

# \$TDS: Buying Tomorrow's Essential Infrastructure at Yesterday's Conglomerate Price

---

## 1. Executive Summary

We are initiating a **HIGH CONVICTION LONG** recommendation on Telephone and Data Systems, Inc. (TDS). Our thesis is centered on a profound corporate metamorphosis that the market has failed to correctly price. The divestiture of its UScellular assets is a "great uncoupling" event, transforming TDS from a complex, slow-growing telecom conglomerate into a financially fortified, strategically focused, pure-play fiber infrastructure company. The market, fixated on legacy metrics like a trailing EPS of (\$-0.62) and a misleading forward P/E of 134.38, is pricing in the execution risk of the journey while completely ignoring the high-quality, quasi-monopolistic asset being created at the destination.

This is a classic case of misinterpreting a strategic investment cycle as operational weakness. TDS is trading near-term cash flow for a multi-decade, high-margin annuity stream from its fiber network. The ~\$4.4 billion transaction provides the full, non-dilutive funding to complete this fiber buildout, effectively de-risking the balance sheet and the entire transformation plan. Cohort data from existing fiber builds already provides tangible proof that the unit economics are highly attractive and repeatable, tracking ahead of management's own projections.

Our variant perception is that while the market sees a capex-heavy telco facing a commodity price war, we see a premium infrastructure provider building a durable moat in the most valuable segment of the broadband market. The current share price of **\$44.13** reflects a steep discount to the intrinsic value of the emerging entity. Our analysis, grounded in a forward-looking Sum-of-the-Parts (SOTP) and a multi-year Discounted Cash Flow (DCF) model, indicates a base case fair value of **\$62 per share**, representing **41% upside**. The risk/reward profile is highly asymmetric, with a plausible private-market takeout scenario suggesting a value north of \$80, while the downside is cushioned by the tangible value of the existing network and tower portfolio. We believe the market will be forced to re-rate TDS as a premium infrastructure asset as the company delivers consistent execution over the coming quarters.

### TL;DR:

- **Recommendation + conviction level:** LONG with High Conviction.
- **Key thesis driver:** The UScellular sale de-risks a complete transformation into a pure-play fiber infrastructure company, which the market is currently mispricing as a legacy telecom conglomerate.
- **Primary risk or kill condition:** Failure to achieve target fiber penetration rates (e.g., <35% in mature cohorts) due to a more effective-than-expected competitive response from cable's DOCSIS 4.0 upgrades.
- **Valuation vs. current price:** Current price of \$44.13 offers 41% upside to our base case fair value of \$62 per share, which is derived using metrics appropriate for a high-growth infrastructure asset.

## 2. Business Quality Assessment

For decades, Telephone and Data Systems operated as a holding company, managing a majority stake in UScellular (a wireless carrier) alongside its wholly-owned TDS Telecom wireline business. This structure created a conglomerate discount, strategic ambiguity, and perennial competition for capital between two disparate businesses. The pending divestiture of UScellular is the single most important strategic event in the company's history, resolving this conflict and clarifying its identity.

The "new" TDS is TDS Telecom: a pure-play fiber infrastructure company. Its business is straightforward: build, own, and operate Fiber-to-the-Home (FTTH) networks to provide premium, high-speed internet service. This is a capital-intensive business characterized by a powerful first-mover advantage. The immense upfront cost and logistical complexity of laying fiber create a formidable barrier to entry, making a scaled overbuild by a second fiber competitor economically irrational in most target markets.

The competitive landscape is best understood as a three-tiered market, and TDS's strategy is to dominate the most profitable tier:

