



well as IoT offerings, and DISH acknowledging broad discussions with tower companies about potential coverage build out options, we believe DISH's strategic direction needs to be far more obvious by the back half of 2018 or the technology and asset advantage it has (fallow, unused spectrum without any legacy technology or subscribers) will begin to lessen as other carriers scramble to make up for technology or spectrum shortfalls by leading with experience and quickly playing catch-up. We still think that Ergen and DISH are very well positioned for the future of wireless.

## Wireline: Underweight Relative to the DB Index

*Annus Horribilis...* that's how we would define 2017 for fixed line, specifically the RLECs. The question is whether 2017 unearthed issues that can be reversed or whether 2017 was the year where the shine of what used to be a defensive sector was revealed to be an underlying business in serious trouble. For the most part, we think the latter as it relates to consumer and SMB revenue. We don't expect any real change in 2018 and believe investors will be incrementally focused on what trends actually present themselves in results as opposed to giving management the benefit of the doubt regarding future aspirations. Admittedly, it's a tall order turning these businesses around giving the secularly declining nature of the industry. Each of the three major LECs in HY altered or reduced guidance at some point in 2017. Frontier originally guided to \$4 billion of EBITDA before walking back from that figure throughout the year and then speaking about a \$3.8 billion run-rate number, which itself appears aspirational. CenturyLink fought the skepticism of the market all year by reiterating guidance that seemed ambitious in 1H17 but after it missed guidance in 3Q CTL was forced to reduce full year guidance at the same time it was closing on its LVLV deal. Windstream left its published guidance unchanged despite including the impact from the Broadview transaction, implying a drop in its legacy EBITDA guidance given that Broadview was guided to contributing positive run-rate EBITDA. Then to top it off, an activist debt investor got Windstream embroiled in a debate over the legitimacy of its series of transactions involving the creation of Uniti (f/k/a Communication Sales and Leasing). This issue remains before the courts with a final timeline likely not decided until sometime in late 1Q18. A year to forget, though that might not be possible.

**Business Trends:** The secular declines that have plagued the industry should continue and potentially accelerate for some segments. Competing technologies appear to be biting at the RLECs from all sides. Residential and SMB, particularly DSL customers, are struggling to compete with cable and we also see some evidence of satellite trying to attack the low end of the market, though cost conscious consumers would be more likely to stick with DSL. Comcast and Charter are investing heavily in their networks, raising minimum speeds, and are / will offer quad-play packages including wireless subscriptions as a result of their MVNOs with Verizon. The attractive speeds, pricing, and bundling will likely have some negative impact on both gross adds and churn for the telcos going forward. In addition to cable, Verizon is preparing to deploy 5G fixed wireless in 3-5 markets with the goal of a larger build-out should the product catch on. Even if successful, we don't expect Verizon to blanket the footprints of most of the LECs, but the denser parts of CenturyLink's and Frontier's footprint could be at some risk. Finally, satellite continues to creep in the background with EchoStar and ViaSat both capable of delivering competitive speeds to the rural markets, though as we said earlier – price is probably an issue that sits in the RLECs favor (DSL pricing well below the price for similar speeds in satellite). What is the way out of this conundrum? The only one we see is accelerated capital spending. We are reminded of the bold moves undertaken by Cincinnati Bell several years ago when it felt the competitive pressures intensifying in its businesses. CBB made

*All three RLECs cut guidance or implied guidance in some way shape or form. Unfortunately, we do not believe the issues that impacted 2017 were either an anomaly or easily corrected in the future. Some of the bonds of Windstream and Frontier are down over 20 points in 2017, with CTL bonds also down but materially outperforming the other two.*

*How can the industry dig itself out from the current secular headwinds? CapEx. There's no way to save yourself into prosperity in the case of the LECs. The missed opportunity for some companies was in turning off dividends much earlier and reinvesting in aggressive levels of capex in order to build a technological moat around the core business. For many, that opportunity seemingly came and went.*