



# 3<sup>rd</sup> Quarter 2013 Earnings Results

November 6, 2013

# Forward-Looking Statements / Non-GAAP Financial Measures

Certain non-historical statements made in this release and future oral or written statements or press releases by us or our management are intended to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current expectations only, and are subject to a number of risks, uncertainties and assumptions, many of which are beyond our control. Actual events and results may differ materially from those anticipated, estimated, projected, expressed or implied if one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect. Factors that could affect actual results include but are not limited to: the timing, success and overall effects of competition from a wide variety of competitive providers; the risks inherent in rapid technological change; the effects of ongoing changes in the regulation of the communications industry (including the outcome of regulatory or judicial proceedings relating to intercarrier compensation, access charges, universal service, broadband deployment and net neutrality); our ability to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages; our ability to effectively adjust to changes in the communications industry and changes in the composition of our markets and product mix caused by our recent acquisitions; our ability to successfully integrate recently-acquired operations into our incumbent operations, including the possibility that the anticipated benefits from our recent acquisitions cannot be fully realized in a timely manner or at all, or that integrating the acquired operations will be more difficult, disruptive or costly than anticipated; our ability to use net operating loss carryovers of Qwest in projected amounts; our ability to effectively manage our expansion opportunities, including retaining and hiring key personnel; possible changes in the demand for, or pricing of, our products and services, including our ability to effectively respond to increased demand for high-speed broadband services; our ability to successfully introduce new product or service offerings on a timely and cost-effective basis; our continued access to credit markets on favorable terms; our ability to collect our receivables from financially troubled communications companies; any adverse developments in legal or regulatory proceedings involving us; our ability to pay common share dividends in accordance with past practices, which may be affected by changes in our cash requirements, capital spending plans, cash flows or financial position; unanticipated increases or other changes in our future cash requirements, whether caused by unanticipated increases in capital expenditures, increases in pension funding requirements or otherwise; the effects of adverse weather; other risks referenced from time to time in other of our filings with the SEC; and the effects of more general factors such as changes in interest rates, in tax rates, in accounting policies or practices, in operating, medical, pension or administrative costs, in general market, labor or economic conditions, or in legislation, regulation or public policy. These and other uncertainties related to our business and our recent acquisitions are described in greater detail in Item 1A of our Form 10-Q for the quarter ended June 30, 2013, as updated and supplemented by our subsequent SEC reports. You should be aware that new factors may emerge from time to time and it is not possible for us to identify all such factors nor can we predict the impact of each such factor on the business or the extent to which any one or more factors may cause actual results to differ from those reflected in any forward-looking statements. You are further cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We undertake no obligation to update any of our forward-looking statements for any reason.

## Non-GAAP Financial Measures

This presentation includes certain non-GAAP financial measures. These measures are provided and valid only as of the date of this presentation and should not be relied upon beyond that date. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are available on our website at [www.centurylink.com](http://www.centurylink.com).

# Participants

## **Glen Post**

Chief Executive Officer & President

## **Stewart Ewing**

Executive Vice President & Chief Financial Officer

## **Karen Puckett**

Executive Vice President & Chief Operating Officer

## **Bill Cheek**

President, Wholesale

## **Jeff VonDeylen**

President, Savvis

# 3Q13 Highlights & Strategic Overview

**Glen Post**

Chief Executive Officer & President



# Opening Remarks

- ▶ Achieved solid third quarter results
- ▶ Two special items in the quarter
  - Recorded \$1.1 billion impairment charge related to goodwill assigned to the Data Hosting segment
  - Reached tentative settlement in KPNQwest Trustee litigation – €172 million settlement significantly below €4.2 billion litigation claim

“While we continue to be optimistic and encouraged about the future growth potential and value of our Data Hosting business, we are not currently achieving the forecasted growth and cash flows we originally projected. We are taking steps to drive revenue growth and margins to be more in line with industry trends going forward and we expect to achieve significant improvement in our Data Hosting results in the months and years ahead,” said Glen F. Post III, chief executive officer and president

