



Lumen Technologies (LUMN)

Updated February 14th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$10	5 Year CAGR Estimate:	11.2%	Market Cap:	\$10.3 B
Fair Value Price:	\$11	5 Year Growth Estimate:	1.0%	Ex-Dividend Date¹:	03/05/2022
% Fair Value:	88%	5 Year Valuation Multiple Estimate:	2.6%	Payment Date²:	03/21/2022
Dividend Yield:	10.1%	5 Year Price Target	\$12	Last Dividend Increase:	0
Dividend Risk Score:	F	Retirement Suitability Score:	B	Years of Dividend Growth:	0

Overview & Current Events

Lumen Technologies traces its roots to 1930 when the Oak Ridge Telephone Company was purchased by the Williams family. They would eventually expand exponentially into what has become Lumen, which serves customers in over 60 different countries today. It has an \$10.3 billion market capitalization and produced \$19.7 billion in revenue in 2021. The name Lumen was brought about in September 2020 to rebrand and reposition the company as a critical partner in leading enterprises through the 4th Industrial Revolution – or the smart technology revolution. Lumen will help customers deliver things such as smart cities, retail and industrial robots, real-time virtual collaboration, and automated factories.

Lumen Technologies reported fourth quarter and full year 2021 results on February 9th. Total revenues for the quarter were \$4.8 billion, down from \$5.1 billion in the prior year fourth quarter. Adjusted earnings per share of \$0.51 was a 21.4% increase over \$0.42 earned in the same prior year period.

For the full fiscal year 2021, total revenues fell 4.8% from \$20.7 billion to \$19.7 billion. Adjusted earnings per share rose 26% year-over-year from \$1.51 in 2020 to \$1.91 for the full year of 2021. Long-term debt of \$27.4 billion remains outstanding. Mass market broadband subscribers fell from one year ago to 4,519 as of December 31st, 2021.

At the end of the year, Lumen had cash and cash equivalents of \$354 million. In October 2021, LUMN completed their \$1 billion stock repurchase program, and repurchased a total of 80.9 million shares for an average price of \$12.36 per share.

The company has achieved some adjusted EBITDA margin expansion, as it stands at 42.9% vs 41.8% last year. Management provided a 2022 outlook, where adjusted EBITDA is seen coming in softer than in 2021, at around \$6.6 billion. Free cash flow outlook is roughly \$1.7 billion expected in 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.25	\$1.64	\$2.61	\$2.72	\$2.45	\$1.58	\$1.19	\$1.32	\$1.51	\$1.91	\$1.41	\$1.48
DPS	\$2.90	\$2.16	\$2.16	\$2.16	\$2.16	\$2.16	\$2.16	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Shares³	626	584	569	544	547	1,069	1,067	1,078	1,080	1,067	1069.0	1080.0

Lumen has struggled in recent years with competition as well as profitability. The Level 3 acquisition has seen the company's share count double in the past couple of years. In addition, it took on another \$13 billion in debt with the transaction onto a balance sheet that was already in poor shape.

That said, we see 1.0% annual growth going forward as it has some catalysts for earnings expansion. Revenue should continue to move higher from the Level 3 merger. The company is also investing to expand network footprint and enhance the product portfolio. The company has achieved roughly \$830 million of annualized run-rate adjusted EBITDA

¹ Estimate

² Estimate

³ In millions

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cost transformation savings towards the three-year goal of \$800 million to \$1 billion. Reduced leverage should help improve margins over time as well as less of the company's earnings will be consumed by interest expense.

Following the dividend cut in early 2019, we do not believe management will raise the payout anytime soon given the aggressive leverage target of around 3.0 times EBITDA.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	31.4	21.3	14	11.6	11.4	13.9	13.3	10.8	8.8	6.6	7.0	8.0
Avg. Yld.	7.4%	6.2%	5.9%	6.9%	7.7%	9.8%	11.4%	13.0%	9.5%	7.8%	10.1%	8.4%

Lumen's volatile price-to-earnings ratio stands at 7.0 now as earnings remain below record levels. We estimate fair value at 8 times earnings given the marked weakness in the company's recent results, representing a 2.6% annual growth due to valuation multiple expansion. We see the yield falling as a result of a higher share price and flat payout, but it will still be strong, at 8.4%. The recent rebranding of the company as a "technology" company may push the estimated PE slightly higher in the near term, but we would like to see real growth.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	232%	132%	83%	79%	88%	137%	182%	76%	66%	52%	71%	67%

