

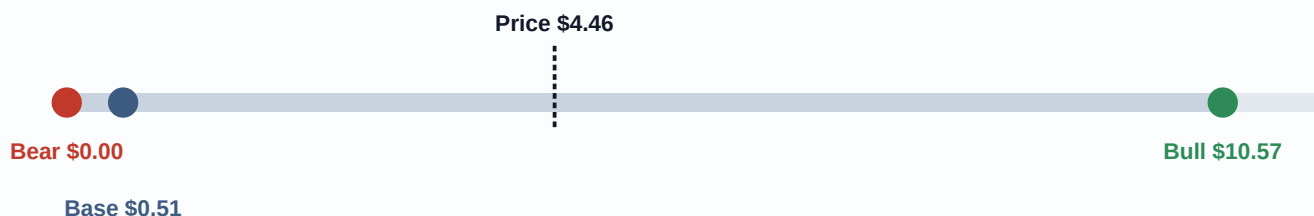
Initiated 2026-10-23 · Price \$4.46 (close 2026-10-22, stockanalysis.com) · Mkt cap \$4.6bn (1,031.4mm shares) · Communication services / enterprise fiber and connectivity · Model: verified

Rating: Sell — Conviction: High

Lumen is a \$4.6bn equity on top of \$13.35bn of debt, and the business under it has not yet shown it can cover its own capital spending. Reported free cash flow looks strong in 2026, but customer prepayments and one-off cash flatter it. On the filings, Base-case cash conversion leaves almost nothing for equity. Today's price needs most of the bull case: AI fiber demand, a \$1bn cost program and a falling build budget all have to land together. The upside is real but already priced, while the downside has no floor below which the equity can't fall.

Conviction tests (3a-v-c): T1 pass (Base -95.6% at +1pp, -80.9% at -1pp, Sell at both) · T2 pass (Gordon alone \$0.00, exit-multiple alone \$1.03; Sell on either) · T3 pass (every FY0 fact and historical series from EDGAR XBRL, the Q2 2026 10-Q and release; no est. inputs) · T4 pass (Q3 2026 print, Oct 29 or Nov 4 (sources differ), falls inside the cases; no pending ruling, deal vote or single-contract binary) The rule gives High. I'd read it nearer Medium, because no test challenges the assumption the call rests on most: Y5 capex at 20% of revenue against a 30% margin.

MODEL VALUE RANGE VS PRICE



Business overview

Lumen sells fiber connectivity, IP, voice, security and managed networking to US enterprises, government and wholesale carriers. Business revenue was \$2.44bn in Q2 2026 (87% of the total): Large Enterprise \$794mm, Public Sector \$490mm, Mid-Market \$435mm, Wholesale \$653mm. The remainder is a shrinking Mass Markets copper base (\$361mm) left after the fiber-to-the-home business was sold to AT&T on 2026-02-02 for \$5.72bn of cash. The newer piece is Private Connectivity Fabric (PCF): hyperscalers prepay for dedicated intercity fiber, nearly \$13bn signed (Investor Day, 2026-02-25), and Lumen builds it. Three variables drive earnings: the race between Strategic revenue (+14% y/y) and Legacy (-15%); the margin path as modernization costs (\$339mm in H1 EBITDA) roll off; and capital intensity once the PCF build peaks.

Competition

For enterprise and wholesale connectivity, the pressure comes from AT&T and Verizon business units, private Zayo in long-haul and metro fiber, and Cogent in IP transit. AT&T's Advanced Connectivity service revenue grew 6.1% in Q3 2026 while its legacy copper unit keeps shrinking (aggregator analysis, October 2026), the same split Lumen shows. Price shows the pressure first. Mid-Market fell 8% y/y in Q2 and Wholesale fell 5%, while Large Enterprise grew 4%. Cogent is the clearest warning: a \$350mm market cap, negative book equity and a -40.9% FCF yield. AT&T and Verizon trade at 7.0x and 7.4x EV/EBITDA, about Lumen's own 7.3x, so the market prices Lumen like an incumbent despite B-category credit.