# 3Q13 Highlights

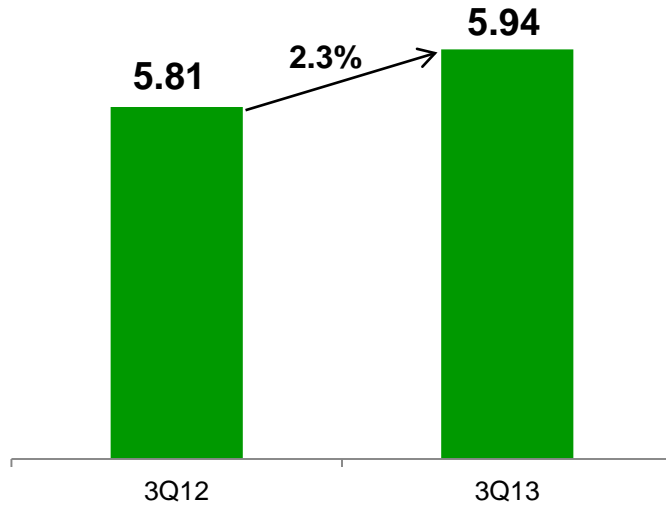
- ▶ Strategic revenues grew 4.2% driven by strength in high-speed Internet, high-bandwidth data services, data hosting and Prism™ TV revenues
- ▶ Achieved solid subscriber growth – adding 33,000 high-speed Internet customers and 17,000 Prism™ TV customers
- ▶ Generated strong recurring network and hosting product sales among business customers
- ▶ Repurchased 11 million shares for \$385 million during 3Q13
  - Repurchased total of 38 million shares for \$1.3 billion from mid-February 2013 – November 5, 2013
  - Returned more than \$2.2 billion to shareholders through share repurchases and dividends year-to-date ended September 30, 2013, compared with approximately \$1.4 billion in the same period in 2012.

# Broadband Expansion & Enhancement

Achieving growth in broadband penetration

## Broadband subscribers

Ending in service, millions



- ▶ Added 33,000 broadband subscribers in third quarter - ending the quarter with more than 5.94 million broadband customers

- ▶ Expanding speed and service capabilities to serve high value Business and Consumer customers
- ▶ Added over 400 fiber-fed buildings to our Multi-Tenant program targeting speeds up to 500Mbps symmetrical
- ▶ Continue to expand Ethernet capabilities into areas which don't have a strong fiber footprint
- ▶ Deployed GPON Gigabit service to over 40,000 homes in Omaha; recently announced Las Vegas as second city for 1 Gig trial

# Prism™ TV

## Expanding footprint and growing subscriber base

- ▶ Added a record 17,000 Prism™ TV subscribers during the quarter, growing total subscribers 13% from 2Q13
- ▶ Expanded addressable footprint by 285,000 homes
- ▶ Prism™ TV triple play churn in 3Q was over 600 basis points lower than voice single play churn and continues to improve
- ▶ Generated solid subscriber growth in newly launched markets during 3Q

