



# Assessing Current Economic Conditions and Their Impact on Broadband M&A and Valuations

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# Agenda

## 1 Economic Update

- ▶ Current state of U.S. economy
- ▶ Consumer health
- ▶ Soft landing?

## 2 M&A and Valuations

- ▶ Where did all the deals go?
- ▶ Valuations – is the best behind us?
- ▶ What next?

# Key factors



**Interest rate**



**Recession concerns**



**Labor market**



**Competition**



**Technology**

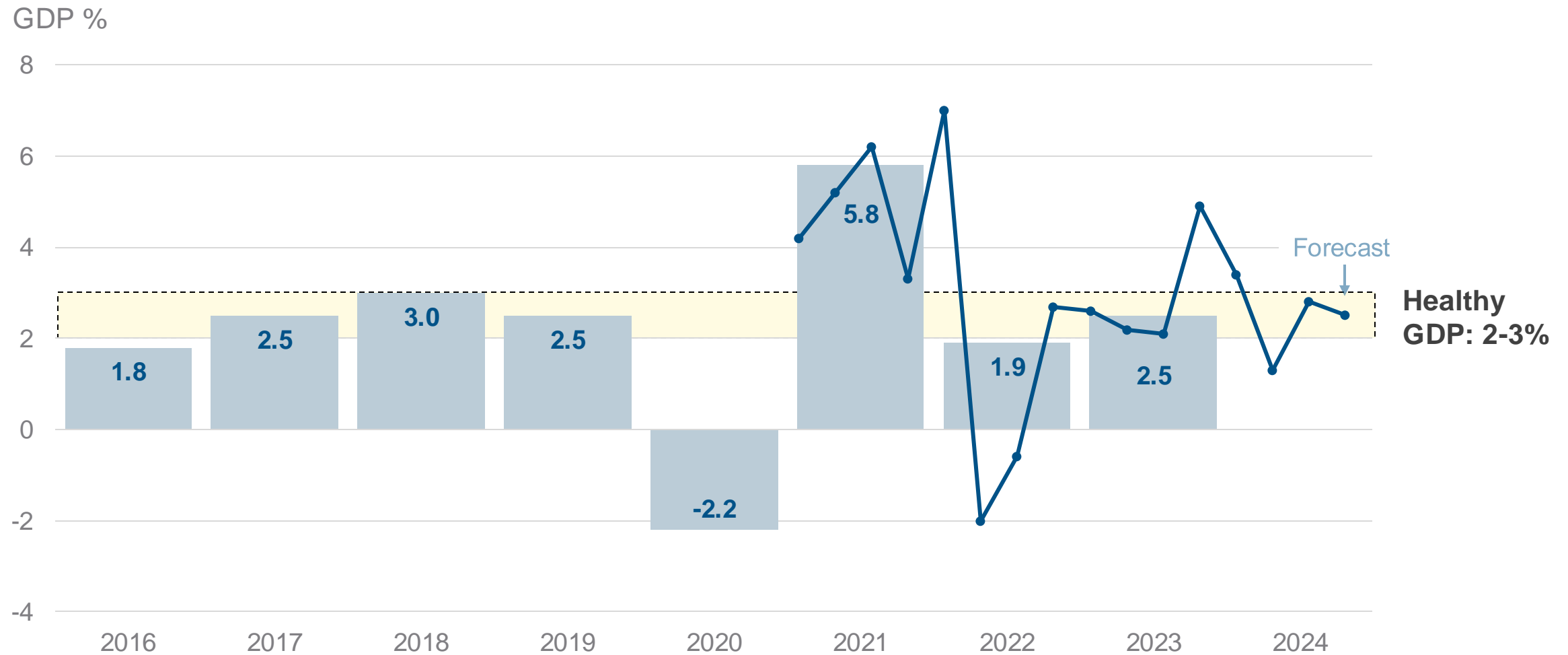


**Execution**



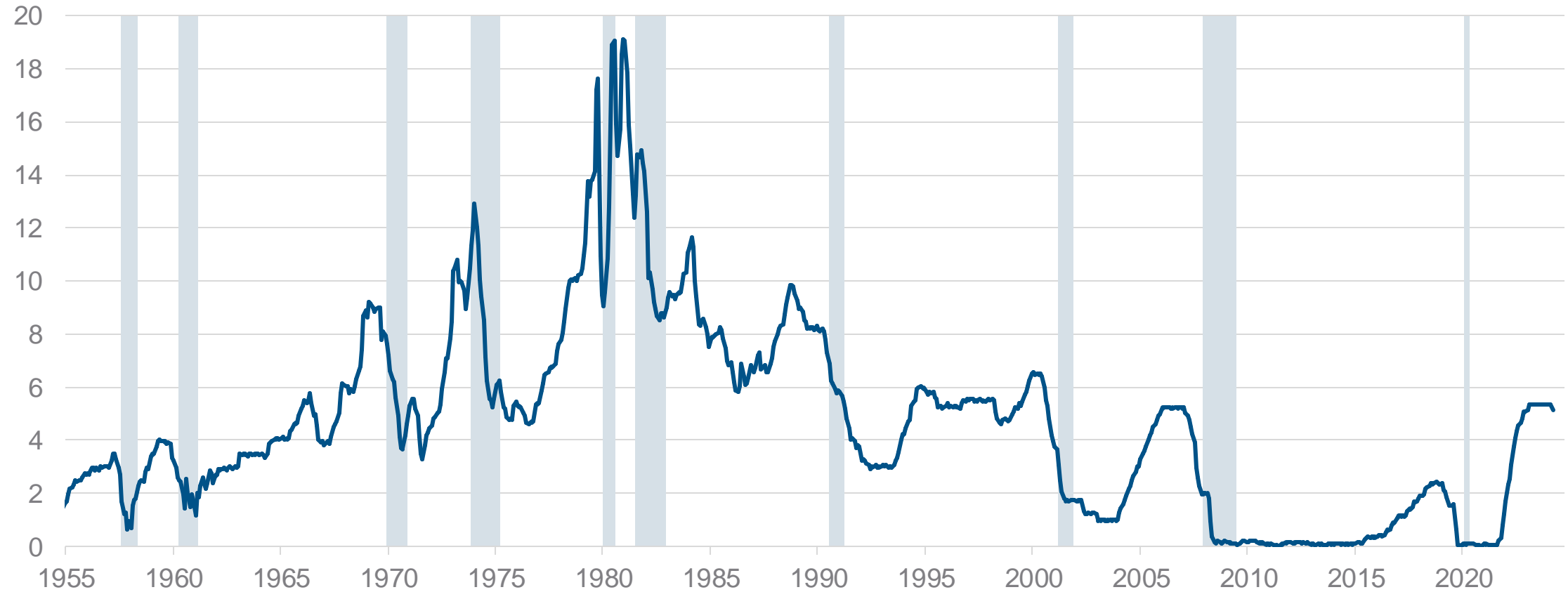
**Broadband M&A  
and valuations**

# GDP results have been healthy despite aggressive rate increases



# Federal Reserve interest rate policy is a blunt instrument that has a lag effect on the economy

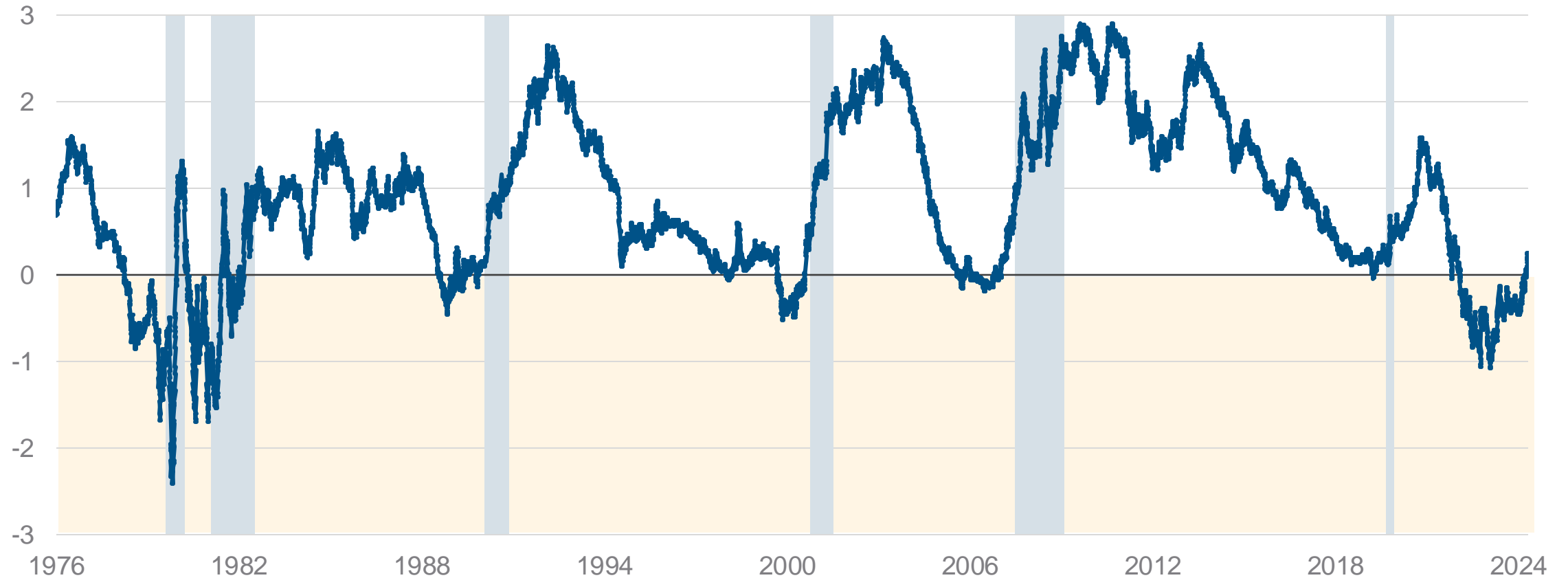
Federal funds effective rate (percent)