Bull case

1. **AI fiber demand becomes revenue** — PCF builds convert into recognized revenue, NaaS (3,000+ customers) scales, and new prepaid deals fund more route miles. Plays out if Business revenue grows in 2028 as guided and PCF signings keep coming. *Model: rev_growth, nwc_pct_rev, terminal_growth*
2. **The cost program lands** — \$1bn of run-rate savings exiting 2027 plus the end of Special Items take margin toward the company's mid-30% adjusted target. Plays out if Adj. EBITDA ex-Special-Items margin passes 30% in 2027. *Model: ebitda_margin*
3. **Deleveraging re-rates the equity** — net leverage falls toward 3x, ratings keep rising (Moody's B2, Fitch B in Feb 2026), and both the risk premium and the exit multiple move toward the telcos. *Model: wacc, exit_ev_ebitda*

Bear case

1. **Legacy decline outruns Strategic growth** — Legacy is still 47% of Business revenue and falling 15% a year. Plays out if Business revenue keeps falling ~2% a year past 2027. *Model: rev_growth, ebitda_margin, terminal_growth*
2. **The prepayments are spent, but the revenue still has to be delivered** — deferred revenue rose \$6.2bn from 2024 to mid-2026 and funded the build. As it is recognized, EBITDA includes revenue that brings in no new cash. Plays out if new PCF signings slow while capex stays above 25% of revenue. *Model: capex_pct_rev, nwc_pct_rev*
3. **An equity stub on a 74%-debt structure** — a small EBITDA miss or wider spreads take most of the equity. Net benefit obligations (\$1.93bn) and the Alkira payment (\$487mm) sit ahead of shareholders. *Model: wacc, exit_ev_ebitda; FY0 other_claims*

Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
EV/EBITDA (model basis: revenue – cost of services – SG&A, after SBC and Special Items; leases excluded; FY2025)	7.21x	n/a (unverified)	lease-inclusive TTM: T 7.03x, VZ 7.42x, CCOI 17.20x (LUMN 7.26x)	XBRL, 10-Q, stockanalysis 2026-10-22
EV/Sales (TTM, aggregator)	1.37x	n/a (unverified)	T 2.51x, VZ 2.73x, CCOI 3.18x	stockanalysis 2026-10-22
FCF yield (TTM, aggregator; includes PCF prepayments and \$729mm of sale proceeds)	18.19%	n/a (unverified)	T 11.76%, VZ 11.47%, CCOI –40.85%	stockanalysis 2026-10-22
Net leverage (net debt / FY2025 model EBITDA)	4.47x	n/a (unverified)	n/a	10-Q 2026-06-30

Model-implied value range (from `model-summary.json` ; generic module, Gordon-growth DCF and exit-EV/EBITDA DCF, midpoints): Bear \$0.00 · Base \$0.51 · Bull \$10.57 per share, i.e. implied returns of –100.0% / –88.5% / +137.0% vs \$4.46. *These ranges show how the bull and bear drivers translate into value; they are not price targets.*

- **What's priced in.** The price sits 39% of the way from Base to Bull. Running the bull operating drivers at Base valuation inputs gives \$6.28 (+40.8%). The market is paying for most of the bull operating case.
- **Floored cases.** Bear prints \$0.00 on both methods: free cash flow stays negative (–\$1.7 to –\$2.1bn a year from Y2) and the equity is out of the money. Base sits just above zero instead, with net leverage falling from 4.9x to 3.8x over five years. That gap is in FCF and leverage, not in how the percentages read.
- **Re-rating.** Base's 6.0x exit is a 17% de-rating from today's 7.21x. Gordon (\$0.00) and exit (\$1.03) differ by more than 10%. At 8.4% WACC and 0% growth, Gordon's terminal value is ~3.5x Y5 EBITDA (est., my arithmetic), so that method embeds a much deeper de-rating.
- **Tail.** Not run separately: no customer or product is ≥50% of revenue, and Bear already floors at \$0.

Balance sheet: net leverage 4.47x (gross 5.20x) FY2025 model EBITDA; Base path 3.8x by Y5. Coverage 2.9x. Liquidity: \$1.88bn cash at 2026-06-30 (\$487mm then paid for Alkira on 07-01) plus \$660mm of revolver availability. Maturities are light until 2030: \$46mm in 2026,

\$23mm in 2027, \$209mm in 2028, \$675mm in 2029, then \$12.25bn after 2030. Covenants: net leverage $\leq 5.25\times$ and interest coverage $\geq 2.0\times$. Ratings: Moody's B2 stable, Fitch B, S&P B- issuer (all Feb 2026).