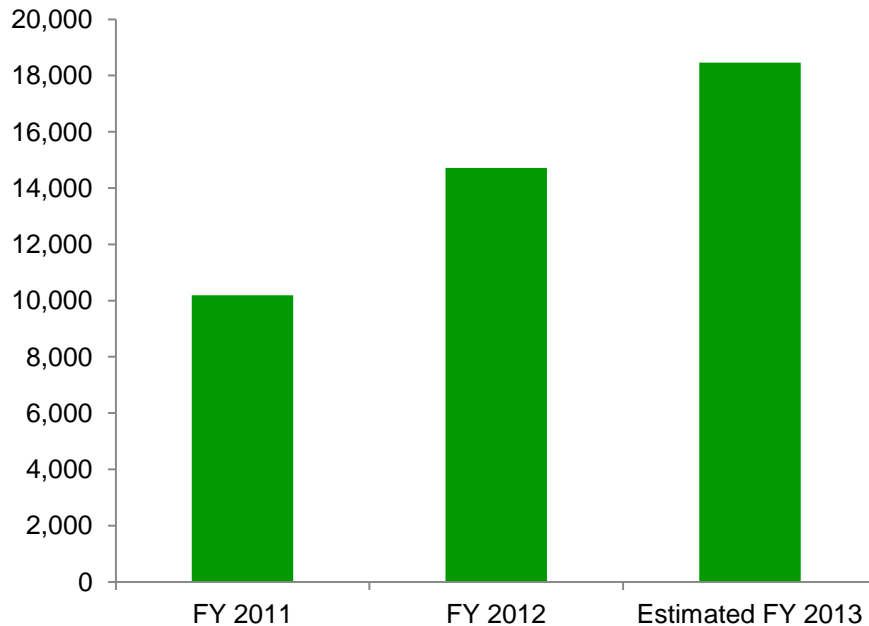


# Fiber-to-the-Tower (FTTT)

Investing in FTTT to drive long-term growth

## Fiber-to-the-Tower:

Cumulative builds complete at year-end



- ▶ Completed over 1,200 fiber builds in 3Q13
- ▶ Expect full-year 2013 completed fiber builds of 3,500 – 4,000
- ▶ Fiber-based wireless data backhaul continues to grow
- ▶ Expect to mitigate revenue compression during 2014

# Managed Hosting & Cloud Services

Capacity and product portfolio to meet customer needs and market opportunity

- ▶ Weaker than expected sequential data hosting revenue trend primarily due to one time credits and legacy Qwest Hosting churn; Continue to expect revenue growth in 2H13 compared to 1H13.
- ▶ Generated solid hosting sales during the quarter including accelerating sales to network customers
- ▶ Cross-sell opportunities continue to be strong
- ▶ Added 20,000 available square feet of data center space through the expansion of existing facilities in three markets
- ▶ Announced expanded VMware partnership allowing Savvis and VMware to offer enterprise services on VMware's hybrid cloud – powered by Savvis colocation services

