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Telephone and Data Systems, Inc. (TDS)

The Next Act

We remain long Telephone and Data Systems (TDS). Since publishing our initial report, *The New TDS*, on January 7th, shares have outperformed and recent earnings along with the 2026 outlook have reinforced our core thesis around improving fiber execution, stabilizing performance in the tower segment, and substantial special dividends to support organic investment and shareholder returns. Nothing in recent results challenges our original view. If anything, they provide early confirmation that a streamlined TDS is on track to deliver clearer and improving financial performance. Yet as that thesis continues to play out, a natural question emerges: how much additional value could further corporate simplification unlock?

Our original report argued that meaningful upside existed even without assuming further corporate restructuring. The investment case rested on the market's tendency to value TDS as a convoluted sum-of-the-parts story despite the company having already shed much of the complexity that historically obscured its assets. On that basis alone we arrived at a fair value of $68 per share, without relying on aggressive operating assumptions or specific strategic actions.

What we deliberately did not explore in depth was the catalyst path from here. In the weeks since publication, conversations with investors, industry participants, management, and other market observers point to a second phase of value realization driven by further structural simplification. These developments are not required for the original thesis to succeed, but they represent logical extensions of the transition already underway.

This follow-up note lays out that pathway. Starting with C-Band spectrum monetization, potentially before year end, and followed by consolidation of Array Digital's minority ownership and potential infrastructure REIT formation, the next set of catalysts could unlock considerable additional value beyond our prior estimate. Taken together, these developments add approximately $23 per share of incremental upside to our original valuation, implying a fair value of about $91 per share, more than double current levels.

The core thesis already works. These catalysts simply raise the curtain on the next act.

Step One: Selling the C-Band

While management's 2026 "solid" outlook[1] reinforced improving execution across both fiber and towers, commentary on the earnings call also highlighted the next key catalyst for shareholders: monetization of Array Digital Infrastructure's remaining C-Band spectrum.

Management's remarks, along with our discussions with shareholders and sell-side analysts, suggest upcoming spectrum sales should be viewed as a prerequisite to the company's next structural step. During the most recent earnings call, leadership reiterated its focus on "successfully monetiz[ing] Array's remaining spectrum holdings," noting that retained assets consist primarily of "highly attractive" C-Band spectrum, supported by an established deployment ecosystem and broad potential buyer interest, and carried at approximately $1.58 billion of book value according to Array's latest annual filing (p.16).

The emphasis on breadth of interest is notable. Management referenced a potential buyer universe extending beyond the three national wireless carriers to include cable operators, regional players, and financial or spectrum investors. While strategic wireless buyers remain the most logical acquirers, this broader framing reinforces that the asset is not dependent on a single counterparty to clear.

TDS's 82% ownership of Array has served a clear practical purpose during the spectrum monetization phase. The structure has allowed legacy wireless assets to be converted into deployable capital in a tax efficient manner. Spectrum sales occur at the subsidiary level, with gains recognized within Array and settled with TDS under a tax allocation agreement (p.23). Because TDS owns more than 80% of Array, gains can be offset at the group level and dividends can be paid to the parent without triggering a second corporate tax.

Management has made clear that while timing flexibility on the sale of C-Band exists, monetization remains the objective. Executives emphasized that the company is "not going to be a forced seller," noting that carrying costs remain manageable while confirming that TDS will "continue to be active in pursuing" opportunities to monetize the remaining spectrum. Consistent with this stance, our discussions with investors and recent sell-side commentary suggest expectations have converged around a likely sales window spanning late 2026 (following the anticipated close of the pending $1 billion Verizon transaction) through early 2027.

From a valuation perspective, we believe the remaining C-Band spectrum continues to be carried at levels that understate its strategic optionality. More important than the precise price ultimately realized, however, is what monetization sets in motion. Today, Array serves two roles: an infrastructure operating platform and a conduit for distributing spectrum sale proceeds

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[1] TDS and AD earnings and outlooks were well received by the Street. Raymond James reiterated its Outperform, noting "solid" guidance (see note published February 23, 2026). Citi Research also viewed results and guidance as "solid" and increased its TDS price target to $56 from $51 reflecting higher tower value contribution (see note published February 23, 2026).

efficiently to the parent company. Once the remaining C-Band is sold, that latter function disappears. As Array settles into its long-term identity as primarily a tower platform, the ownership structure that presently enhances tax efficiency will switch to constraining future value creation.

