to invest to keep it going as is.

CENTURYLINK, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2019	2018	2017
	(Dollars in millions, except per share amounts and shares in thousands)		
OPERATING REVENUE	\$ 22,401	23,443	17,656
OPERATING EXPENSES			
Cost of services and products (exclusive of depreciation and amortization)	10,077	10,862	8,203
Selling, general and administrative	3,715	4,165	3,508
Depreciation and amortization	4,829	5,120	3,936
Goodwill impairment	6,506	2,726	—
Total operating expenses	25,127	22,873	15,647
OPERATING (LOSS) INCOME	(2,726)	570	2,009
OTHER (EXPENSE) INCOME			
Interest expense	(2,021)	(2,177)	(1,481)
Other (loss) income, net	(19)	44	12
Total other expense, net	(2,040)	(2,133)	(1,469)
(LOSS) INCOME BEFORE INCOME TAX EXPENSE	(4,766)	(1,563)	540
Income tax expense (benefit)	503	170	(849)
NET (LOSS) INCOME	\$ (5,269)	(1,733)	1,389
BASIC AND DILUTED (LOSS) EARNINGS PER COMMON SHARE			
BASIC	\$ (4.92)	(1.63)	2.21
DILUTED	\$ (4.92)	(1.63)	2.21
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
BASIC	1,071,441	1,065,866	627,808
DILUTED	1,071,441	1,065,866	628,693

See accompanying notes to consolidated financial statements.

Lumen Technologies income statement – Source: [Lumen Technologies 2019 Annual Report](#)

[Lumen Technologies stock outlook](#)

When it comes to the stock, anything can happen because it is really cheap, plus the management is really positive about the situation, I know it is their job to be so, but...

Short term catalysts

The short-term catalysts are the high dividend yield, the possible debt lowering and restructuring alongside delaying concerns about it and business decline.

The company recently [announced at private placement](#) of \$1 billion with a 4.5% interest rate maturing 2029. A week ago, [Lumen announced](#) the redemption of the Qwest bonds maturing in 2052 with a 6.125% interest rate at par.

In the Q3 2020 conference call, the CFO said he expects EBITDA growth in Q4 which means the perception towards the stock might change too.

Despite the overall market uncertainty, we are optimistic about the resilience of our business and for the fourth quarter, we expect sequential growth in adjusted EBITDA from \$2.19 billion this quarter. Additionally, given continued progress in our deleveraging initiatives and aided by current market conditions, we are lowering and narrowing our cash interest expense to a range of \$1.60 billion to \$1.65 billion from our previous range of \$1.65 billion to \$1.7 billion. Our net cash interest expense this year is expected to be about \$500 million lower compared to 2018. To summarize, our results continue to highlight that our business and the products we sell are resilient.

We are delivering strong bottom line results while we are leaning in and investing to improve our revenue trajectory. Our balance sheet and liquidity position remains strong and are continually improving. We continue to execute on our capital allocation policy we laid out early last year. We are investing to position the company for the future, deleveraging to our target leverage range of 2.75 to 3.25 times and returning over \$1 billion to shareholders through the dividend with a payout ratio that we continue to expect to be in the 30s as a percentage of free cash flow. With that, we'll open it up for your questions. France, will you please explain the process?

Their target is to deleverage to 3 times EBITDA. If EBITDA is \$8.5 billion per year, minus \$1.6 in interest rates, minus \$4 billion in capex (last two quarters we are at \$1 billion), minus \$0.5 for other and taxes, I get to \$2.4 billion.

2020 Financial Outlook

Metric ⁽¹⁾⁽²⁾	Current Outlook	Previous Outlook ⁽³⁾
Net Cash Interest	\$1.62 billion to \$1.65 billion	\$1.65 billion to \$1.70 billion
GAAP Interest Expense	\$1.7 billion	\$1.7 billion
Dividends ⁽⁴⁾	\$1.1 billion	\$1.1 billion
Depreciation & Amortization	\$4.7 billion to \$4.9 billion	\$4.7 billion to \$4.9 billion
Share-Based Compensation Expense	\$200 million	\$200 million
Cash Income Taxes	\$100 million	\$100 million
Full Year Effective Income Tax Rate	~28%	~28%

If \$1 billion is for the dividends, they have \$1.4 left to pay down the debt, which means that it would take 5 years to lower it to 3 times EBITDA if EBITDA stays where it is. Ok, 5 years of dividends of 10%, and then lower debt and perhaps a higher dividend, it is still great.

Before I go deeper, this is the most bananas free cash flow calculation I have seen.