# 3Q13 Financial Results & Guidance Overview

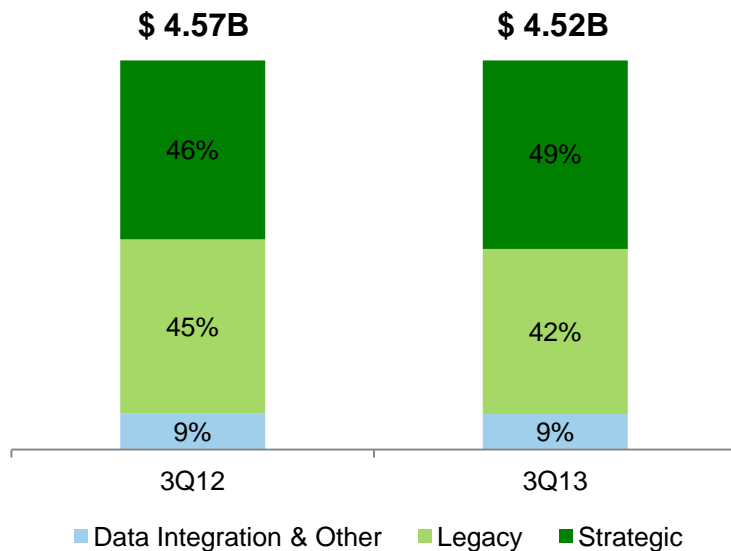
**Stewart Ewing**

Executive Vice President & Chief Financial Officer

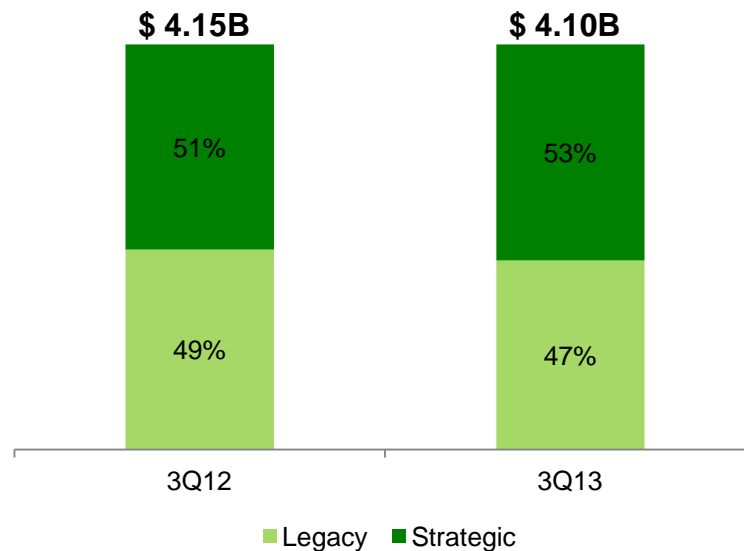


# 3Q13 Financial Summary

## Consolidated Operating Revenues



## Core Revenues<sup>1</sup>



### ► \$4.52 billion in revenues

- Total revenues declined 1.2% from 3Q12
- Core revenues<sup>1</sup> of \$4.10 billion, declined 1.0% from 3Q12
- Strategic revenues of \$2.2 billion, 4.2% annual increase from 3Q12

### ► \$0.63 Adjusted Diluted EPS<sup>2</sup>

### ► Free cash flow<sup>3</sup> of \$761 million (excl. special items and integration-related capital)

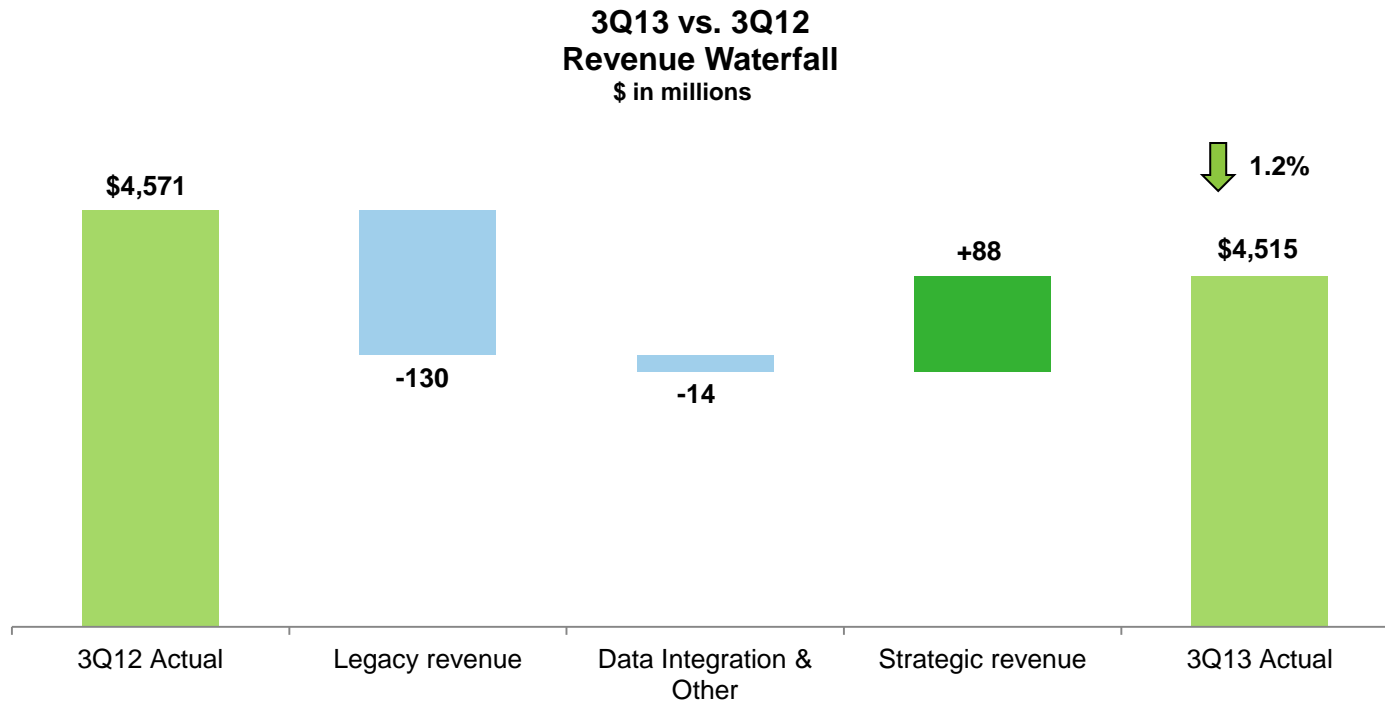
(1) Core revenues defined as Strategic revenues plus Legacy revenues excluding Data Integration and Other revenues