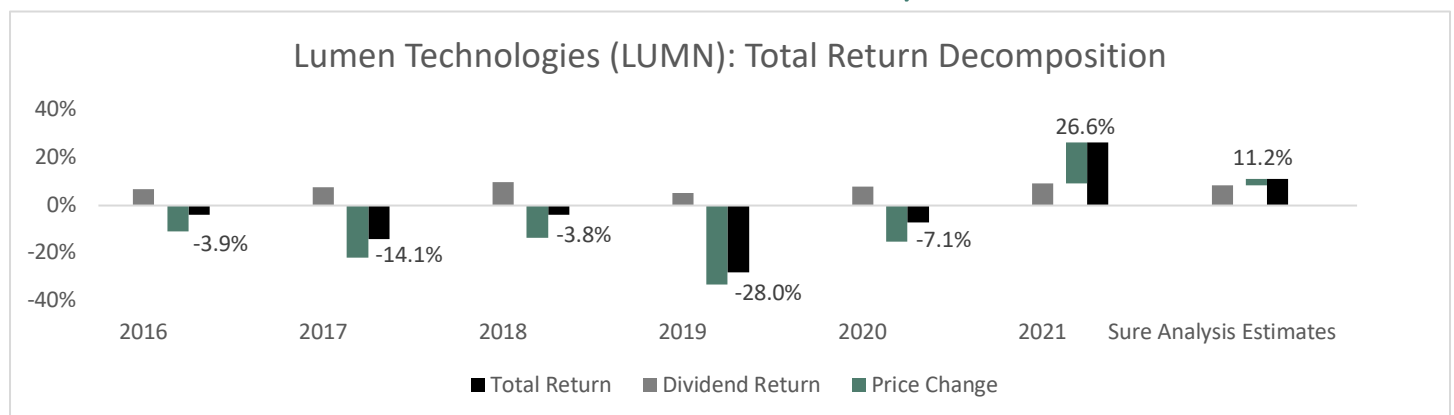
Lumen's payout ratio is now back under 100% after the dividend cut, and we expect the dividend will remain at \$1 per share for the foreseeable future. Management has made it clear the priority is reducing leverage, so we see the payout ratio drifting lower over time as earnings grow but the dividend remains steady.

Lumen's competitive advantage is in its diversified model as well as its tremendous size and geographic reach. It can negotiate in ways smaller competitors cannot and its global footprint provides valuable diversification. While the COVID-19 pandemic overhangs the economy, CTL has a large and diversified customer base with only a small amount of total revenue coming from highly impacted customers (retail, restaurants, hotels, etc.).

Final Thoughts & Recommendation

Lumen Technologies is a stock that offers minor growth potential but a large yield. We see total annualized returns of 11.2% going forward, most of which comes from the dividend. Thus, it is a buy for aggressive investors, but we caution conservative dividend growth investors that it remains a high-risk, high-reward situation, particularly considering the recent dividend cut and declining revenue.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	18,376	18,095	18,031	17,900	17,470	17,656	23,443	22,401	20,712	19,687
Gross Profit	10,737	10,588	10,185	10,122	9,696	9,453	12,581	12,324	11,778	11,199
Gross Margin	58.4%	58.5%	56.5%	56.5%	55.5%	53.5%	53.7%	55.0%	56.9%	56.9%
SG&A Exp.	3,244	3,502	3,347	3,354	3,447	3,508	4,165	3,715	3,464	2,895
D&A Exp.	4,,780	4,541	4,428	4,189	3,916	3,936	5,120	4,,829	4,710	4,,019
Operating Profit	2713	2,545	2,410	2,579	2,333	2,009	3,296	3780	3,604	4285
Operating Margin	14.8%	14.1%	13.4%	14.4%	13.4%	11.4%	14.1%	16.9%	17.4%	21.8%
Net Profit	777	-239	772	878	626	1,389	-1,733	-5,269	-1,232	2,033
Net Margin	4.2%	-1.3%	4.3%	4.9%	3.6%	7.9%	-7.4%	-23.5%	-5.9%	10.3%
Free Cash Flow	3,146	2,511	2,141	2,281	1,627	772	3,857	3,052	2,795	3,601
Income Tax	473	463	338	438	394	-849	170	503	450	668

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	5,3940	51,787	49,103	47,604	47,017	75,611	70,256	64,742	59,394	57,993
Cash & Equivalents	211	168	128	126	222	551	488	1,690	406	354
Accounts Receivable	1,782	1,862	1,821	1,789	1882	2,245	2,094		1,962	1,544
Inventories	125	167	132	144	134	128	120			
Goodwill & Int. Ass.	30,597	28,411	27,295	26,225	23,978	43,248	38,810	21,534	27,089	22,956
Total Liabilities	34,651	34,596	34,080	33,544	33,618	52,120	50,428	5,1272	48,232	46,153
Accounts Payable	1,207	1,111	1,226	968	1,179	1,555	1,933		1,134	758
Long-Term Debt	20,605	20,966	20,503	20,225	19,688	37,726	36,061	34,694	31,837	28,982
Shareholder's Equity	19,289	17,191	15,023	14,060	13,399	23,491	19,828	13,470	11,162	11,840
LTD/E Ratio	1.07	1.22	1.36	1.44	1.47	1.61	1.82	2.58	2.85	2.45

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.4%	-0.5%	1.5%	1.8%	1.3%	2.3%	-2.4%	-7.8%	-2.0%	3.5%
Return on Equity	3.9%	-1.3%	4.8%	6.0%	4.6%	7.5%	-8.0%	-31.6%	-10.0%	17.7%
ROIC	1.9%	-0.6%	2.1%	2.5%	1.9%	2.9%	-3.0%	-10.1%	-2.7%	4.9%
Shares Out.	626	584	569	544	547	1,069	1,067	1,078	1,080	1,067
Revenue/Share	29.53	30.11	31.65	32.25	32.31	28.08	21.99	20.91	19.19	18.45
FCF/Share	5.06	4.18	3.76	4.11	3.01	1.23	3.62	2.85	2.59	3.38

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.