

Communication Services

Christopher Chin, Taylor Crouch, Jillian Davis, Jack Dawson

6/24/2025



Sector Overview

Communication Services: this sector is comprised of companies that offer communication services through fixed-line networks or wireless access and services.

Size of Sector: roughly 10% of the S&P 500's market capitalization.

Industries (market weight):

- Internet content and information (64.22%)
- Telecommunication services (15.42%)
- Entertainment (14.72%)
- Advertising agencies (2.87%)
- Electronic gaming and multimedia (2.40%)
- Broadcasting (0.19%)
- Publishing (0.19%)

Sector Overview

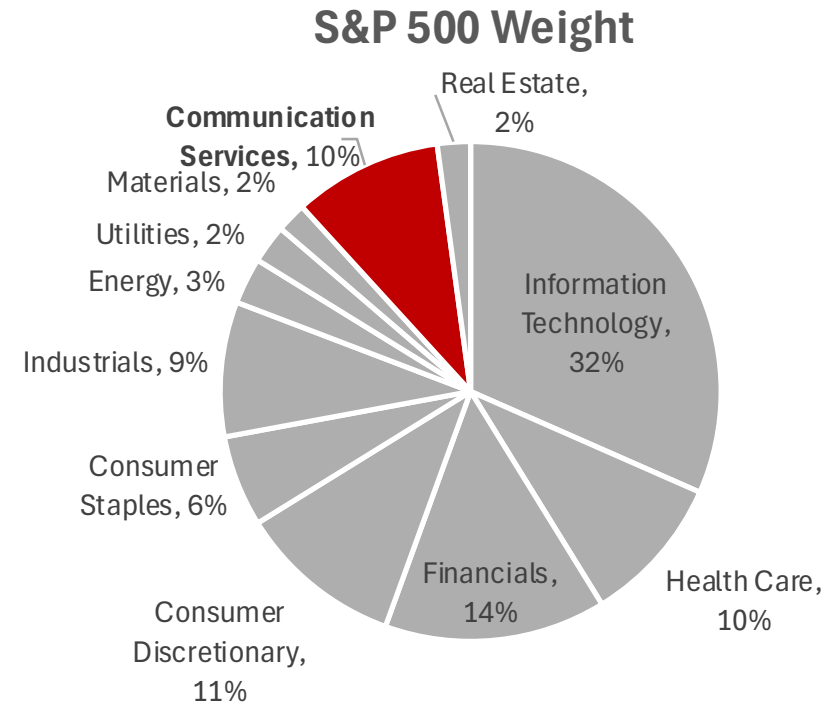
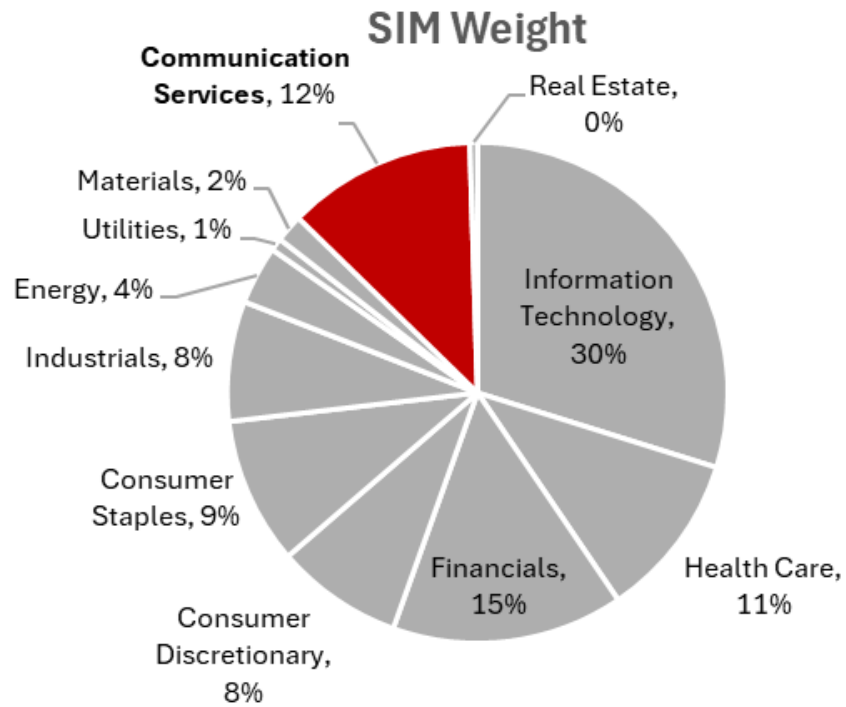
Largest Companies:

- Alphabet (GOOG) - 33.25%
- Meta Platforms (META) - 27.57%
- Netflix (NFLX) - 8.20%
- T-Mobile US (TMUS) - 4.03%
- Walt Disney (DIS) - 3.35%
- AT&T (T) - 3.12%
- Verizon (VZ) - 2.75%

Sector Performance:

- 1 year 21.07%
- Year-to-date 5.72%
- 1 month 1.95%

SIM Weight vs S&P 500



Business Analysis



Business Cycle

- The Communication Services sector is typically seen as cyclical, meaning its performance tends to rise and fall with the broader economy.
- Although the Telecommunications sub-sector was once regarded as more defensive and stable, the expanded Communication Services sector, which now includes media, internet, and entertainment companies, is more exposed to economic fluctuations.

Interest Rate Sensitivity

- The Communication Services sector is sensitive to interest rate changes, largely because of its high levels of leverage and its strong ties to economic cycles.
- Approximately 40% of the industry now consists of growth companies, like Meta and Alphabet, enhancing its attractiveness in a low-interest-rate environment where returns on safer investments are limited. As a result, investors may shift toward growth stocks, which typically perform well during periods of economic expansion, providing a boost to the sector as a whole.

Porters 5 Forces

Threat of New Entrants (Low)	Bargaining Power of Suppliers (Moderate)	Bargaining Power of Buyers (High)	Threat of Substitutes (High)	Industry Rivalry (High)
<ul style="list-style-type: none"> - High capital requirements for entry. - High economies of scale amongst dominant corporations. - High Regulatory barriers. - Brand Loyalty and high same side network effects. 	<ul style="list-style-type: none"> - Media: Content creators, studios, talent agencies hold moderate power over platforms. - Telecom: Limited equipment suppliers. - Tech Platforms: Cloud providers can be critical suppliers for content delivery. 	<ul style="list-style-type: none"> - Consumer options are high, switching costs are low amongst service providers. - Shifts from cable to digital platforms reduces pricing power of suppliers. 	<ul style="list-style-type: none"> - Content availability is high: streaming, gaming, social media, etc. - Communication channels abundantly available (WhatsApp, Facebook Messenger). 	<ul style="list-style-type: none"> - Intense competition amongst giants (broadband vs. fixed wireless) - Content monetization is competitive amongst large players. - Content race, companies invest in exclusive content.