Shaded areas indicate U.S. recessions

# An inverted yield curve has been an accurate predictor of U.S. recessions

10-year treasury constant maturity minus 2-year treasury constant maturity (percent)

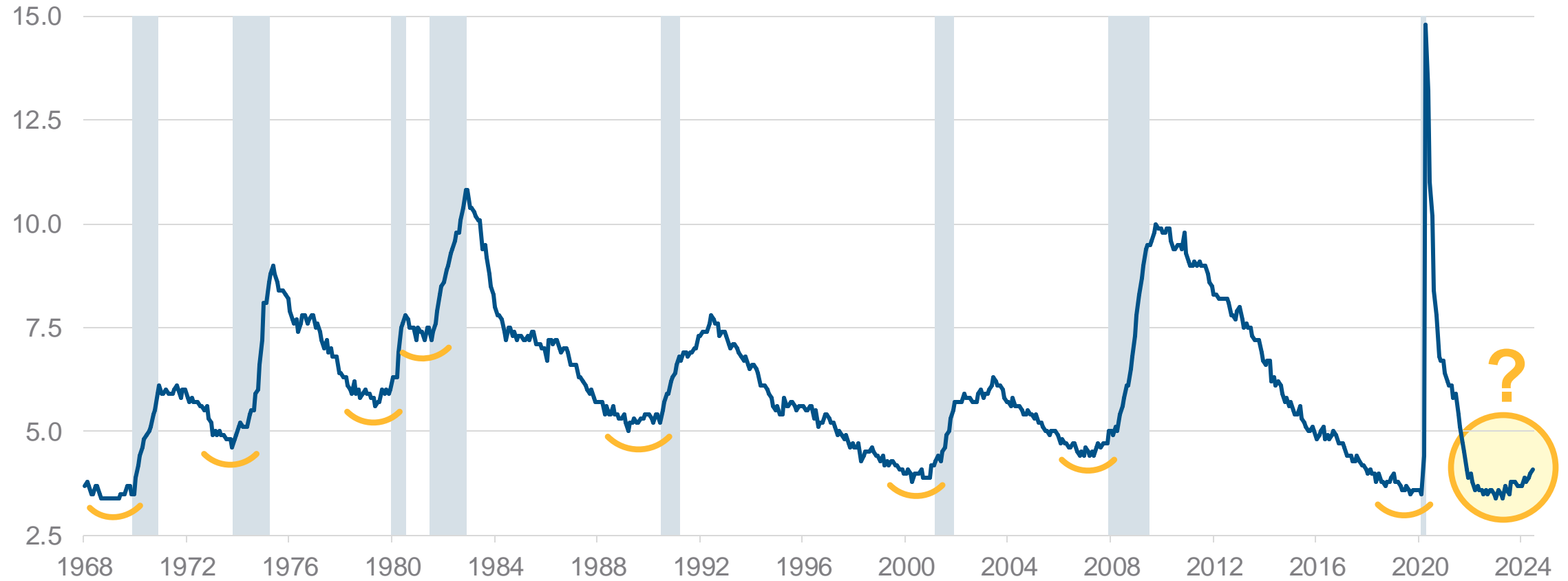


*Shaded areas indicate U.S. recessions*



# During economic cycles, the unemployment rate typically bottoms before the start of a recession

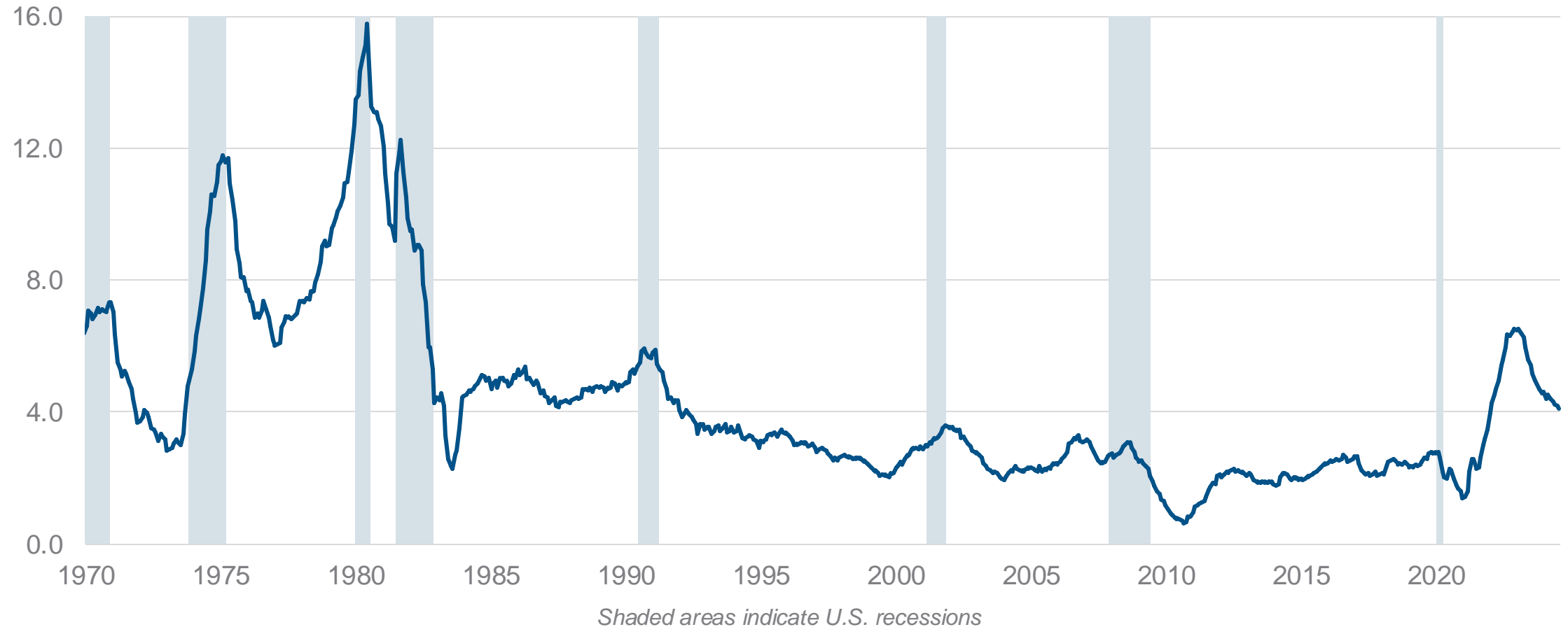
Unemployment rate (percent)