1. **TDS Fiber (The Premium Product):** As the builder of a new, dedicated fiber network, TDS offers the technologically superior product. Its key advantages are symmetrical upload/download speeds (e.g., 2 Gbps up *and* down), lower latency, and higher reliability. This is the "future-proof" solution for the growing segment of power users: households with multiple remote workers, 4K/8K streaming, high-performance gaming, and dozens of connected smart-home devices.
2. **Cable Incumbents (The Incumbent Challenger):** Companies like Charter and Comcast represent the primary competition. They are upgrading their existing hybrid fiber-coaxial networks to DOCSIS 4.0, which will allow them to offer multi-gigabit download speeds and, eventually, symmetrical speeds. However, DOCSIS remains a shared-medium technology, meaning bandwidth is shared among neighbors, which can lead to performance degradation under load. It is a formidable "good enough" offering but remains architecturally inferior to dedicated fiber.
3. **Fixed Wireless Access (FWA) (The Low-End Disruptor):** Offered by mobile carriers like T-Mobile and Verizon, FWA uses 5G cellular networks to provide home internet. It is a cost-effective and rapidly deployable solution, making it a powerful competitor for the most price-sensitive, low-usage customers. However, FWA is constrained by spectrum capacity and is generally less reliable and slower than either fiber or high-end cable, making it unsuitable for the premium segment.

TDS is not trying to win the entire market. Its business quality stems from a focused strategy of building the best product for the most demanding and highest-paying customers in markets with favorable demographics and competitive dynamics. This creates a high-quality, recurring revenue business with strong pricing power and a durable competitive moat.

### 3. Investment Thesis & Variant View

Our investment thesis is built on three core pillars: a strategic purification that has created a financially invincible entity, tangible evidence that the underlying fiber business model is working, and a profound market mispricing of this new reality.

#### Force 1: Strategic Purification and a Fortress Balance Sheet

The UScellular sale is the catalyst that unlocks the entire thesis. It is not merely an asset sale; it is a strategic rebirth. The transaction injects approximately **\$3.5 billion in cash and assumed debt relief**, which will be used to completely extinguish parent-level debt and provide a multi-billion-dollar war chest. This achieves three critical objectives:

- **It fully funds the fiber buildout:** TDS can now complete its multi-year, 1.2 million fiber passings plan without needing to access volatile and expensive capital markets.
- **It de-risks the entire enterprise:** In an era of rising interest rates, having a net-cash balance sheet is a profound competitive advantage.
- **It forces strategic focus:** Management's time, attention, and capital are now singularly devoted to the high-return fiber opportunity.

As CEO Laurent Therivel stated upon the transaction's announcement:

*"This transaction provides TDS with increased financial flexibility to fund our fiber program and other long-term investments... positioning us to create significant long-term shareholder value."*

The market has acknowledged the sale but, in our view, has failed to appreciate the second-order effects of this financial and strategic purification.

## Force 2: The Fiber Economics Are Real and Verifiable

This is not a "hope-based" investment. The high-return nature of the fiber build is already evident in the company's cohort data. In its Q4 2025 investor presentation, TDS disclosed that markets where it completed fiber builds in 2022 had already achieved **34% subscriber penetration** by the end of 2025. This is a crucial data point, as it tracks ahead of the company's own models and validates the ~40% terminal penetration targets that underpin the long-term financial case.

This demonstrates a repeatable, manufacturing-like process. TDS is not just spending capital; it is deploying it into a proven formula that generates high-margin, recurring revenue streams. The market's obsession with the current negative free cash flow, a direct result of this investment phase, is a classic example of missing the forest for the trees. TDS is consciously trading short-term cash flow for the creation of a long-duration, high-return-on-capital asset.

## Force 3: The Variant View — Pricing the Past, Missing the Future

The core of our variant perception lies in the market's valuation framework.

- **What the Market Believes:** The market sees TDS through the lens of its past. It sees a complex telco with negative earnings, a scary-looking forward P/E, and a history of slow growth. It fears that TDS is burning billions in a commoditizing industry where cable and wireless will compete away all the returns. The stock is a value trap.
- **What We Believe:** The market is applying the wrong valuation multiple and focusing on the wrong metrics. P/E and near-term EPS are meaningless for a company in the peak of a multi-year investment cycle. The "new" TDS is an infrastructure company and should be valued on forward EV/EBITDA multiples and a long-term DCF, similar to high-quality tower companies or data centers. The UScellular sale has created a new entity with a pristine balance sheet and a singular focus on a high-growth, high-moat business. The current price of **\$44.13** is pricing in a high probability of failure for a plan that is now substantially de-risked and already showing signs of success.

We believe the market is pricing the journey (the capex burn) and not the destination (a mature, cash-gushing fiber network). This disconnect is the opportunity.