Model note: built and verified (LibreOffice recalculation matched all 3,207 formula cells). Unverified inputs: none. Assumptions without basis: none. No scenario CHECKS. Model EBITDA is after SBC and Special Items: FY2025 is 20.7% vs the company's 27.1% Adjusted ex-Special-Items. FY0 still includes the FTTH business. Model NWC includes all deferred revenue, so PCF prepayments are inflows and their later recognition is an outflow. The 2026 FCF guide (\$1.9–2.1bn ex-Special-Items) includes the AT&T proceeds booked as operating cash, a ~\$400mm tax refund and PCF prepayments. The model leaves out the refund and the AT&T proceeds, and its Y1 levered FCF is ~\$500mm. No EPS guidance exists. Base Y1 EPS is ~\$0.86 and excludes the \$565mm sale gain. Debt coupons and maturities are displayed within the filed ranges.

RELATIVE VALUE VS PEERS

Metric	LUMN	T	VZ	CCOI	Peer median	vs median
P/E (TTM)	n/a	12.2x	11.8x	n/a	12.0x	
P/E (forward)	n/a	8.9x	8.9x	n/a	8.9x	
EV/EBITDA (TTM)	7.3x	7.0x	7.4x	17.2x	7.4x	-2%
EV/Sales (TTM)	1.4x	2.5x	2.7x	3.2x	2.7x	-50%
P/B	n/a	1.4x	1.8x	n/a	1.6x	
FCF yield	18.2%	11.8%	11.5%	-40.9%	11.5%	+6.7pp

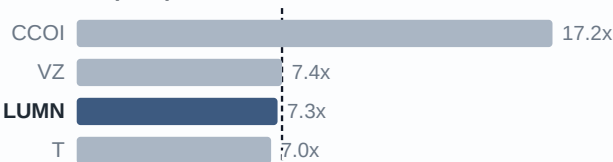
P/E (TTM)



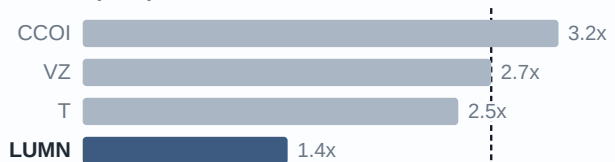
P/E (forward)



EV/EBITDA (TTM)



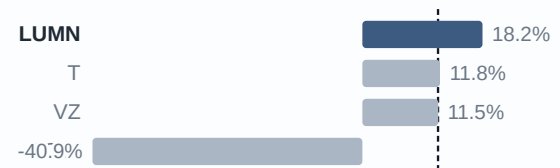
EV/Sales (TTM)



P/B



FCF yield



As of 2026-10-23. One source and one definition for every company: aggregator TTM and consensus-forward multiples, lease-inclusive EV. Not the model's own EV basis (see the report's valuation table). Figures reflect the 2026-10-22 close (pages updated 2026-10-23, before the open). Dashed line = peer median. Source: stockanalysis.com /stocks/<ticker>/statistics/, fetched 2026-10-23.

Notes. LUMN and CCOI report net losses; the source shows n/a. LUMN and CCOI: no positive consensus forward EPS on the source (n/a). LUMN (stockholders' deficit \$1.49bn at 2026-06-30) and CCOI (book value -\$0.71/share) have negative book equity. LUMN's TTM FCF includes PCF customer prepayments and \$729mm of AT&T sale proceeds classified in operating cash flow. Omitted: the source gives no PEG for LUMN and no credible multi-year growth estimate exists.