Shaded areas indicate U.S. recessions

# Core consumer price index (CPI) is rolling over without a recession

Sticky price CPI less food and energy





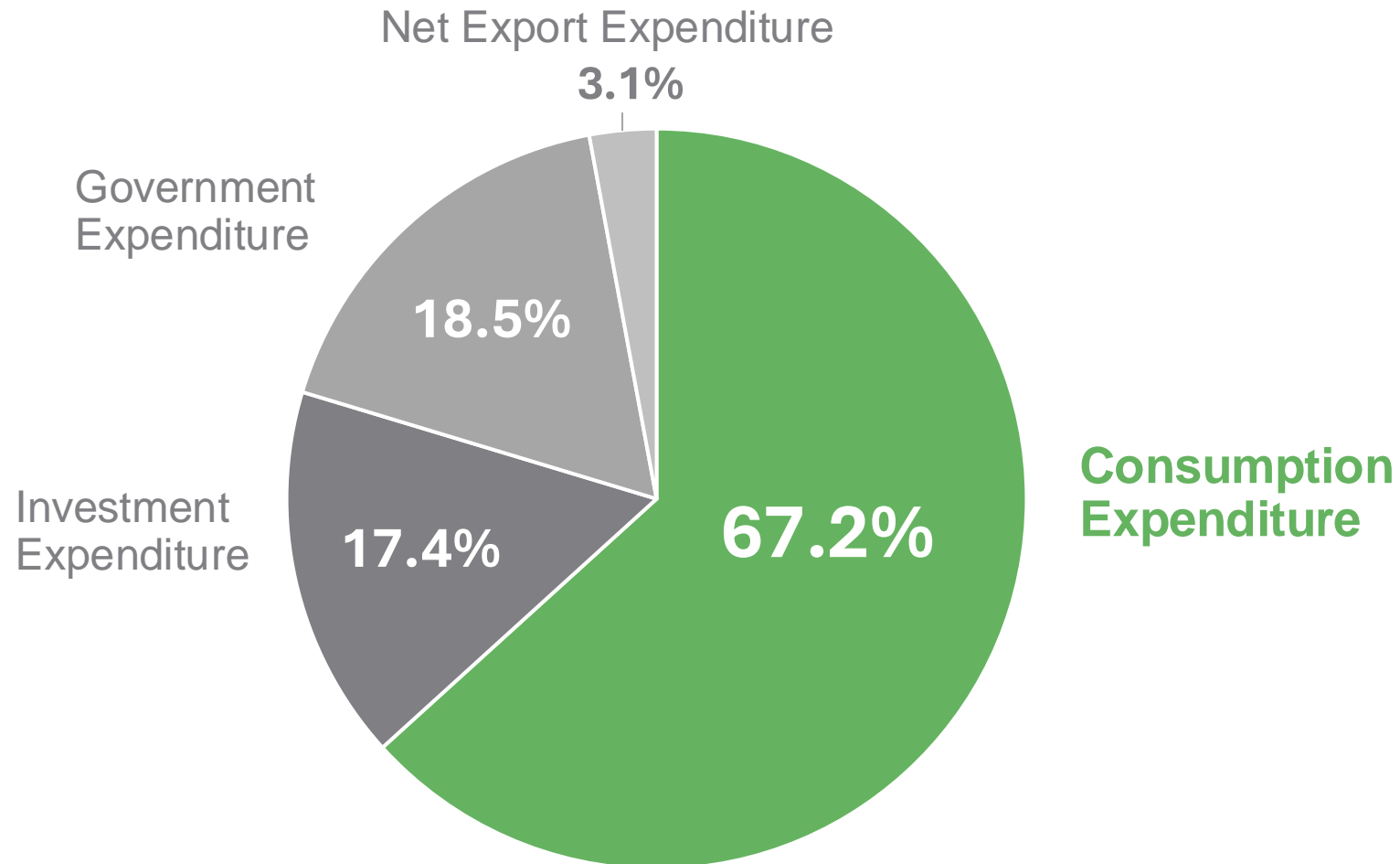
# U.S. 2-year treasury note

2-year note reflects market expectations for future federal funds rate



# The U.S. economy is considered a “consumption economy” driven by consumer spending

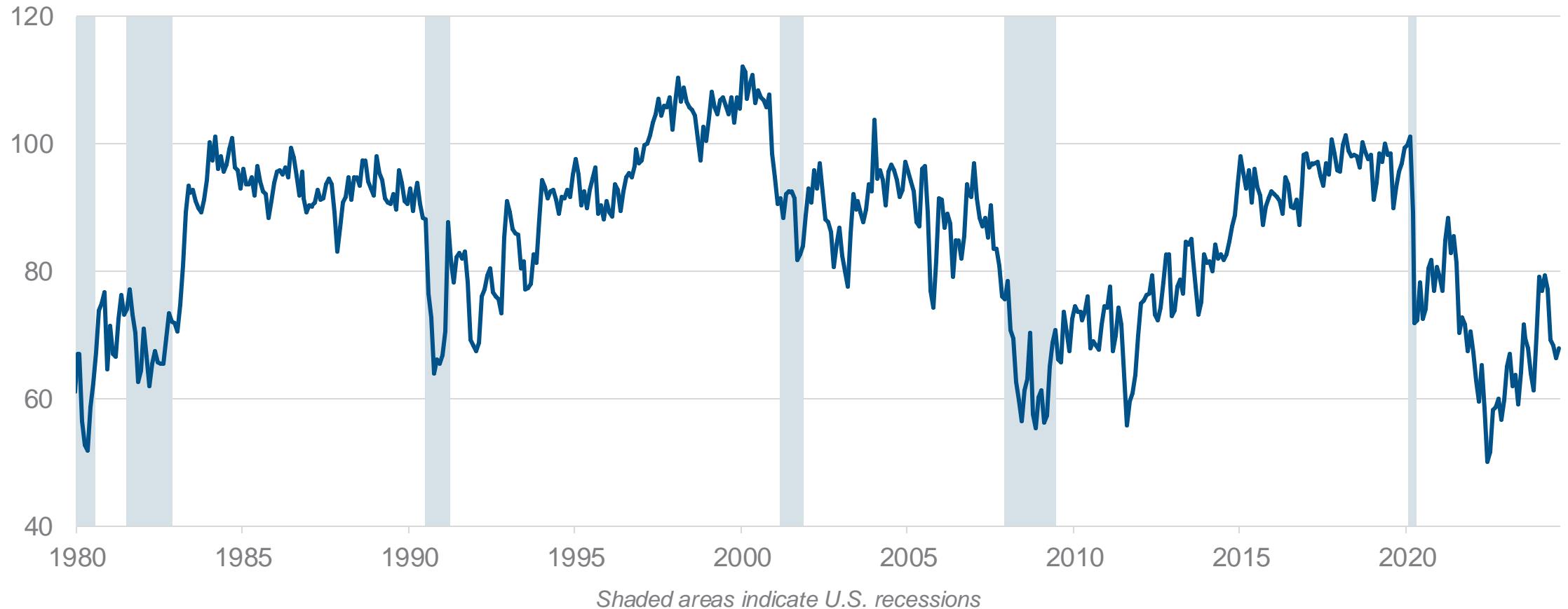