(2) See supporting financial schedules available at [ir.centurylink.com](http://ir.centurylink.com)

(3) Free Cash Flow calculated as operating cash flow less cash paid for taxes, interest and capital expenditures, adjusted for other income/(expense), see supporting financial schedules.



# 3Q13 Revenue Drivers



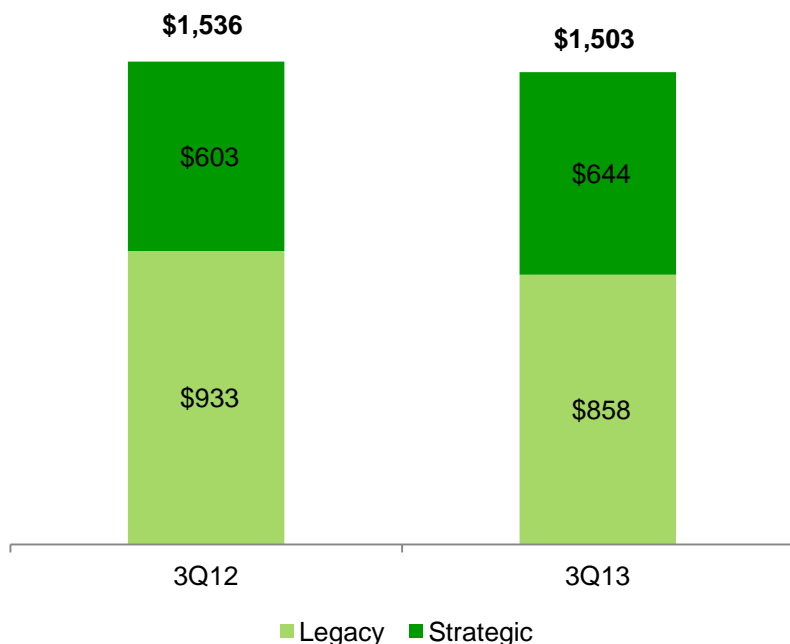
## Year-over-year: 3Q13 vs. 3Q12

- ▶ Strategic revenue growth driven by MPLS & Ethernet services, HSI, managed hosting and Prism™ TV
- ▶ Legacy revenue decline driven by access line losses and lower access revenue
- ▶ Other and data integration revenue decreased primarily due to lower USF contribution rate and lower CPE sales

# Consumer

## Consumer - Operating Revenues<sup>1</sup>

\$ in millions



- ▶ Strategic revenue increased 6.8% from year-ago period driven by growth of broadband and Prism™ TV subscribers
- ▶ Legacy services revenue declined 8.0% in 3Q13 due to lower local and LD revenue partially mitigated by continued implementation of the CAF Order<sup>2</sup>
- ▶ Operating expenses declined by \$5 million, or 0.9%, from 3Q12 driven primarily by lower employee-related costs partially offset by higher Prism™ TV costs