Once Spectrum Monetization is Complete, the Current Structure Stops Making Sense

The rationale for maintaining the current TDS-AD ownership structure is a recurring topic on earnings calls. When pressed during the 1Q25 earnings call on the "pros and cons" of maintaining the existing ownership structure, CFO Vicki Villacrez offered a largely non-committal response, noting only that "any number of paths" could exist longer term. We haven't come across a compelling long-term strategic rationale for preserving the current arrangement, only that it is not currently a meaningful distraction. If the benefits of the structure are minimal (if any) post sale of C-Band, the downsides deserve closer scrutiny.

First, nested public-company structures introduce persistent valuation friction. Investors must analyze two governance layers and two capital allocation frameworks tied to substantially the same underlying assets. Analyst questions on the latest earnings call around whether TDS should repurchase Array shares rather than its own stock suggest that market participants already recognize this inefficiency.

Second, capital allocation becomes unnecessarily complex. Cash generated by towers or investment distributions must pass through multiple corporate layers before reaching shareholders or being redeployed. During spectrum liquidation, this routing served a tax-efficient purpose; in a steady-state infrastructure business, it becomes redundant.

Third, infrastructure platforms are stable, long-duration cash flow assets which benefit from transparency, clear capital return frameworks, and direct access to infrastructure-oriented investors. A partially owned subsidiary controlled by a telecom holding company makes no sense as the terminal ownership form for such businesses.

None of the foregoing implies that immediate action will occur following spectrum monetization. Timing will depend on tax considerations and market conditions. But once monetization concludes, the structure that enhanced value realization increasingly acts as a constraint on it. If completion of spectrum monetization removes the economic rationale for maintaining the current structure, the next question becomes straightforward: what changes next?

Step Two: Buy-In of the Array Minority

Following the sale of C-Band, the most immediate and logical step is to consolidate ownership through a buy-in of the remaining Array minority interest, or an equivalent transaction that effectively collapses the nested public-company structure. Today, TDS controls Array but does not fully own it, leaving investors with two publicly traded securities tied to substantially the same underlying assets. Eliminating the minority interest would resolve several structural inefficiencies at once.

First, consolidation simplifies the equity story. Investors would evaluate a single economic entity rather than reconciling overlapping securities with partially aligned incentives. Transparency improves and structural ambiguity declines.

Second, capital allocation becomes more direct. Cash generated by towers and investment distributions could be deployed at the consolidated level without intermediate dividend flows, improving clarity around returns.

Third, and most importantly, unified ownership restores strategic flexibility. Any future action involving the tower business becomes materially easier once legacy ownership constraints are removed.

The precise mechanism for consolidation matters less than the outcome. Like the sale of C-Band itself, consolidation should be viewed not as an endpoint but as an enabling step. Whether achieved through a cash buyout, a stock-for-stock transaction, or another tax-efficient structure, the economic result is the same: consolidated ownership of a tower platform no longer constrained by an architecture designed for a prior phase of the company's history.

Step Three: The Tower REIT Endgame

With spectrum monetization complete and ownership simplified, attention naturally shifts to how the tower business should be positioned within public markets. Array Digital Infrastructure increasingly resembles a standalone tower platform whose economics align more closely with infrastructure peers than with traditional telecom operators.

This distinction matters because tower assets are typically financed and valued differently from telecom businesses. Long-duration contracts, high incremental margins, modest maintenance capital requirements, and rent-like cash flows have pushed all scaled tower portfolios in the US toward REIT ownership structures. The remaining question for the tower assets is not whether a REIT structure is attractive in theory, but how it could realistically emerge from the current TDS-Array framework.

Following spectrum monetization and consolidation of Array's minority ownership, management would have flexibility to separate the tower business into an independent vehicle through a tax-efficient spin to shareholders or similar transaction. In practice, this could involve contributing tower assets into a newly formed entity structured to qualify as a REIT, alongside an operating partnership framework commonly used in infrastructure platforms.

Under such an approach, the new entity would own the physical infrastructure while leasing space to wireless carriers under long-term agreements, with non-qualifying activities housed within taxable REIT subsidiaries. Not all current Array assets would migrate into the REIT. Array's minority investment interests, which generate recurring cash flow, are unlikely to qualify as REIT assets and would more naturally remain within a traditional corporate vehicle alongside TDS's fiber operations.