## Components of GDP



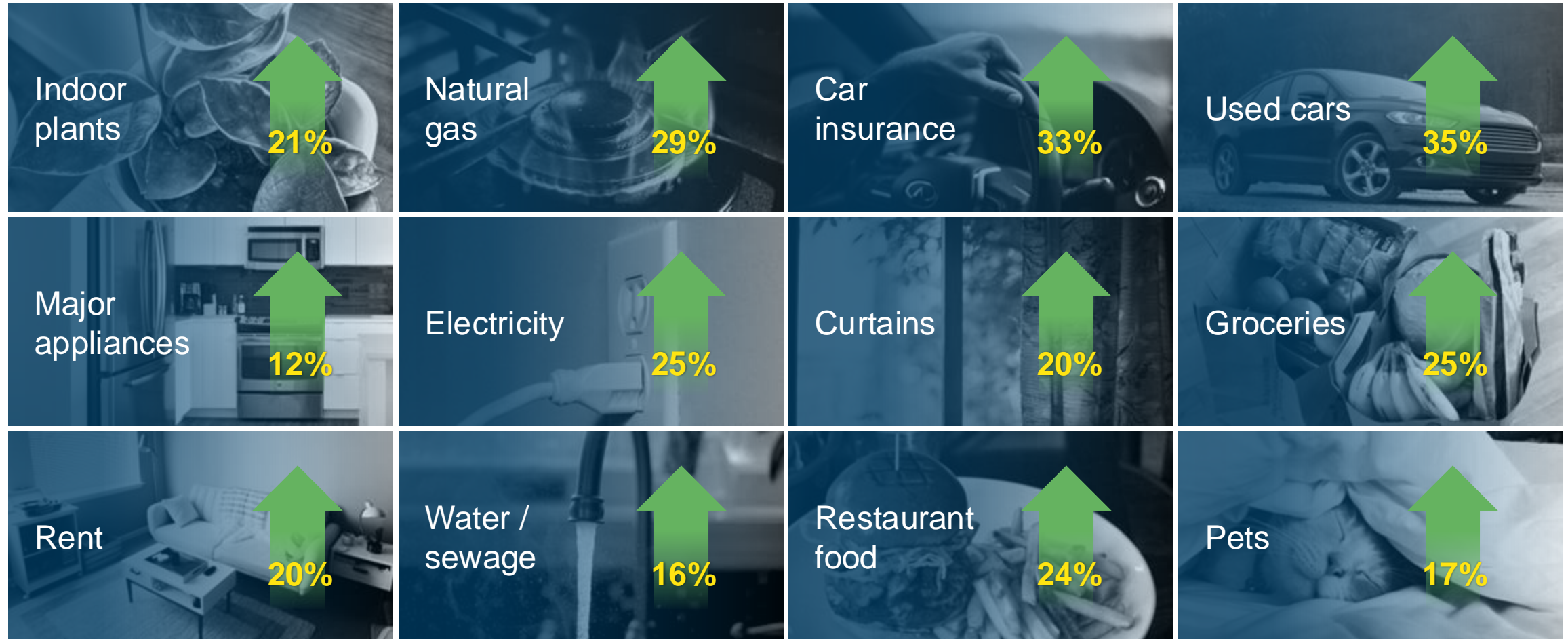
# Consumer confidence waning

## University of Michigan: consumer sentiment

Index 1966:Q1=100

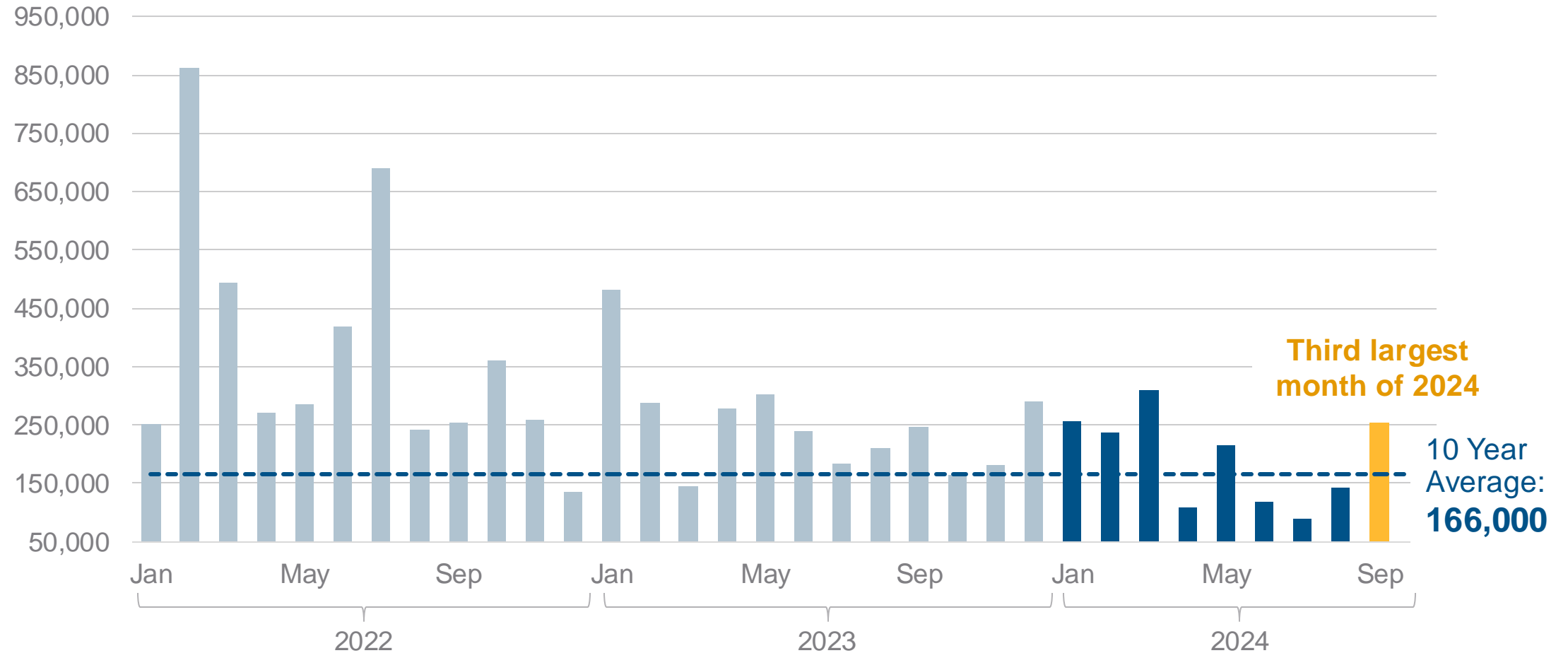


# Inflationary pressures are weighing down consumer confidence



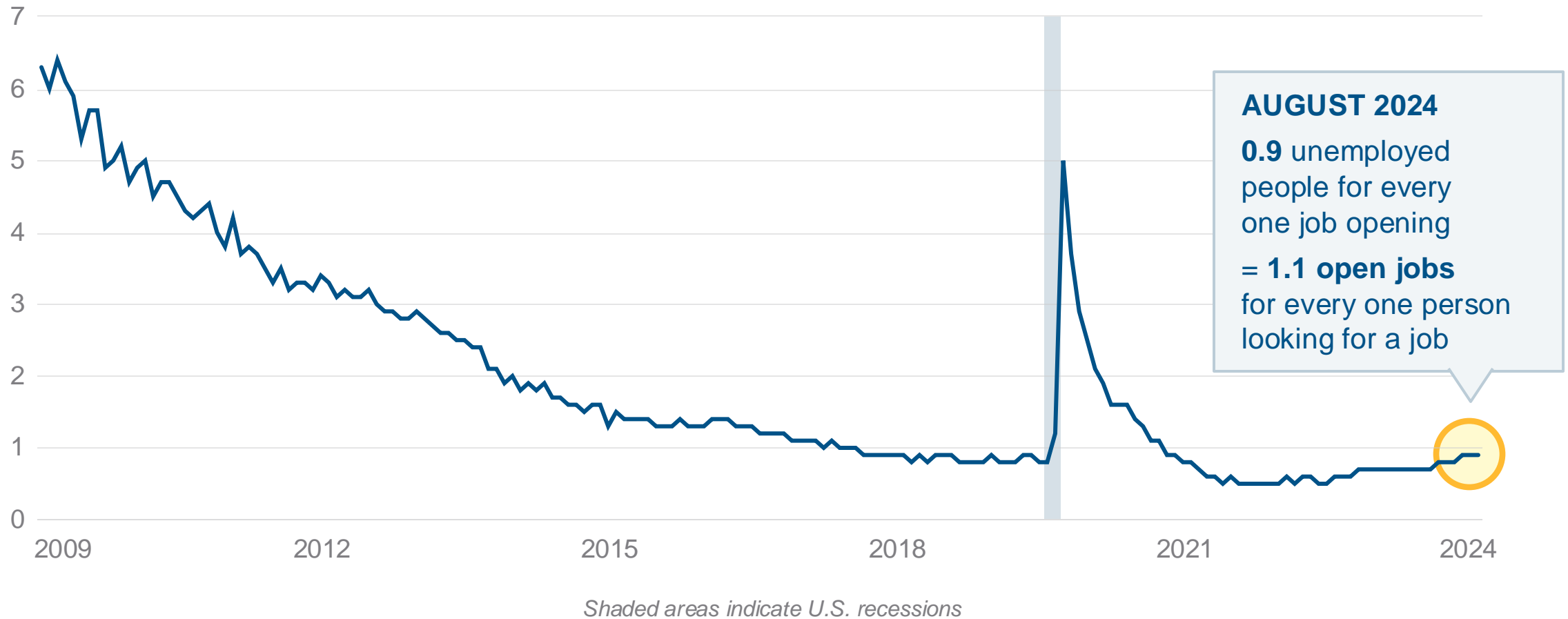
# Job growth was weak over the summer but picked up in September