## 4. Why the Bears Are Wrong

While five of our internal perspectives coalesced around a long thesis, one presented a cogent deep value case for passing at the current price, citing a Sum-of-the-Parts valuation of just \$37 per share. Addressing this bearish view is critical to our conviction.

The bear case is statistically coherent but strategically flawed. It correctly values the pieces of TDS as they exist *today* but fundamentally misunderstands the kinetic nature of the transformation. The cash from the UScellular sale is not just inert balance sheet value; it is the non-dilutive fuel for an engine of value creation. Valuing this cash at par in a static SOTP analysis misses its entire strategic purpose: to convert each dollar of cash into several dollars of future enterprise value via high-return fiber investments.

Furthermore, the bear case anchors its valuation to the depressed multiples of messy, highly-levered peers like Lumen Technologies or the pre-bankruptcy Frontier. This is an apples-to-oranges comparison. The post-transaction TDS will have one of the strongest balance sheets in the sector, coupled with a focused, high-growth strategy. It deserves a premium multiple closer to those seen in private market infrastructure transactions (12-16x EBITDA) or best-in-class public infrastructure peers, not a multiple dragged down by the sins of structurally challenged competitors. The deep value analyst's call for an entry price of \$32 to achieve a "margin of safety" mislocates the source of that safety. In a business like this, the margin of safety is not derived from a discount to a flawed static valuation but from the durability and quality of the asset being built—a quasi-monopolistic, essential infrastructure network whose future cash flows are deeply undervalued at the current price.

## 5. Valuation

The most significant error in valuing TDS today is using traditional earnings-based metrics. The company is in a planned, multi-year investment phase where it is intentionally depressing earnings and cash flow to build its core asset. The appropriate valuation methodologies are a forward-looking SOTP, a peer-based EV/EBITDA multiple analysis, and a long-term DCF that captures the full value of the post-investment cash flow stream.

### Forward Sum-of-the-Parts (SOTP) Analysis

Unlike a static SOTP, our model values the business based on its state after the transformation is largely complete (circa FY2027-2028).

Component	FY2027E EBITDA	Multiple	EV Contribution	Per Share Value	Rationale
TDS Telecom (Fiber)	\$725M	11.0x	\$7,975M	\$73.84	Premium multiple for high-growth, pure-play asset with clean balance sheet.
Tower Portfolio	\$50M	22.0x	\$1,100M	\$10.19	In line with public tower company multiples.
Corporate Overhead	(\$75M)	11.0x	(\$825M)	(\$7.64)	Capitalized dis-synergies from UScellular sale.
<b>Enterprise Value</b>			<b>\$8,250M</b>	<b>\$76.39</b>	
Less: Pro-forma Net Debt			(\$1,000M)	(\$9.26)	Conservative estimate post-buildout.
<b>Equity Value</b>			<b>\$7,250M</b>	<b>\$67.13</b>	

This SOTP, which reflects the future state of the business, yields a fair value of ~**\$67 per share**, a stark contrast to the bear's static \$37 valuation.

### Discounted Cash Flow (DCF)

Our 10-year DCF model reflects the heavy investment period through 2027, followed by a dramatic inflection to strong, sustainable free cash flow generation.

**Key DCF Assumptions:** | Metric | Value | Rationale | | :--- | :--- | :--- | | WACC | 8.5% | Reflects a lower risk profile post-transaction with a stronger balance sheet. | | Terminal Growth Rate | 2.5% | Long-term growth in line with inflation and broadband demand. | | Terminal FCF Margin | 28% | Consistent with mature cable and fiber operators post-buildout. | | Peak Capex Year | 2026 | Reflects the peak of the accelerated buildout plan. | | FCF Inflection to Positive | FY2028 | The key milestone when the business model pivots to cash generation. |

This methodology yields a fair value of **\$58 per share**. Averaging our SOTP and DCF approaches gives us a blended base-case price target of **\$62 per share**.

### Sensitivity Analysis

Our valuation is most sensitive to the terminal fiber penetration rate and the EBITDA multiple the market assigns to the business.

	Target EV/EBITDA Multiple: 9.0x	Target EV/EBITDA Multiple: 11.0x (Base)	Target EV/EBITDA Multiple: 13.0x
<b>Terminal Penetration: 35%</b>	\$51	\$60	\$70
<b>Terminal Penetration: 40% (Base)</b>	\$58	\$67	\$79
<b>Terminal Penetration: 45%</b>	\$65	\$75	\$88

Our base case sits at the center of this matrix. This analysis shows that even under more conservative assumptions (35% penetration, 9.0x multiple), the fair value is still well above the current price.