CenturyLink, Inc.					
(doing business as Lumen Technologies)					
Non-GAAP Cash Flow Reconciliation					
(UNAUDITED)					
(\$ in millions)					
	3Q20	2Q20	1Q20	4Q19	3Q19
Net cash provided by operating activities	\$1,794	1,749	1,299	1,909	1,888
Capital expenditures	-988	-1,009	-974	-940	-957
Free cash flow	806	740	325	969	931
Cash interest paid	426	445	383	522	456
Interest income	-3	-1	-2	-5	-5
Unlevered cash flow	\$1,229	1,184	706	1,486	1,382
Free cash flow	\$806	740	325	969	931
Add back: cash Integration and Transformation Costs	105	51	56	53	52
Add back: Special Items	6	12	26	0	0
Free cash flow excluding cash Integration and Transformation Costs and Special Items	\$917	803	407	1,022	983
Unlevered cash flow	\$1,229	1,184	706	1,486	1,382
Add back: cash Integration and Transformation Costs	105	51	56	53	52
Add back: Special Items	6	12	26	0	0
Unlevered cash flow excluding cash Integration and Transformation Costs and Special Items	\$1,340	1,247	788	1,539	1,434

Plus, capital expenditures are \$4 billion per year and not to \$3.6 billion per year as stated in the annual report cash flow statement.

Plus, there are \$200 million for the management every year which is 1/5 of the dividend! That is a lot. And other transformation costs that are constant.

Apart from the dividend, no great short-term catalysts.

Long-term value

If the business can stay as profitable as it is for longer then great, but there is high uncertainty around it. They are developing a cloud edge business and we know the competition is high there.

They are increasing their fiber network only to selected customers where it is most profitable and the returns are fast – thus again thinking short-term.

With \$4 billion in capex, they are investing yes, but others are doing the same so always the same game.

Lumen Technologies Stock Valuation

This is how they see themselves:

Valuation Overview

\$ in billions, except per share amounts

	1Q20 LTM		Multiple		Implied EV	
	Adj. EBITDA ^{(1),(2)}		Low	High	Low	High
Level 3	\$	3	10.0x	12.0x	\$ 29	\$ 35
CenturyLink		6	5.0x	6.0x	31	37
Consolidated	\$	9	6.6x	7.9x	\$ 60	\$ 72

Using Level 3 as a proxy for fiber assets based on publicly disclosed financial results

Historical multiples for Level 3 and remaining CenturyLink entities yield a range of Enterprise values significantly higher than current market value

	Low	High
Implied EV	\$ 60	\$ 72
- Net Debt ⁽³⁾	(\$33)	
Equity Value	\$ 26	\$ 38
÷ Shares Out. ⁽⁴⁾	1.1	
Share Price	\$ 24	\$ 35

1) Based on Adj. EBITDA as reported in the Level 3 1Q20 10-Q and 2019 10-K and CenturyLink 1Q20 10-Q and 2019 10-K
 2) Non-Cash Compensation, transformation costs, and special items are excluded from Adj. EBITDA.
 3) Based on CenturyLink 1Q20 10-Q. Debt excludes unamortized discounts and debt issuance costs. For additional information about CenturyLink's debt see note 5 to the consolidated financial statements in CenturyLink's 1Q20 10-Q.
 4) Diluted shares outstanding in billions as of 1Q20

CenturyLink

Lumen Technologies presentation

The market capitalization should be at least 3 times the current one. But, this is based on adjusted EBITDA. However, there is EBITDA and then there is reality.

Given the debt will be paid down slowly, the interest rates are tricky (variable or high), I have taken the dividend to value this because even if they pay down the debt, I am not sure business will be stable over time.

With a 10% discount rate I get to a fair valuation at current levels. That is great because the return from here should be 10% and that is great return especially as it is through a dividend.

Company name												Terminal Value	Growth rate	
I am taking the dividends as cash flows because the rest is needed to pay down debt - and paying down over the next 20 years!														
Scenario 1	Cashflow 2020 billions	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	0%	next 5 years
normal case	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	11.00	0%	5 to 10 years
in EUR	PV(10%)	1.00	0.91	0.83	0.75	0.68	0.62	0.56	0.51	0.47	0.42	4.24	10%	Discount rate
	INTRINSIC VALUE	11.00										10.0	Terminal multiple	
market cap in billions														
Scenario 2	Cashflow 2020 billions	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	3%	next 5 years
best case	1.10	1.13	1.17	1.20	1.24	1.28	1.30	1.33	1.35	1.38	1.41	17.94	2%	5 to 10 years
in EUR	PV(10%)	1.03	0.96	0.90	0.85	0.79	0.73	0.68	0.63	0.59	0.54	6.92	10%	Discount rate
	Present value sum	14.63										13.0	Terminal multiple	
Scenario 3	Cashflow 2020 billions	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	-3%	next 5 years
worst case	1.10	1.07	1.03	1.00	0.97	0.94	0.90	0.85	0.81	0.77	0.73	5.39	-5%	5 to 10 years
in EUR	PV(10%)	0.97	0.86	0.75	0.67	0.59	0.51	0.44	0.38	0.33	0.28	2.08	10%	Discount rate
	Present value sum	7.84										7.0	Terminal multiple	
		Scenario	Probability	PV	Part									
		Scenario 1 (normal case)	0.5	11.00	5.50									
		Scenario 2 (best case)	0.1	14.63	1.46									
		Scenario 3 (worst case)	0.4	7.84	3.14									
				Sum	10.10									
Disclaimer: This is just for educational purposes and not for investing advice!														
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So, to conclude, yes Lumen is value at the moment but not for me. Actually, it is value, but it doesn't have a margin of safety. I don't like the huge debt overhang that can turn any second. But that is just personal, see how it fits you.