## Monthly job gains



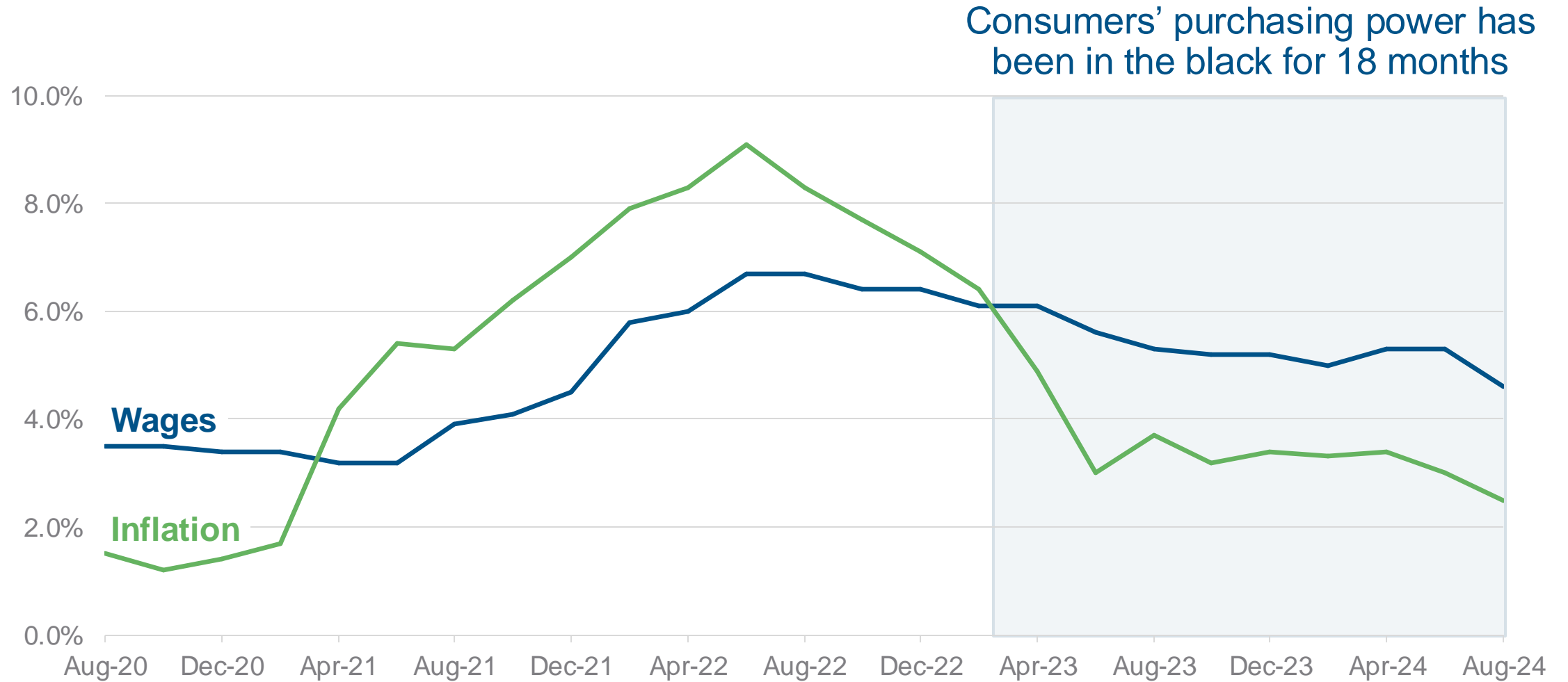
# Labor supply demand imbalance

Number of unemployed persons per job opening, seasonally adjusted



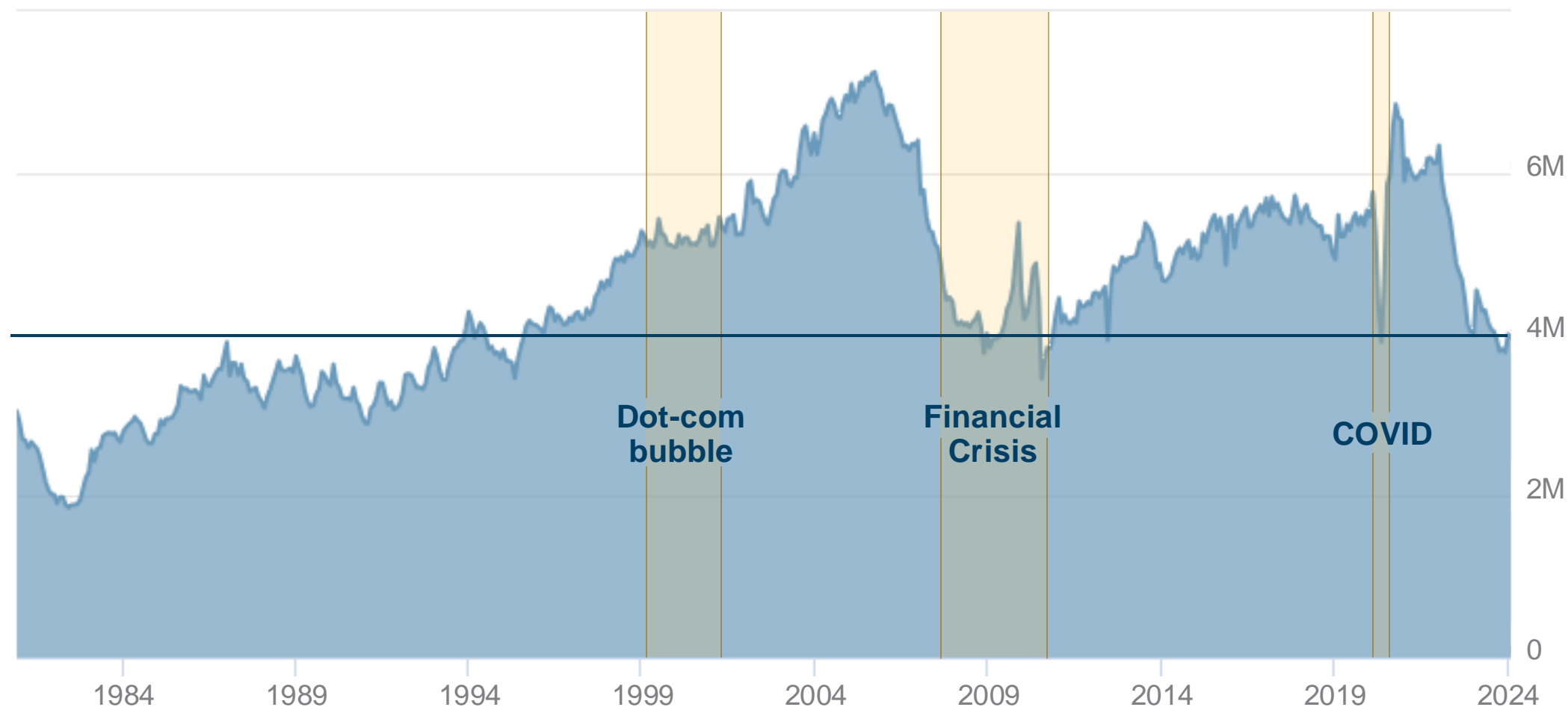


# Wages vs inflation (YoY % change)



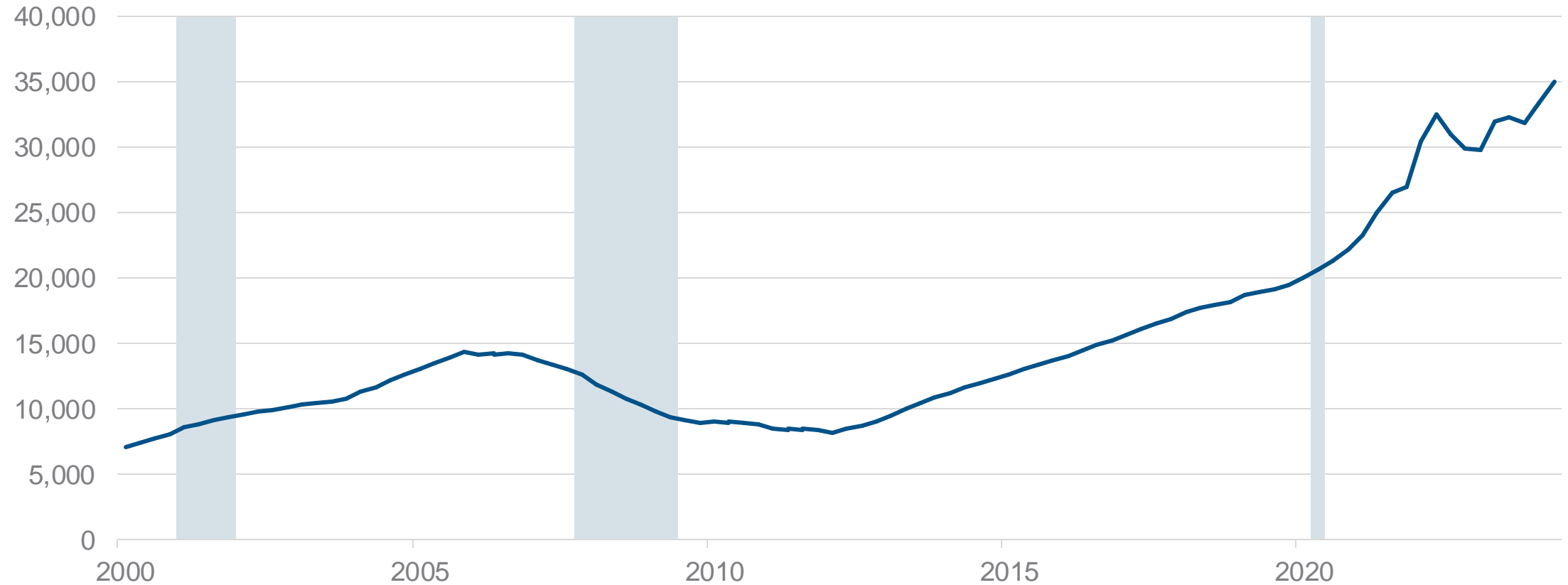
# A lack of housing inventory is helping keep prices high

## Existing home sales



# Equity levels remain near all-time highs, which support consumer spending

Households; owners' equity in real estate, level (billions of dollars)