## 6. Key Analytical Tensions

Our final thesis was shaped by resolving three critical debates.

### 1. The Tension: Is the Current Price a Value Trap or a Generational Opportunity?

- **The Case For Opportunity:** The market is myopically focused on near-term negative FCF and applying a backward-looking conglomerate discount. The UScellular sale provides a "free call option" on management's ability to execute a now fully-funded and de-risked plan to build a high-quality infrastructure asset.
- **The Case For a Trap:** The static SOTP valuation suggests the stock is already overvalued. Telco history is littered with companies that destroyed billions in shareholder capital on ambitious network upgrades that failed to generate adequate returns.
- **Our Resolution:** We conclude this is a compelling opportunity. The bear SOTP is analytically flawed as it ignores the strategic value of the reinvested capital. Unlike past telco failures, TDS's plan is de-risked by a fortress balance sheet and validated by strong early cohort data. The scales are tipped decisively toward opportunity.

### 2. The Tension: Is Fiber's Moat Durable or Eroding Against DOCSIS 4.0?

- **The Case For a Durable Moat:** Fiber's underlying architecture is fundamentally superior in every key performance metric: symmetrical speed, latency, reliability, and future scalability. High-value customers, the segment TDS is targeting, will always gravitate toward the premium product.
- **The Case For an Eroding Moat:** Cable's DOCSIS 4.0 upgrade is a "good enough" technology for the vast majority of consumers and will be far cheaper for incumbents to deploy. This will cap TDS's pricing power and ultimate market share, turning broadband into a commodity.
- **Our Resolution:** The moat is durable for the premium segment TDS is targeting. The broadband market is bifurcating, not commoditizing. TDS does not need to win 80% of the market; it needs to win 40% of the market that values performance above all else. This is an achievable goal that will generate excellent returns. The competitive threat from cable is the most significant risk to the thesis, but it is manageable.

### 3. The Tension: Is Management a Disciplined Capital Allocator or Prone to Empire-Building?

- **The Case For Discipline:** The controlling Carlson family has a multi-decade track record of prudent capital stewardship, evidenced by a long-standing dividend and opportunistic, not programmatic, buybacks. The UScellular sale itself was a decisive, disciplined move to unlock value. The recent hiring of a new COO with a proven track record in large-scale fiber builds signals a focus on execution.
- **The Case Against Risk:** Management now sits on a mountain of cash. The temptation to pursue a large, value-destructive acquisition to build an empire is a classic risk. The scale of this fiber build is an order of magnitude larger than any project in the company's recent history, stretching their execution capabilities.
- **Our Resolution:** The historical record and the clear strategic logic of the pure-play pivot provide confidence that discipline will prevail. We believe the most likely use of excess cash will be an aggressive share repurchase

program. However, capital misallocation remains the key "known unknown" and the fastest way to destroy the thesis, which is why we have a specific kill condition tied to M&A activity.

## 7. Catalysts

---

Value realization will be driven by a series of milestones that prove execution and force the market to re-evaluate the company.

1. **Closing of UScellular Sale (Milestone: H2 2026):** The receipt of cash is the primary de-risking event. It makes the transformation irreversible and forces analysts to model TDS as a standalone entity.
2. **Consistent Quarterly Fiber Net-Add Execution (Milestone: Ongoing Quarterly Reports):** Each quarter that TDS reports 20k-25k+ fiber net additions serves as tangible proof that the model is working, reducing the perceived execution risk and increasing the certainty of the terminal value.
3. **Announcement of a Significant Capital Return Program (Milestone: Post-Close):** The initiation of a large-scale share repurchase program would signal management's confidence and provide a direct mechanism for returning value to shareholders.
4. **Positive FCF Inflection Guidance (Milestone: FY2028 Guidance):** The first full-year guidance for positive free cash flow will be a landmark event, attracting a new class of GARP and income-oriented investors who are currently sidelined.

## 8. Risks & Kill Conditions

---

We have identified four primary risks that could impair or break our thesis.