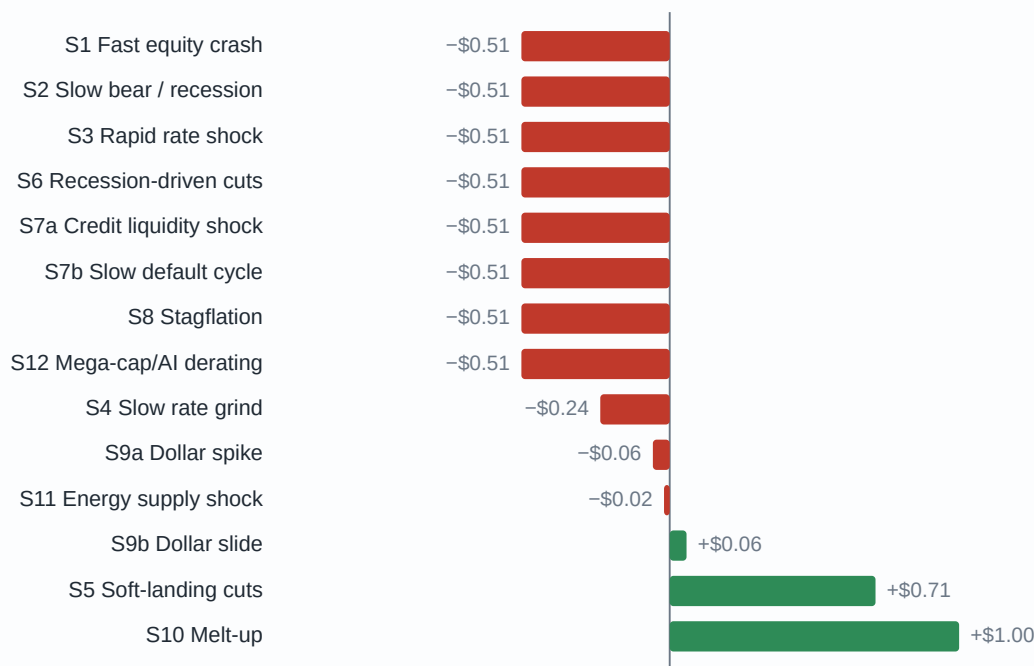
Scenario stress test

Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	–	De-rating of a 1.86-beta equity stub at 74% debt; maturities are light, so no funding channel. Floors at \$0	High	–\$0.51
S2 Slow bear / recession	–	Enterprise and mid-market customers cut circuits; wholesale churns. Same order as Base – Bear (\$0.51), both floored	High	–\$0.51
S3 Rapid rate shock	–	Higher discount rate; \$2.4bn floating TLB-5 reprices	High	–\$0.51
S4 Slow rate grind	–	Gradual refinancing cost and discount-rate drift	Med	–\$0.24
S5 Soft-landing cuts	+	Cheaper money for a B-rated credit lifts the levered equity	High	+\$0.71
S6 Recession-driven cuts	–	Enterprise spending cuts outweigh lower rates	High	–\$0.51
S7a Credit liquidity shock	–	HY spreads gap; the equity trades as a credit derivative	High	–\$0.51
S7b Slow default cycle	–	Refinancing cost plus small-business and carrier customer failures	High	–\$0.51
S8 Stagflation	–	Labor and power costs inflate; legacy contracts can't reprice; rates up	High	–\$0.51
S9a Dollar spike	–	International is ~3% of revenue; small translation loss	Low	–\$0.06
S9b Dollar slide	+	Mirror image	Low	+\$0.06
S10 Melt-up	+	High-beta, AI-adjacent stub re-rates	High	+\$1.00
S11 Energy supply shock	–	Network power costs; minor	Low	–\$0.02
S12 Mega-cap/AI derating	–	The equity trades on the hyperscaler PCF story; slower AI capex cuts new deals	High	–\$0.51

The eight –\$0.51 rows are capped by the \$0 floor. Each would wipe out the whole Base value, so their real severity differs more than the column shows. **Currently active/on watch per the playbook:** S3 partially active per state.md (the 2026-10-22 macro log shows the 10Y back below 5%); S8, S10 and S11 on watch.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if: Adj. EBITDA ex-Special-Items margin passes 30% with capex ex-Special-Items below 25% of revenue, or new PCF signings show deferred revenue still rising after the 2026 builds, alongside Business revenue turning positive y/y. **Downgrades if:** n/a — already Sell. The thesis strengthens if Business revenue keeps falling ~2% y/y into 2027, deferred revenue starts declining, or FY2027 capex guidance stays above \$3bn.

Watch items

- **W1:** Business revenue y/y — better than Q2's -2% — Q3 2026 release — Oct 29 or Nov 4 2026 — *Model: rev_growth*
- **W2:** Adj. EBITDA ex-Special-Items and Special Items in EBITDA — FY2026 guide \$3.1–3.3bn held; Special Items falling — Q3/Q4 2026 releases — *Model: ebitda_margin*
- **W3:** Deferred revenue (current + noncurrent) — above the 2026-06-30 \$9.18bn — Q3 2026 10-Q — *Model: nwc_pct_rev*
- **W4:** FY2027 capex guidance — below \$3.0bn — Q4 2026 release — early 2027 — *Model: capex_pct_rev*

Sources

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- Lumen Form 10-Q, quarter ended 2026-06-30 — <https://www.sec.gov/Archives/edgar/data/18926/000001892626000060/lumn-20260630.htm> — accessed 2026-10-23
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