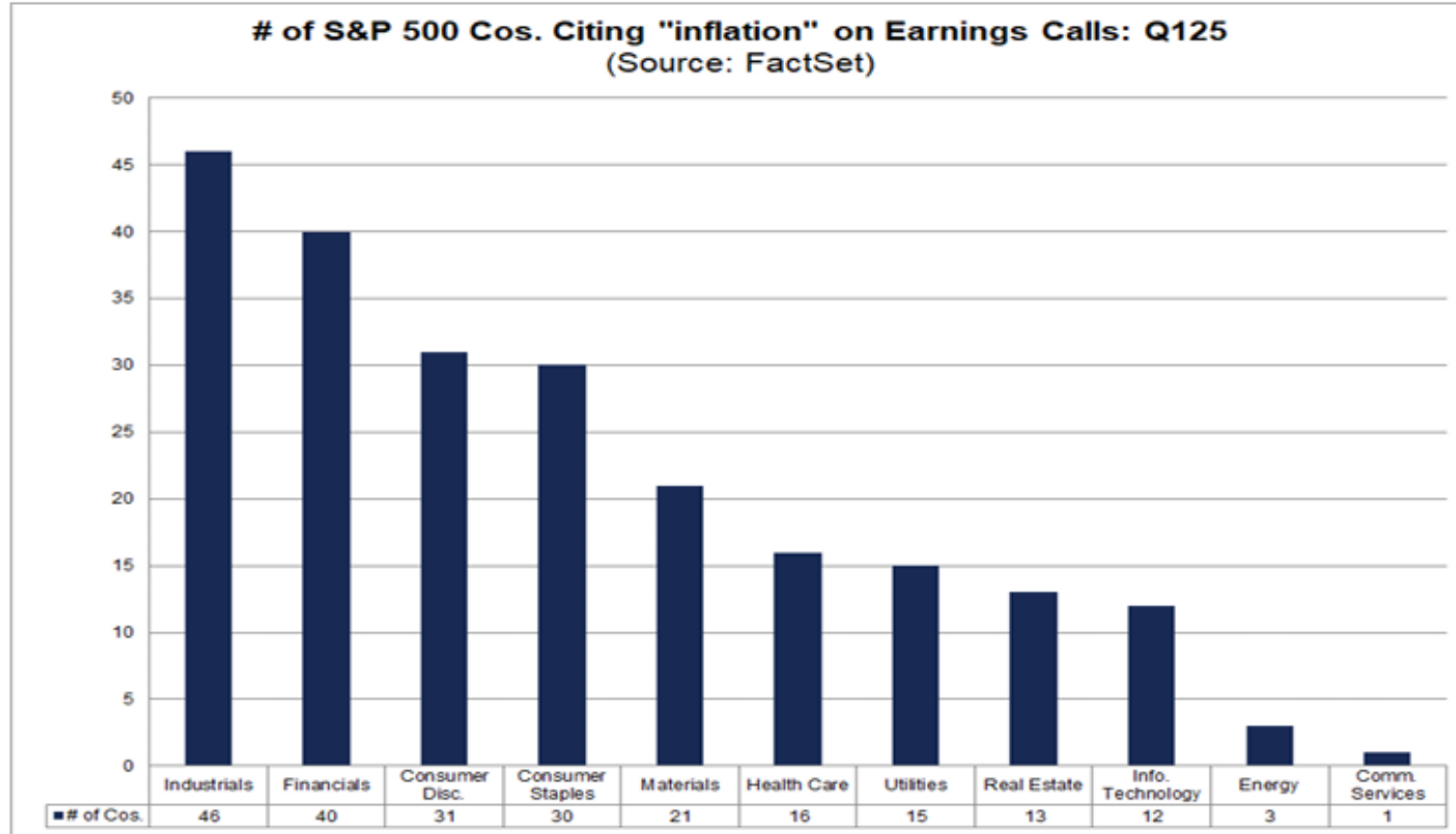
Economic Analysis



Sector Analysis



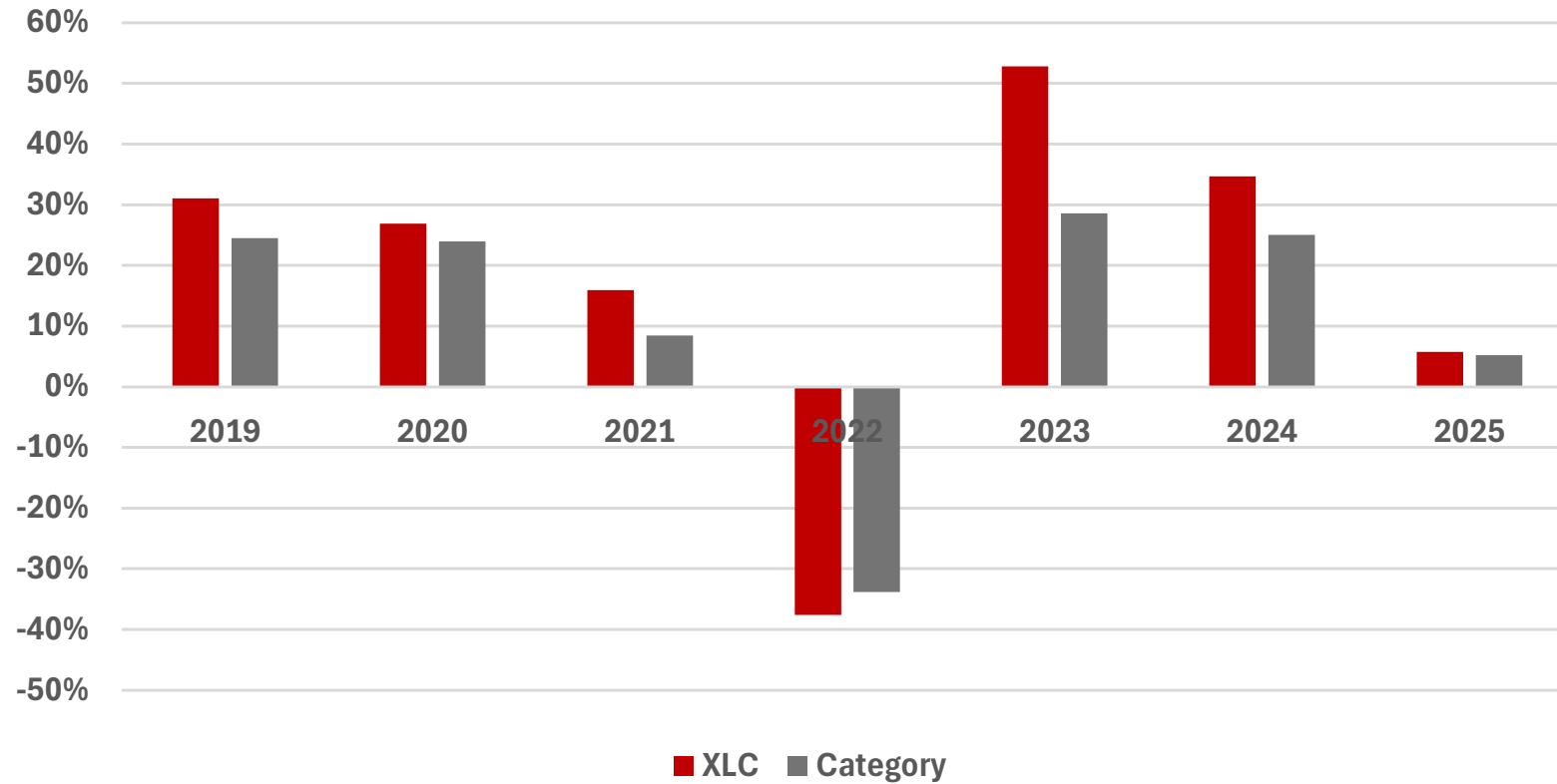
of S&P Companies Citing Inflation



Financial Analysis



XLC Annual Returns



Alphabet (GOOG) – 33.25%



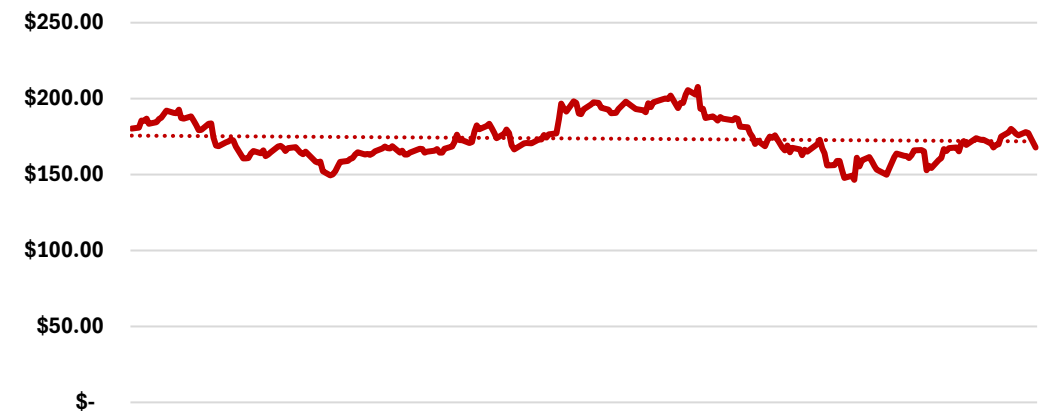
- **Market Leadership:** Dominates global digital advertising through Google Search and YouTube, providing strong recurring revenue and pricing power.
- **AI Integration:** Embedding Gemini and other AI tools across Search, Workspace, and Android to drive productivity, user engagement, and monetization.
- **Cloud Profitability:** Google Cloud has reached sustained profitability, with continued growth driven by AI workloads and enterprise demand.
- **Strong Financials:** Backed by over \$100B in cash, robust free cash flow, and an active buyback program, offering downside protection and shareholder return.

