

Portfolio Management Business Development Corporate Strategy Global Perspective

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Shortsighted Strategy

ESG (Governance). The LUMN shareholders (the ownership) deserve your best effort in creating value for the organization. If you think this is a reasonable request, then please explain the rationale behind the shortsighted strategy that LUMN practiced under the previous CEO (Glen F Post III) and still practices under the current CEO (Jeff Storey).

I realize its water under the bridge regarding Mr. Post, but the current leadership still encourages this shortsighted strategy. Let me illustrate my argument through a personal anecdote, describing not only my community but also an incredibly, attractive opportunity for the organization.

In 2001, I built a new home in a new development. I have lived in the area for the last twenty-years. This area of Iowa represents an addressable market of approximately 779,000 people, which seems like an attractive market, especially when you consider the growth rate of the Metropolitan Statistical Area.

Why does leadership commit so many resources selling an insulting argument to the market offering a dramatically inferior service to the consumer, hoping and praying just to “make a sale?”

It’s incredible how many times a LUMN sales representative knocked on my door, trying to sell me a “broadband” connection to the internet. I would always ask about the internet connection speed, and the LUMN sales representative would always mumble 10MPS.

Why would any rational consumer buy such an inferior service when cable and fiber offer connection speeds up to 1GBS for only a few dollars more a month?

The most damning element of the preceding anecdote is that LUMN had a fiber cable laid not more than fifty feet from my house. Sadly, the organization never recognized the “value” of connecting the last mile with an efficient broadband service. However, if you think

the preceding anecdote represents a short-sighted strategy, the next anecdote really amplifies the shortsightedness of the LUMN market strategy.

In 2016, I built another home in another new development in Central Iowa. I needed a broadband internet connection, and LUMN was the only game in town. In effect, the organization was the first service provider in a residential area of approximately 50,000 people. It seems like the organization would “seize” this opportunity. But guess what type of internet connection LUMN provided to this new market opportunity? A slow DSL connection with a top speed of 40MPS.

Wow! The organization failed to recognize the “value” in not only connecting the last mile but also providing the first service to a new market. I can understand misreading the market in 2001 – but not 2016 – and definitely not 2020.

The governance function within LUMN seems more concerned with just selling a service and generating the revenue while totally misreading the “value” of providing a satisfying communication system to both market segments: enterprise and consumer. As such, misplaced priorities often produce counter-productive results within an organization. Examine the table!

\$Millions	2019			Comparison - Value Creation		
	CEO Comp.	Revenue	Operating Cash Flow	Equity Value		Premium
Competitors				Market	Book	Δ%
Lumen (LUMN)	\$ 16.9	\$ 22,401	\$ 6,680	\$ 10,806	\$ 13,689	(21%)
Verizon (VZ)	\$ 18.5	\$ 131,868	\$ 35,746	\$ 246,175	\$ 66,530	270%
AT&T (T)	\$ 21.8	\$ 181,193	\$ 48,668	\$ 203,135	\$ 195,056	4%
Merger / Acquisition Targets - Joint Venture Candidates						
US Cellular (USM) *	\$ 8.6	\$ 3,115	\$ 724	\$ 2,729	\$ 4,436	(38%)
Dish (DISH)	\$ 1.0	\$ 12,807	\$ 2,662	\$ 16,589	\$ 13,325	24%
T-Mobile (TMUS)	\$ 16.7	\$ 44,998	\$ 10,700	\$ 159,157	\$ 64,487	147%
* USM - Last CEO Compensation		Equity Value: 9/30/2020		Source: Bloomberg		

The other “baby bells” have created significantly more market, equity value! Why?

Using a combination of fiber, wireless and satellite, they provide a more satisfying, communication experience for both market segments (enterprise and consumer).

Respectfully,
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