Importantly, we believe that the REIT transaction need not alter governance. TDS has historically maintained control through super-voting share structures. A tower REIT could be introduced while preserving Carlson family control through dual-class shares or similar mechanisms. This pathway does not depend on activism or transformative strategic shifts. Viewed sequentially, a REIT separation represents a logical, value optimizing end state.

For investors, future upside may derive not only from balance sheet improvement and operational execution – the underpinnings of our base thesis – but also from migration toward ownership structures that command premium valuations. The tower business may not yet be valued as an infrastructure REIT, but the path toward that outcome is becoming increasingly visible.

One Final Step: FiberCo REIT Optionality

While the tower business represents the most immediate opportunity for structural optimization, the longer-term positioning of TDS's fiber assets introduces an additional layer of potential upside: the possibility of a FiberCo REIT.

We do not assume that forming a Fiberco REIT is necessary to realize value, nor is such a restructuring required for the core investment case. However, as TDS completes its transition away from legacy wireless operations and increasingly operates as a fiber-first company, its fiber platform begins to resemble the type of long-duration infrastructure asset frequently housed within REIT structures.

TDS's fiber strategy centers on building long-lived networks in markets where the company expects to be first to fiber, supported by subsidy-backed programs and multi-year deployment plans extending through the decade. Economically, these assets share many of the characteristics commonly found within REIT frameworks: high upfront capital intensity, long economic lives, recurring subscription revenue, and incremental returns driven by penetration gains rather than continual reinvestment.

Public FiberCo REIT precedent is admittedly mixed. The experience of Windstream/Uniti Group highlights the risks of forcing telecom assets into REIT structures when the assets are financially distressed or have concentrated tenant exposure. TDS's fiber business differs meaningfully. It is being built organically, supported by subsidy programs and balance sheet strength.

Once spectrum is monetized and Array Digital is fully consolidated into TDS, management can evaluate whether separating fiber assets into a REIT would further unlock value.

For investors, this represents upside optionality. A FiberCo REIT could position TDS's fiber assets within a structure that garners high multiples in the public markets.

Upside to Base Case Valuation

Our original report established a fair value of approximately $68 per share, based on the view that the market continued to treat TDS as a convoluted sum-of-the-parts story despite already shedding much of its historical complexity. If the next phase of corporate simplification unfolds as outlined in this report, additional value will emerge as the company's infrastructure assets begin to be valued more consistently with comparable platforms. We estimate that applying REIT valuations would provide ~$23 per share of incremental equity value relative to our prior estimate.

Roughly $8 per share of this upside comes from the tower business. Our base case previously valued the assets at roughly 18x EBITDA, consistent with a smaller, though faster growing tower platform still emerging from its legacy wireless parent. If operational improvements continue and the business ultimately transitions toward a REIT structure, valuation levels more consistent with established tower peers (~22–25x EBITDA/FFO) would be reasonable.

The remaining $15 per share reflects potential upside from TDS's fiber network if it were ultimately separated into a FiberCo REIT rather than valued as part of a traditional telecom operation. We use 15x EBITDA as a reasonable reference point based on regional fiber infrastructure transactions that have cleared in the 14-18x range, particularly for healthy, first-to-fiber FTTH platforms like TDS's. This range sits rightly below tower multiples due to lower margins, higher maintenance capital requirements, and long-term penetration risk, but still represents a meaningful premium to the valuations typically applied to telecom operators.

The resulting fair value of $91 per share simply reflects the continued simplification of the company and the market ultimately valuing its assets in line with comparable infrastructure REITs.

Upside Fair Value

	EBITDA Multiple		Incr. equity value [1]	
	Base case	Infrastructure	$m	per TDS shr.
Tower REIT multiple expansion	18.0x	23.5x	$857	$8
FiberCo REIT valuation	10.8x	15.0x	$1,553	$15
Total incremental equity value			**$2,410**	**$23**
Base case Kerrisdale fair value				**$68**
Upside fair value				**$91**
Premium to current				*112%*

Source: Kerrisdale analysis. See Kerrisdale report from January 7, 2026 - Telephone and Data Systems: The New TDS for assumptions underlying base case Kerrisdale fair value.

1. *Assumes 106m common shares based on current diluted shares of 117m pro forma $500m share buyback authorization at prevailing share price.*

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