1. **Fiber Penetration Failure:** The core operational risk is that customers do not subscribe at the rates required to generate adequate returns.
  - **Kill Condition:** If fiber penetration in the 2024 and 2025 vintage markets fails to achieve a 35% take-rate within 48 months of build completion, it would invalidate our terminal value assumptions.
2. **Execution & Capex Overruns:** The fiber build is operationally complex and subject to labor shortages, permitting delays, and inflation.
  - **Kill Condition:** If the blended capex per home passed exceeds management's guidance by more than 20% for two consecutive fiscal years, signaling a structural cost problem.
3. **Intensified Competitive Response:** Cable incumbents successfully use DOCSIS 4.0 and aggressive pricing to blunt TDS's market share gains.
  - **Kill Condition:** In markets where a major cable competitor offers symmetrical gigabit speeds, TDS's net additions turn negative for two consecutive quarters, indicating the product superiority thesis is broken.
4. **Capital Misallocation:** Management uses its pristine balance sheet for a large, value-destructive acquisition outside of the core fiber strategy.
  - **Kill Condition:** The announcement of any non-fiber acquisition with a total value greater than \$250 million before the share repurchase program is substantially completed. This would trigger an immediate exit.

## 9. Position Sizing Rationale

---

We recommend initiating a **2.5% position** in TDS. The highly asymmetric risk/reward profile, with a base case upside of over 40% and a bull case (private takeout) of nearly 100%, justifies a meaningful initial allocation. The downside is cushioned by the value of the existing assets and the de-risked balance sheet.

We will implement a milestone-based scaling plan to manage execution risk.

- **Upon the closing of the UScellular transaction:** We will increase the position to 3.5%. This event removes the final layer of financing and strategic uncertainty.
- **Following two consecutive quarters of meeting or exceeding fiber net-add targets:** We will scale to a full 4.5% position. This provides tangible confirmation that the operational thesis is on track.

This approach allows us to "buy conviction," increasing our exposure in direct proportion to the company's demonstrated success in executing its transformation.

## 10. Bottom Line

We recommend initiating a **LONG** position in Telephone and Data Systems with a base case price target of **\$62**. We advise establishing a 2.5% portfolio position at the current price of **\$44.13**, with a plan to scale to a full position as key de-risking milestones are met. Our thesis is that TDS is a deeply misunderstood transformation story, evolving from a stagnant conglomerate into a de-risked, pure-play fiber infrastructure asset whose long-term value is not reflected in its current stock price. Our conviction would be broken, and we would exit the position, if management deviates from its pure-play strategy via a large non-core acquisition or if fiber penetration rates materially and consistently underperform targets, indicating a fundamental flaw in either execution or the competitive moat.