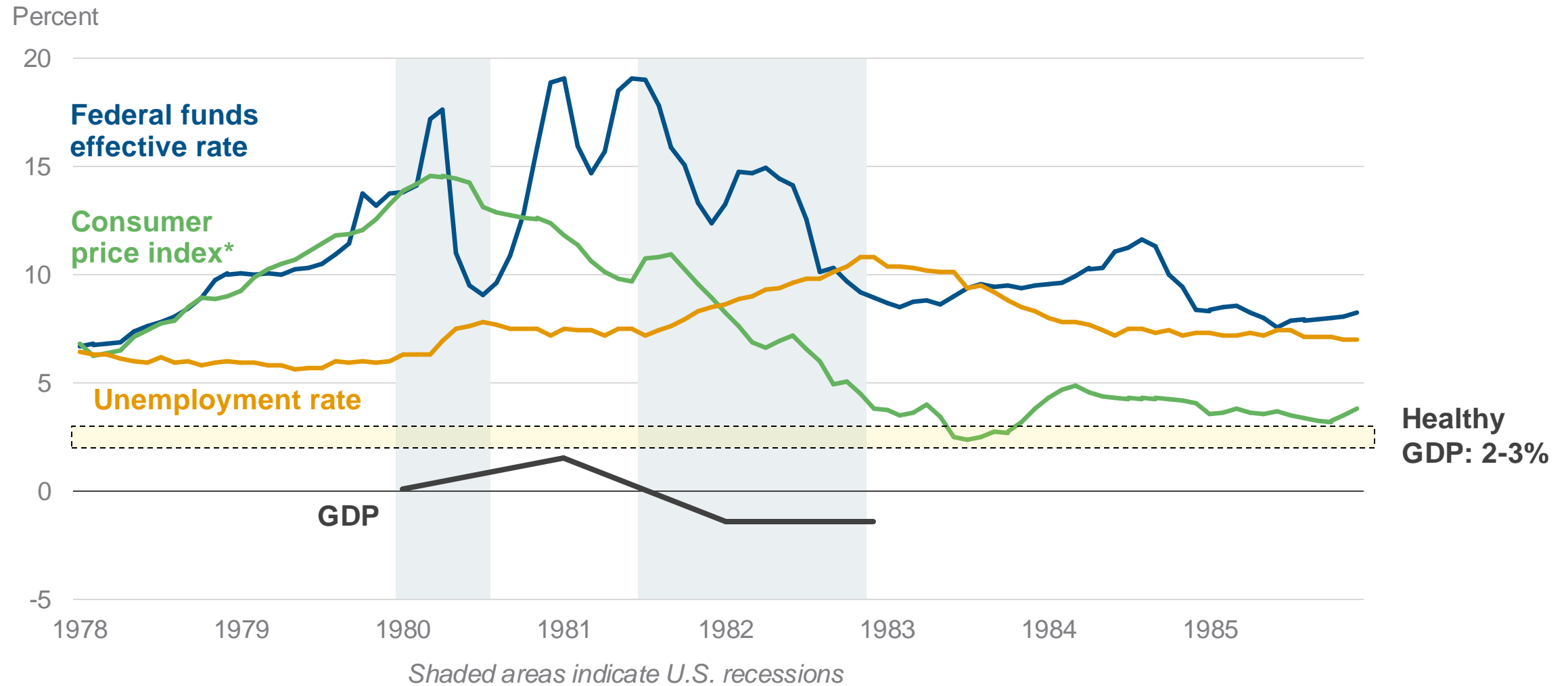
Shaded areas indicate U.S. recessions

# Hard or soft landing?

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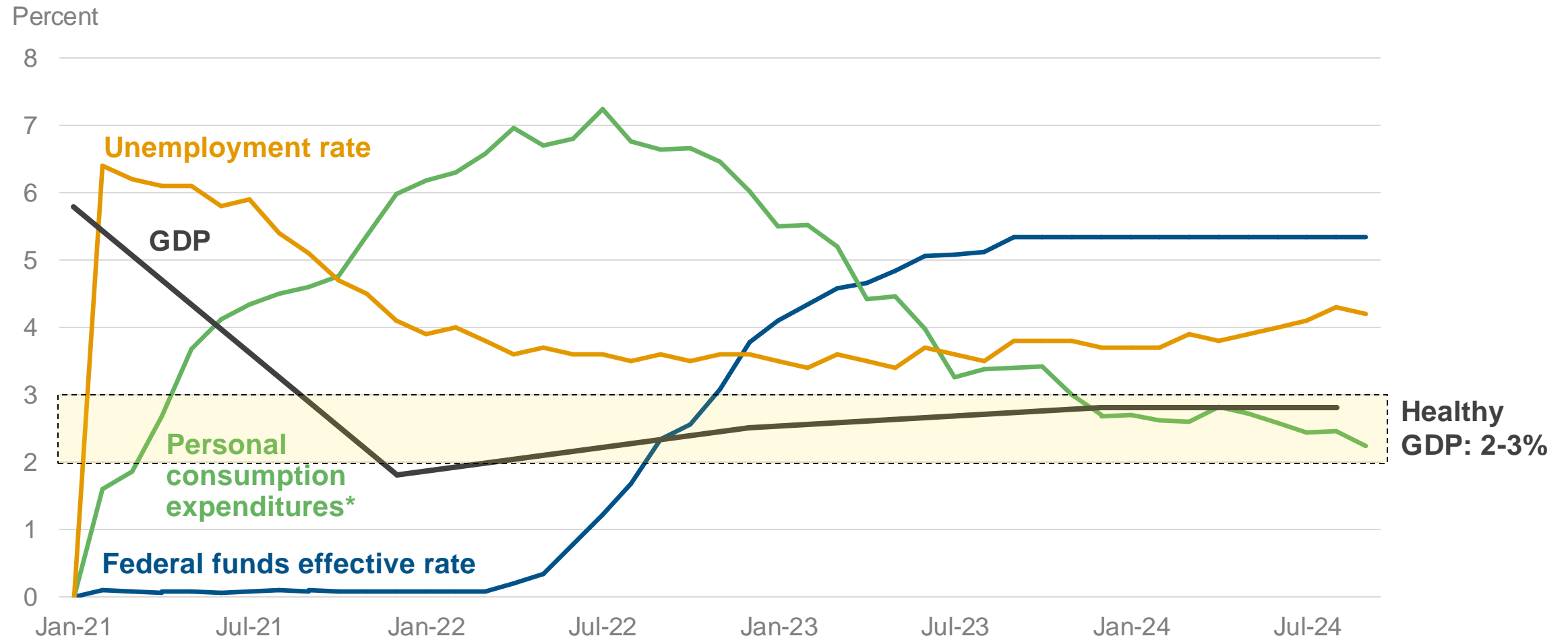
# What a hard landing looks like



Source: [St. Louis Fed](#)

\*for all urban consumers: all items in U.S. city average

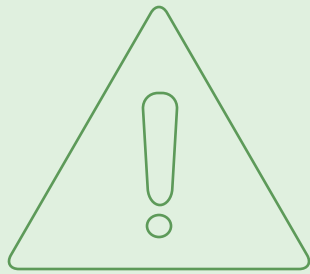
# What a soft landing looks like



Source: [St. Louis Fed](#)  
\*chain-type price index



# What to watch out for



- | Geopolitical issues risk disrupting energy markets – higher oil prices
- | Generative AI promises to deliver unprecedented levels of automation and efficiencies
- | Consumer spending and the job market
- | Lag effects from interest rate hikes on the economy are still unknown but concerns are waning

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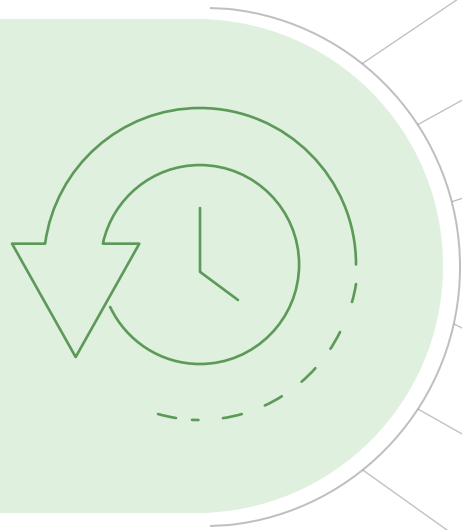


**Execution**



**Broadband M&A  
and valuations**

# A look back



| Macroeconomic concerns were low and money was free.

| Institutional investor money poured into the market.

| COVID showed how critically important broadband is to our daily lives.

| Valuations soared and deal activity was robust.

| Race to build fiber networks began.

| Cloud computing growth was robust.

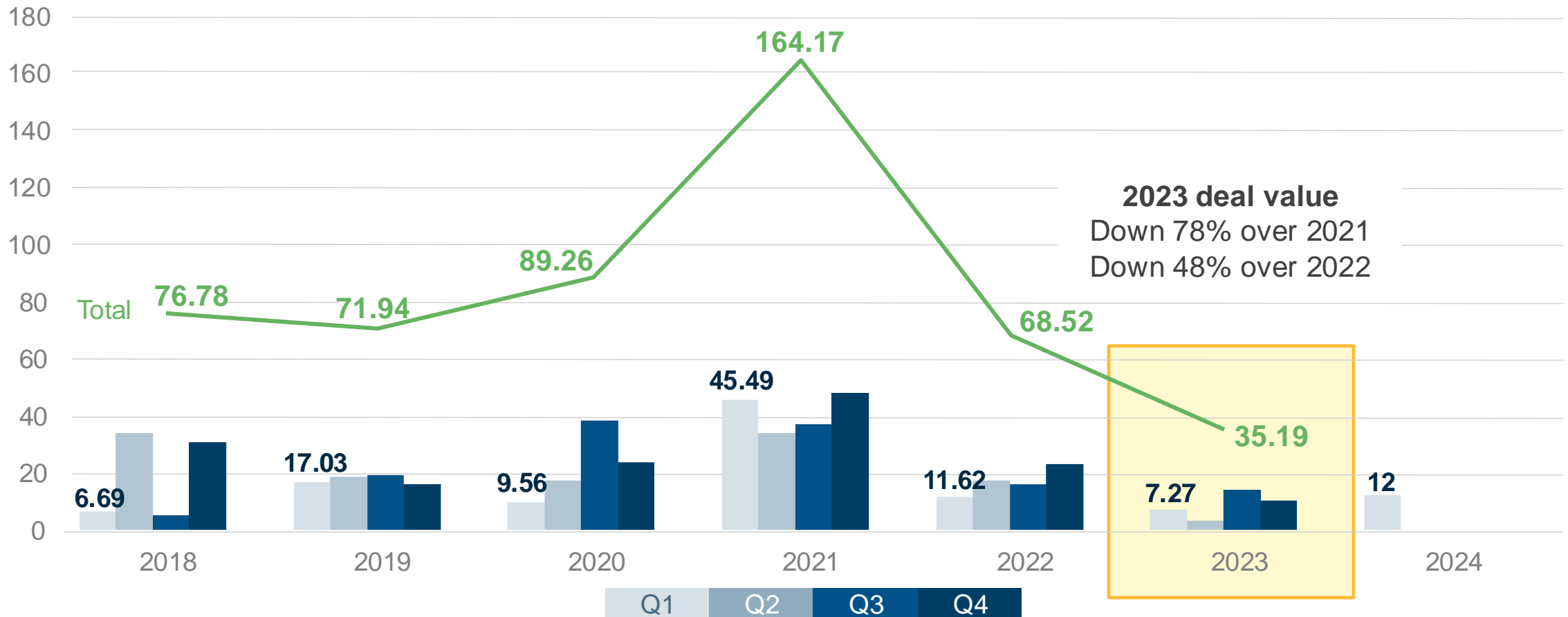
# Uncertainty started to creep in



- | Interest rate hikes
- | Labor and equipment cost increases
- | BEAD creates uncertainty for growth and future opex and capex
- | Execution issues, permitting delays, and labor availability
- | Valuation multiples contracted
- | Build versus buy