Trading Measures

Market Capitalization:	\$2.007T
Shares Outstanding:	3.7B
Dividend Yield:	0.50%
Beta:	1.01
EPS (TTM)	\$8.44
P/E Ratio (TTM):	18.53
52 Week Range:	\$142.66 - \$208.70

Consensus

Recommendation	Buy
Current Price	\$166.04
Target Price	\$205.43



Meta Platforms (META) – 27.57%



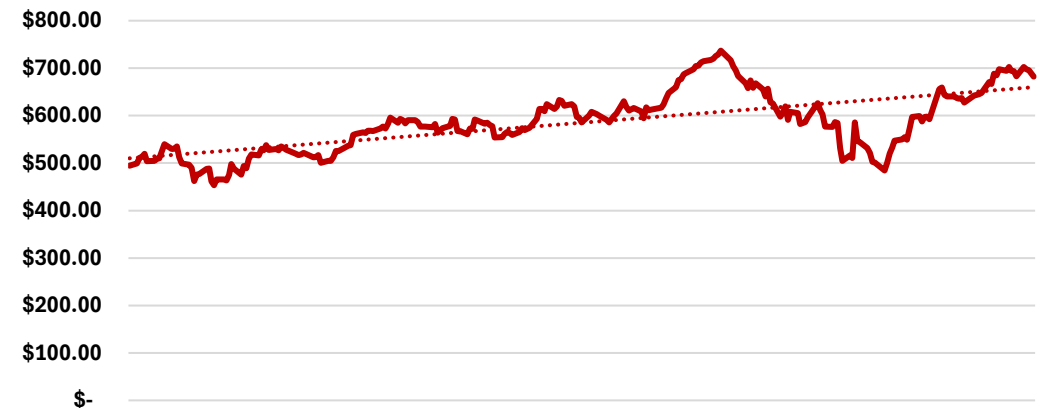
- Advertising Engine Recovery: Meta’s core advertising business has reaccelerated, driven by improved targeting from AI-powered tools and strong engagement across Facebook, Instagram, and Reels.
- AI Leadership and Infrastructure: Heavy investment in custom silicon MTIA chips, data centers, and Llama models positions Meta as a foundational player in the AI ecosystem.
- Efficient Cost Discipline: After a “year of efficiency,” Meta has streamlined operations, expanded margins, and resumed strong double-digit EPS growth.
- Attractive Valuation with Upside: Despite a strong run, META trades at a reasonable multiple relative to its earnings growth, with optionality in AI, messaging monetization (WhatsApp), and long-term metaverse development.

Trading Measures

Market Capitalization:	\$1.756T
Shares Outstanding:	2.5B
Dividend Yield:	0.31%
Beta:	1.4
EPS (TTM)	\$25.60
P/E Ratio (TTM):	26.09
52 Week Range:	\$442.65 - \$740.91