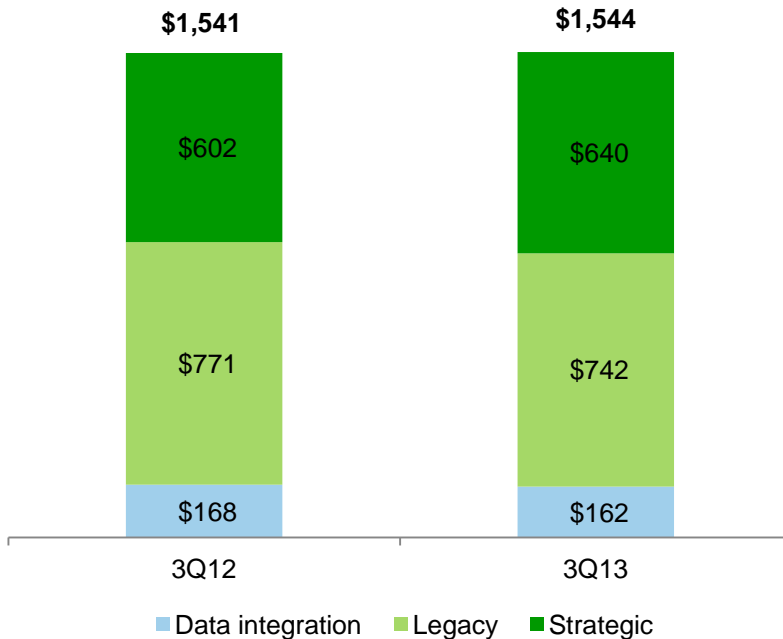
(1) 3Q13 revenues sum may not match Earnings Release or accompanying schedules due to rounding

(2) Federal Communications Commission's Connect America and Intercarrier Compensation Reform Order (the CAF Order) adopted on October 27, 2011

# Business

## Business - Operating Revenues

\$ in millions



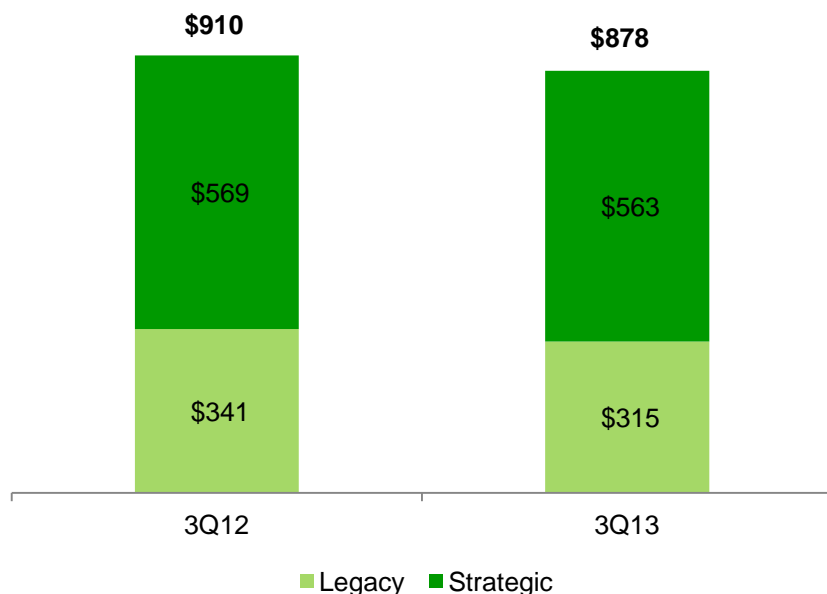
- ▶ Strategic revenue increased 6.3% from 3Q12 fueled by strength in high-bandwidth products including MPLS, Ethernet and Wavelength
- ▶ Excluding low bandwidth data services, strategic revenues grew 9%
- ▶ Legacy services revenue declined 3.8% in 3Q13 due to lower voice revenue partially mitigated by continued implementation of the CAF Order<sup>1</sup>
- ▶ Operating expenses increased \$22 million, or 2.4%, from 3Q12 due to higher facility costs partially offset by lower employee-related and CPE costs

(1) Federal Communications Commission's Connect America and Intercarrier Compensation Reform Order (the CAF Order) adopted on October 27, 2011