# Telecom M&A activity

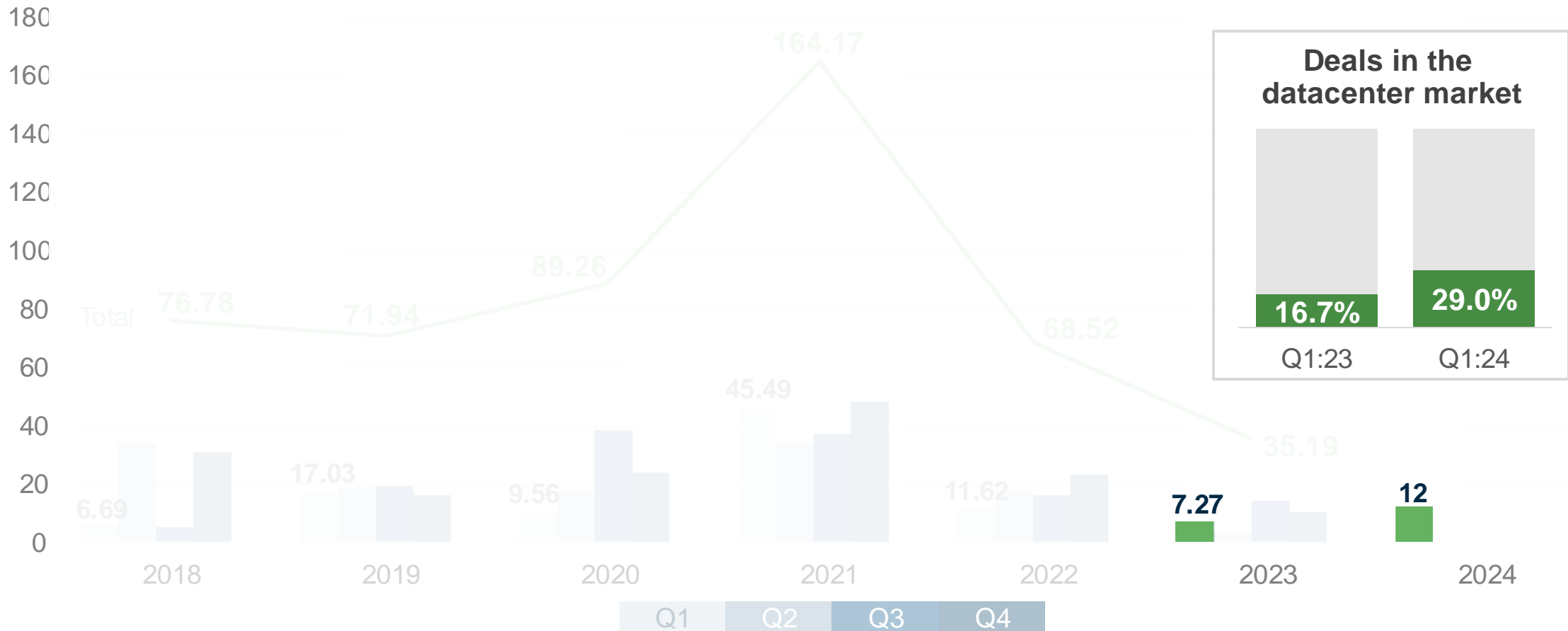
Americas telecoms deal value breakdown, billions of U.S. dollars





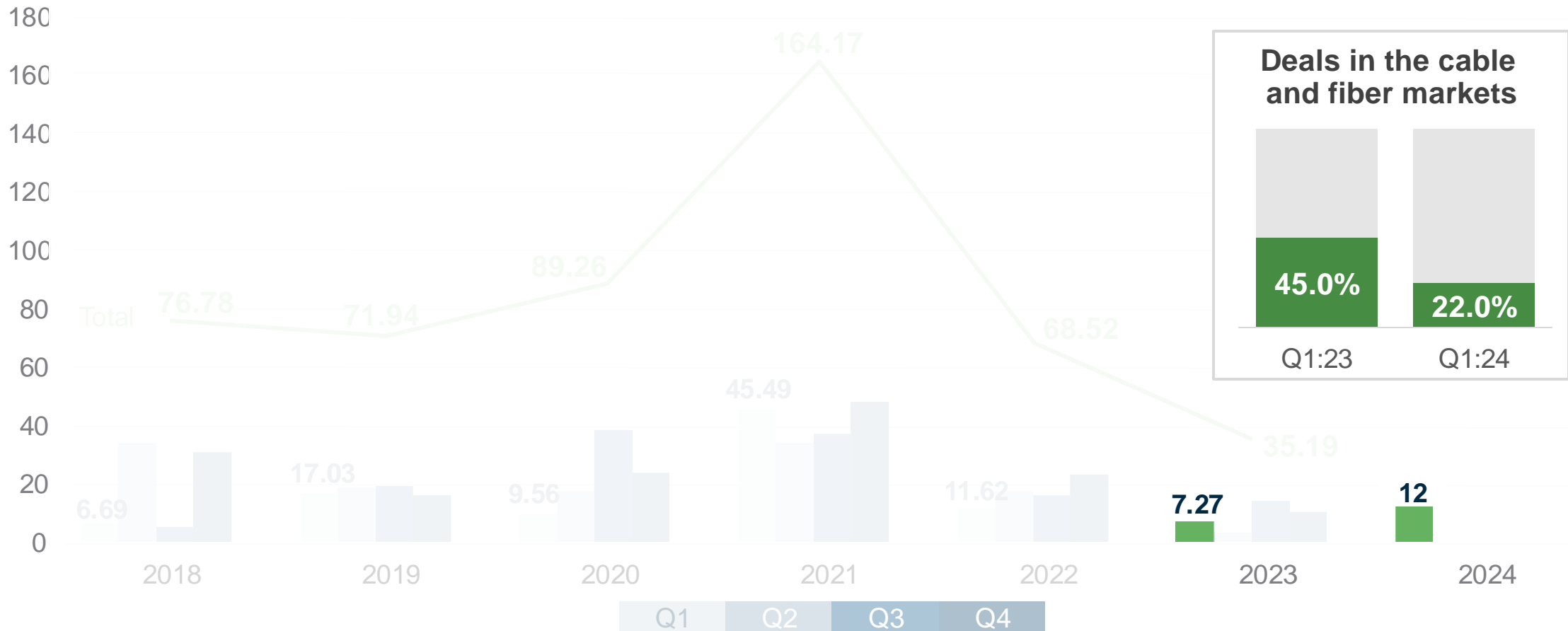
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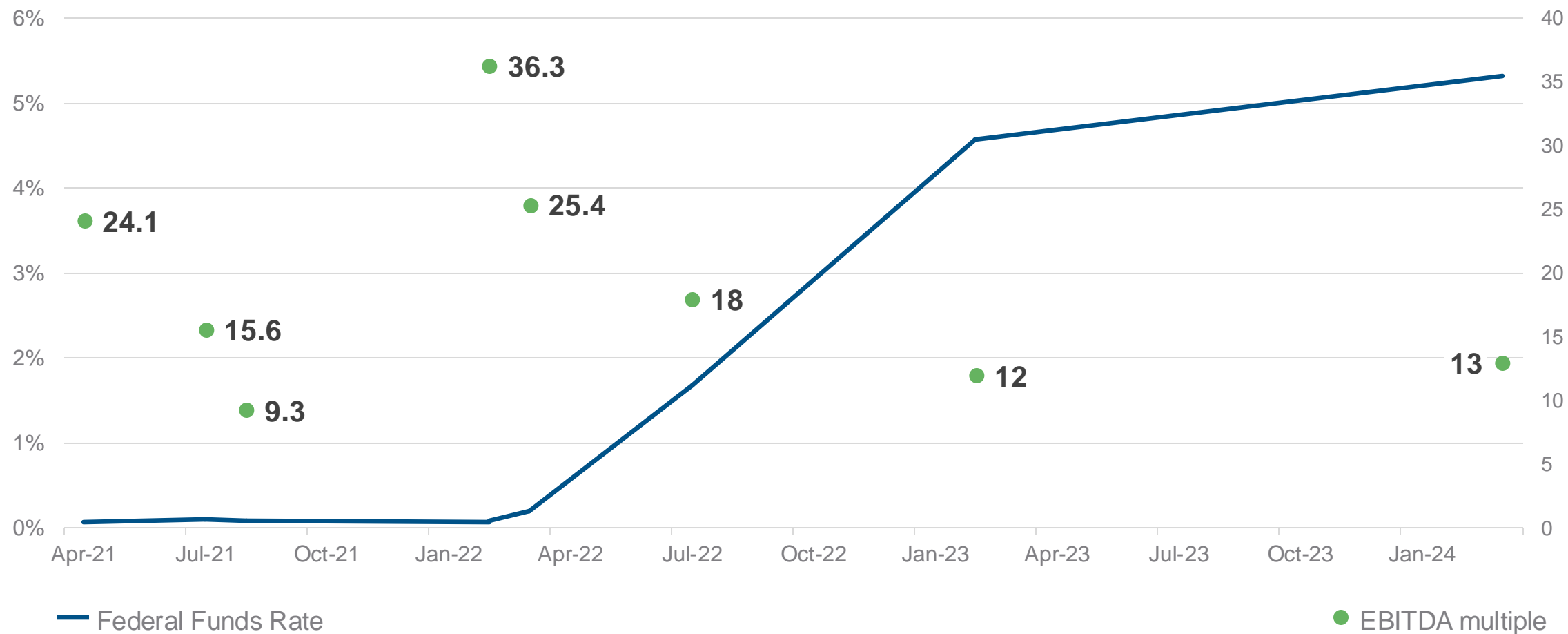
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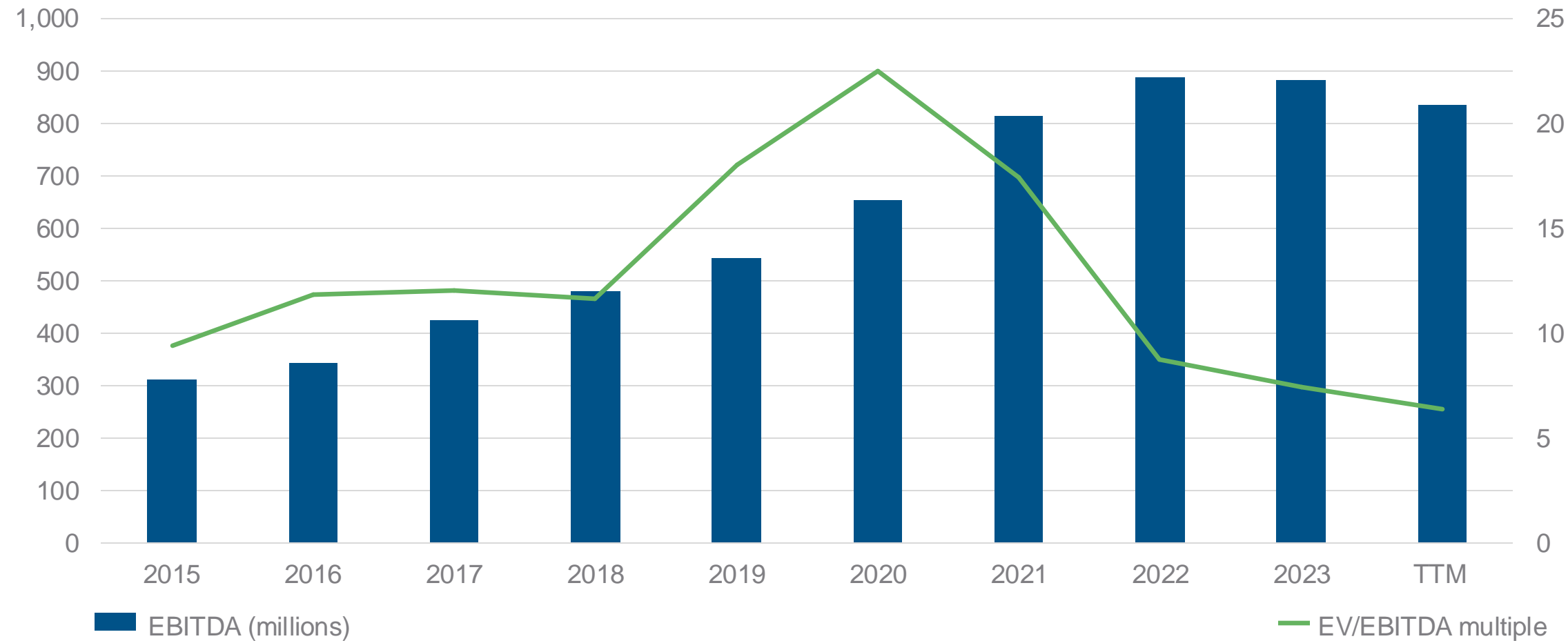
# Fiber multiples have compressed while interest rates rise