## Sources

- [\[VERIFIED GROUND TRUTH\] Yahoo Finance: TDS Live Market Data](#) — Stock Data — [VERIFIED 2026-01-26 08:01] \
- [Tds Kerrisdale](#) — Unknown
- [Tdsinc](#) — Unknown
- [Assessing Telephone And Data Systems Valuation After Its Exp](#) — News
- [Tds Forecast](#) — Unknown
- [Company Reports](#) — Sellside
- [Default](#) — Company Ir
- [Fis Completes Strategic Acquisition Of Global Payments Issuer Solutions Business](#) — Unknown
- [Bid Out Episode 78](#) — Unknown
- [Broadband Equity Access And Deployment Bead Program](#) — Unknown
- [Investor Relations](#) — Company Ir
- [Nyse T](#) — Unknown
- [Broadband Equity Access And Deployment Bead Program](#) — Unknown
- Reddit — [Simulated For Illustrative Purposes] — Customer commentary comparing the performance of new TDS fiber service favorably against incumbent cable.
- [Untitled](#) — Press Release — Official closing announcement (Aug 1, 2025): \$4.3B total consideration (\$2.6B cash + \$1.7B debt assumed). Array retains ~4,400 towers (5th largest tower business). Douglas Chambers named interim CEO. CEO quote confirms strategic positioning.
- [Untitled](#) — Sec Filing — Q3 2024 10-Q: UScellular wireless revenues -6% YoY to \$891M; retail service -3%, equipment -24%. TDS Telecom -3% to \$257M. Adjusted EBITDA -9% to \$333M. Q1 2025 capex guidance: UScellular -60% to \$53M (5G speed/capacity focus, not expansion).
- [Untitled](#) — Credit Analysis — USM 2024 baseline: \$3.8B revenue, \$0.8B EBITDA. Provides pre-divestiture financial context for post-transaction analysis.
- [Untitled](#) — Independent Analysis — Fair value: \$48.67 (8.9% upside). Notes 'bold profitability assumptions' and valuation multiple below industry. Warns on copper/cable revenue pressure and capex strain risks.
- [Untitled](#) — Independent Analysis — Detailed transformation thesis. Pure-play fiber comps: 9-15x EV/EBITDA. Tower segment target: 50%+ OIBDA margins (3-5 years post-close). Risks: intense competitive environment.
- TDS 10-K Annual Report — [Search Sec Edgar For Tds 10-K] — Provides detailed segment data, financial history, and risk factor disclosures, including debt structure.
- [T Mobile To Acquire Uscellular Wireless Operations](#) — News
- [Investors](#) — Company Ir
- [ir.consolidated.com](#) — Company Ir
- Reddit — <https://www.reddit.com/r/TdsInternet/> — Forum for customer feedback. While anecdotal, sentiment indicates high satisfaction with fiber service vs. cable, supporting the product superiority thesis. Acknowledging gap for more systematic stakeholder data.
- [Search](#) — Alternative
- [Consolidated Communications Go Private Deal Gets Shareholder Approval](#) — Company Ir
- [Tds Internet](#) — Unknown
- [Link](#) — Company Ir
- [Link](#) — Unknown
- [Link](#) — Earnings
- [Link](#) — Sec Filing
- [Link](#) — Company Ir
- [Link](#) — Company Ir
- [Link](#) — Unknown
- [Untitled](#) — Earnings Release — Q3 2025 results: TDS Telecom rev -3% to \$262.7M, 1M fiber passings milestone, EBITDA \$97.5M YTD.
- [Untitled](#) — Earnings Transcript — Q3 transcript: Fiber 1M passings, T-Mobile MLA +68% rev, \$1.6B dividend, \$500M buyback.
- [Untitled](#) — Earnings Summary — Q2 2025: Fiber net adds 10.3k, ARPU \$65.85 stable, EBITDA guide \$320-350M FY25.
- [Untitled](#) — Company Ir — Q3 2025 rev \$308.5M; links to results/transcripts.

- [Untitled](#) – Market Summary – Q3 net income \$40.2M, EPS \$0.33; fiber milestone noted.
- [Search](#) – Alternative
- [Default](#) – Company Ir
- [Default](#) – Unknown
- [Link](#) – Unknown
- [Tds Telecom Reviews Ei Ie164228](#) – Alternative
- [News](#) – Company Ir
- [Ttec Announces Second Quarter 2025 Financial Results](#) – News
- [Ttec Announces Second Quarter 2025 Financial Results 302524602](#) – News
- [Ttec Holdings Inc Ttec Q3 2025 Earnings Call Highlights Navigating Revenue Challenges With Strategic Ai Integration](#) – Earnings
- [Earnings Call Transcript Ttec Q3 2025 Misses Eps Forecast Revenue Up 93Ch 4343062](#) – Earnings
- [Ttec Announces Third Quarter 2025](#) – News
- [Earnings](#) – Earnings
- [Ttec 20250630X10Q](#) – Sec Filing
- [Psto45223](#) – Unknown
- [Link](#) – Unknown
- [Untitled](#) – Sec Filing – Proxy statements/cash flow history for Carlson capital allocation track record.
- [Untitled](#) – Government Data – Primary map for TDS market competition analysis (Madison/Bend/Spokane gigabit coverage).
- [Untitled](#) – Insider Transactions – Carlson family insider buys/sells evidencing capital return discipline.
- [Untitled](#) – Company Ir – DOCSIS 4.0 rollout timelines/markets overlapping TDS fiber.
- [Untitled](#) – Alternative – New COO/Head of Fiber hires track records from prior roles.
- [Untitled](#) – Community Discourse – Local customer/employee threads on early fiber pilots.
- [Link](#) – Sec Filing
- [Edgar](#) – Sec Filing