# Wholesale

## Wholesale - Operating Revenues

\$ in millions



- ▶ Strategic revenues declined slightly from 3Q12 due to reductions in low speed transport services partially offset by growth in Ethernet services and bandwidth expansion by wireless customers
- ▶ Lower access revenues driven by continued implementation of the CAF Order<sup>1</sup> and lower minutes of use continue to pressure wholesale legacy revenue
- ▶ Segment expenses declined \$11 million, or 3.6%, from 3Q12 driven primarily by lower personnel-related and facilities costs

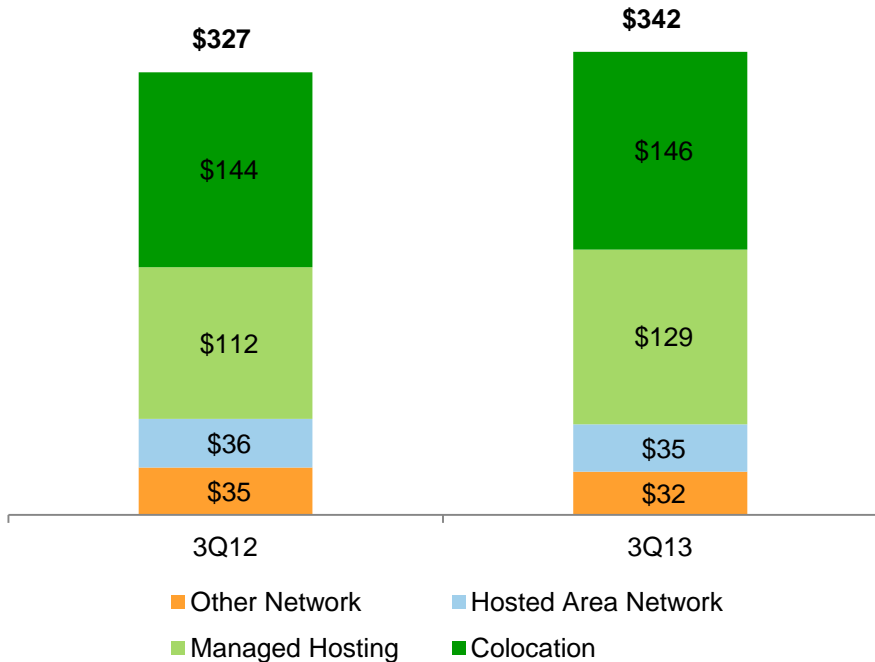
(1) Federal Communications Commission's Connect America and Intercarrier Compensation Reform Order (the CAF Order) adopted on October 27, 2011



# Data Hosting

## Data Hosting - Operating Revenues

\$ in millions



- ▶ Data hosting y/y growth was weakened by impact of large client bankruptcy related churn and price erosion in previous quarters
- ▶ Managed hosting revenue grew 15% over year-ago period, including \$14mm of 3Q13 revenue from Ciber acquisition, and colocation grew 1.4% over the same period
- ▶ Expenses increased \$28 million, or 11.4%, from 3Q12 primarily due to employee costs related to Ciber and Appfog acquisitions.

# 4Q13 Guidance<sup>1</sup>

---

<b>4<sup>th</sup> Quarter 2013</b>	
<b>Operating Revenues</b>	\$4.50 to \$4.55 billion
<b>Core Revenues</b>	\$4.07 to \$4.12 billion
<b>Operating Cash Flow</b>	\$1.75 to \$1.80 billion
<b>Adjusted Diluted EPS</b>	\$0.55 to \$0.60

---

(1) As of November 6, 2013; See Earning Release for accompanying notes

Q & A



# Concluding Remarks

**Glen Post**

Chief Executive Officer & President



# Closing

- ▶ Solid financial and operating results for third quarter
- ▶ Investments in key strategic initiatives continue to strengthen CenturyLink's competitive position
- ▶ Increasing demand from business customers for advanced network and hosted IT solutions
- ▶ Cross-selling success with Business and Data Hosting teams
- ▶ Introducing new hosting, cloud and network packages designed to gain business technology spend