## Competitive fiber multiples (x EBITDA)



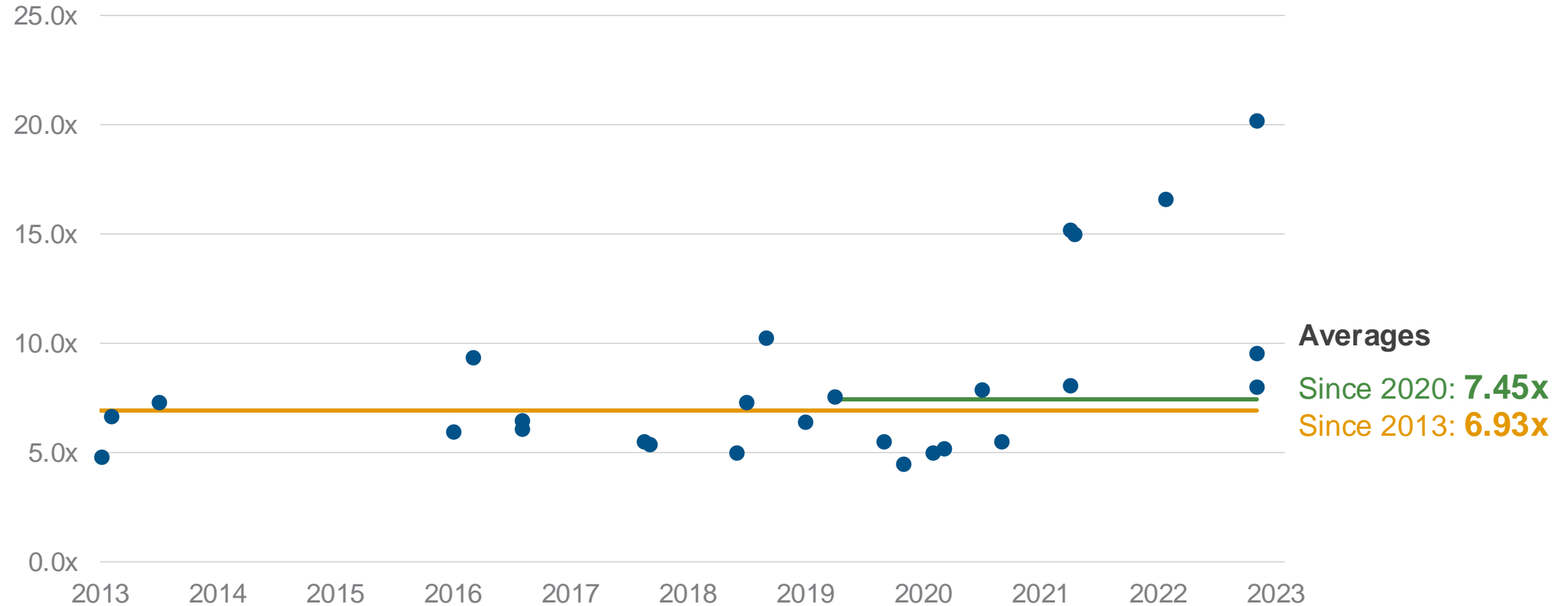
# Cable One's valuation dropped by over 60% from its peak as growth slowed

## EBITDA (millions) and EV/EBITDA multiple



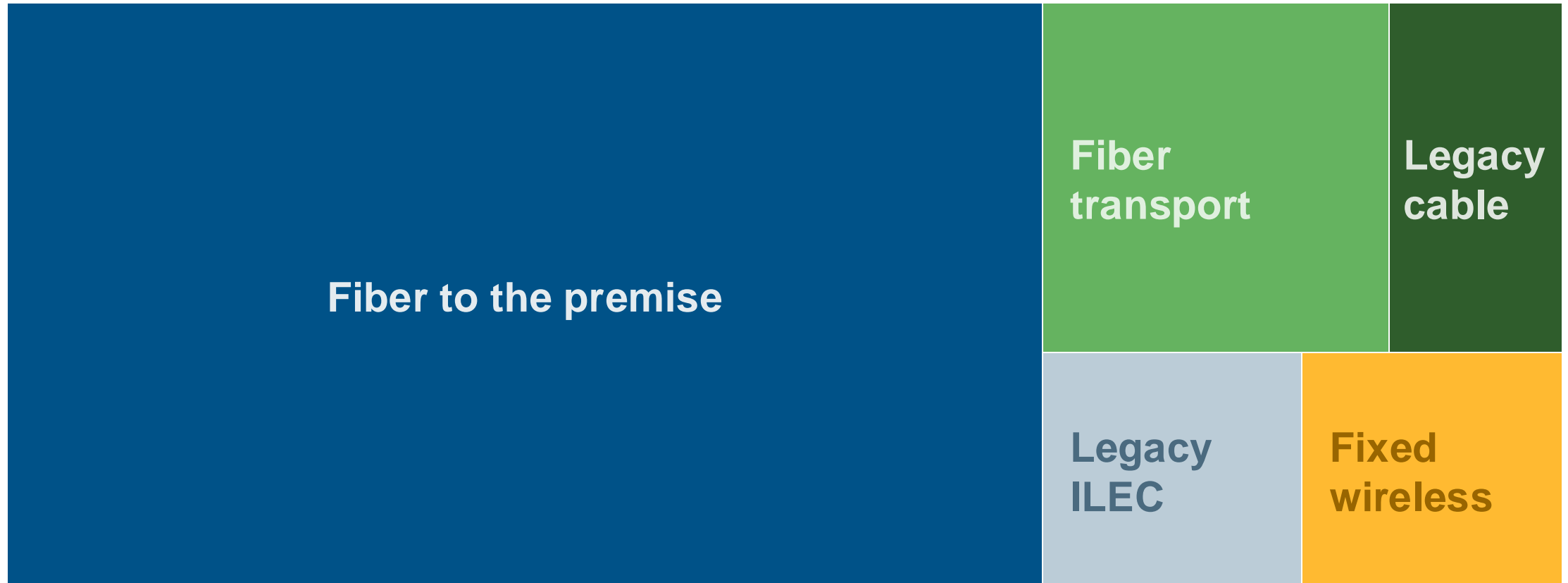
# Overall ILEC multiples have remained relatively constant, but vary by deal

## ILEC M&A weighted multiples



# Recent M&A by company type

Fiber operators dominate the M&A landscape





# Predictions



# T-Mobile and Verizon go shopping

## T-Mobile™

March

 **Tillman  
Infrastructure**

- Anchor tenant for open access fiber networks throughout FL

April

**lumos™**

- JV with EQT
- 3.5 million passing by EOY 2028

July

**metronet**

- JV with KKR
- 6.5 million passing by EOY2030

## verizon

September

**FRONTIER** 

- \$20 billion deal announced
- +30 million homes with fiber A

2024

# Looking ahead



- | Repeat of cable and wireless consolidation?

- | Large national wireless operators could become industry consolidators.

- | Limited downside risk to valuations, but upside potential is not clear.

- | M&A likely to pick up.

- | Any U.S. recession is unlikely to materially impact M&A.

- | Further interest rate cuts in the next 6-12 months.

# CoBank resources

## Digital Infrastructure Reports



Could Data Centers be the Catalyst for Modernizing the U.S. Electric Grid?

SEPTEMBER 2024



The Rural Revolution is Coming as Generative AI Drives Hyperscale Data Centers

MAY 2024



Shifting Signals Create Uncertainty for Rural Broadband Consolidation

MARCH 2024

## All Day Digital Podcast



S3E09 The Bridge Across the Digital Divide Needs Maintenance

S3E08 USF Court Ruling Leaves Rural Telecom in Limbo

S3E07 How Banks are Embracing High-Leverage Broadband Borrowers