Consensus

Recommendation	Buy
Current Price	\$698.53
Target Price	\$701.70



Netflix (NFLX) – 8.2%



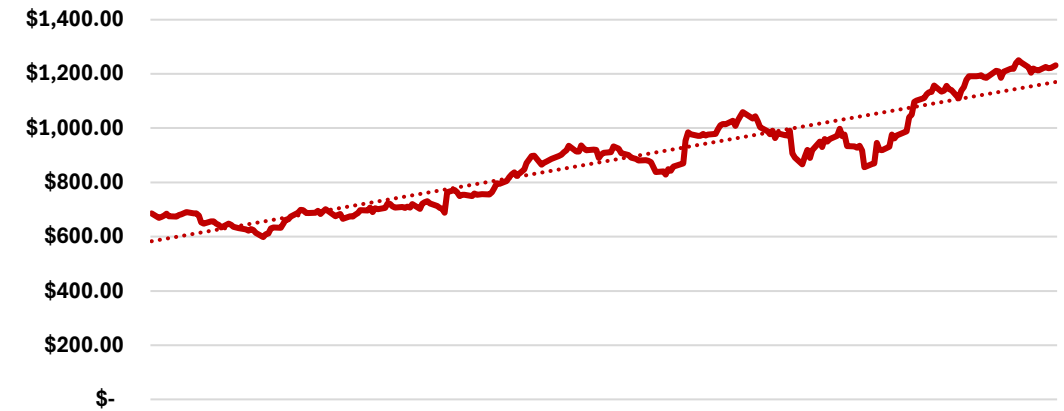
- **Global Streaming Leader:** Netflix remains the dominant global streaming platform with over 270 million subscribers.
- **Content and Pricing Power:** Continued investment in localized, original content drives subscriber growth and engagement, while recent price increases and password-sharing crackdowns have proven effective without spiking churn.
- **High Margin Advertising:** The ad-supported plan is gaining traction, offering a new, high-margin revenue stream with significant runway for growth.
- **Strong Free Cash Flow Profile:** With disciplined content spend, high operating leverage, Netflix is generating robust free cash flow supporting buybacks and long-term shareholder value creation.

Trading Measures

Market Capitalization:	\$524.1B
Shares Outstanding:	425.6M
Dividend Yield:	0.00%
Beta:	0.9
EPS (TTM)	21.16
P/E Ratio (TTM):	58.19
52 Week Range:	\$587.04 - \$1,262.81

Consensus

Recommendation	Buy
Current Price	\$1,253.54
Target Price	\$1,231.41



Valuation Analysis



SIM Sector Holdings (4/30)

Stock	Market Value	Unrealized Gain/Loss
Alphabet Inc. (GOOGL)	\$416,056	\$178,624
Comcast Corp. (CMCSA)	\$153,216	(\$27,700)
Meta Platforms Inc. (META)	\$430,965	\$162,792

Valuation Statistics

<u>Stock</u>	<u>Fwd P/E</u>	<u>P/S</u>	<u>PEG</u>
GOOGL	~21x	5.5	1.2
META	~22x	6.4	1.1
CMCSA	~12x	1.2	1.6

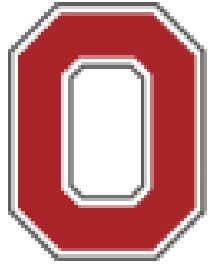
Sector Fundamentals & Catalysts

- Discounted stocks in the sector like Comcast have lower valuations due to typically being slower, more mature businesses facing less opportunities for growth in areas like cable TV. They benefit from their scale and stability but face pressure in the face of decreasing profit margins relative to cost.
- The more expensive stocks in the sector are often high-growth opportunities like Meta and Alphabet, whose high valuations reflect the optimistic trends of increasing digital ad revenue and AI monetization/cost cutting opportunities.
- Compared to the broader S&P 500 (~21x P/E), the Communication Services holdings reflect a blend of growth with stocks like Meta (~22x P/E) and Alphabet (~21x P/E), and value with Comcast (~12x P/E)

Recommendation

Based on our analysis we would recommend for the SIM fund to maintain its overweight position in the Communication Services sector.

- Sector valuations are reasonable considering growth potential, sector leadership, and monetization of emerging technology
- GOOGL and META offer earnings upside in AI, advertising, and digital engagement
- CMCSA provides balance and value to holdings despite headwinds



THE OHIO STATE UNIVERSITY

FISHER COLLEGE OF BUSINESS

Q&A, Thank you!

Sources

https://finance.yahoo.com/sectors/communication-services/?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce_referrer_sig=AQAAAKF3z2Ybf5rTDzS1mQLugkgP4rac7awi5uCscQ3-UjkYdq4ZGoupt5V44o_dXlupNPqmWnD1h1Q6i0q0orQJR5amPuAhfeyvDYzg0NseFMdQBc3_iSnSZjcaBv6t558OwMteqMqGUQ3bOvUVjWfqBUgGiuVGB78_pSXv5pEceu

<https://www.financecharts.com/stocks/XLC/performance/total-return>

<https://www.moomoo.com/community/feed/communication-services-sector-to-watch-as-rate-cuts-draw-near-113090707783685>

\