



CenturyLink®

# 2<sup>nd</sup> Quarter 2014 Earnings Results

August 6, 2014

# Forward-Looking Statements / Non-GAAP Financial Measures

Certain non-historical statements made in this presentation 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 assumptions, risks and uncertainties, many of which are beyond our control. Actual events and results may differ materially from those anticipated, estimated, projected or implied by us if one or more of these risks or uncertainties materialize, or if our 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, including product displacement; 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, data protection and net neutrality; our ability to effectively adjust to changes in the communications industry, and changes in our markets, product mix and network 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; 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 service; our ability to successfully introduce new product or service offerings on a timely and cost-effective basis; the adverse impact on our business and network from possible equipment failures, security breaches or similar attacks on our network; our ability to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages; our ability to use net operating loss carryovers of Qwest in projected amounts; our continued access to credit markets on favorable terms; our ability to collect our receivables from financially troubled communications companies; our ability to maintain favorable relations with our key business partners, suppliers, vendors, landlords and financial institutions; any adverse developments in legal or regulatory proceedings involving us; changes in our operating plans, corporate strategies, dividend payment plans or other capital allocation plans, including those caused by changes in our cash requirements, capital expenditure needs, debt obligations, pension funding requirements, cash flows, or financial position, or other similar changes; the effects of adverse weather; other risks referenced from time to time in our filings with the SEC; and the effects of more general factors such as changes in interest rates, in tax laws, 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 March 31, 2014, 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 are inherently speculative and speak only as of the date made. 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 Von Deylen**

President, CenturyLink Technology Solutions

# 2Q14 Highlights & Strategic Overview

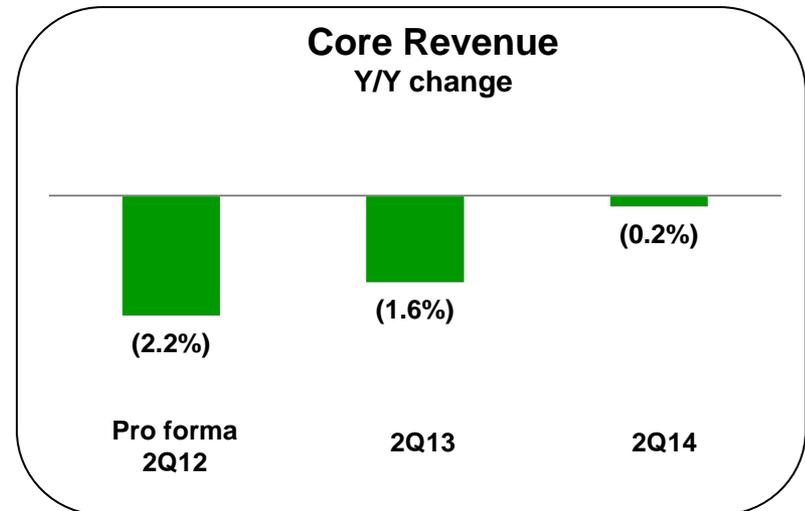
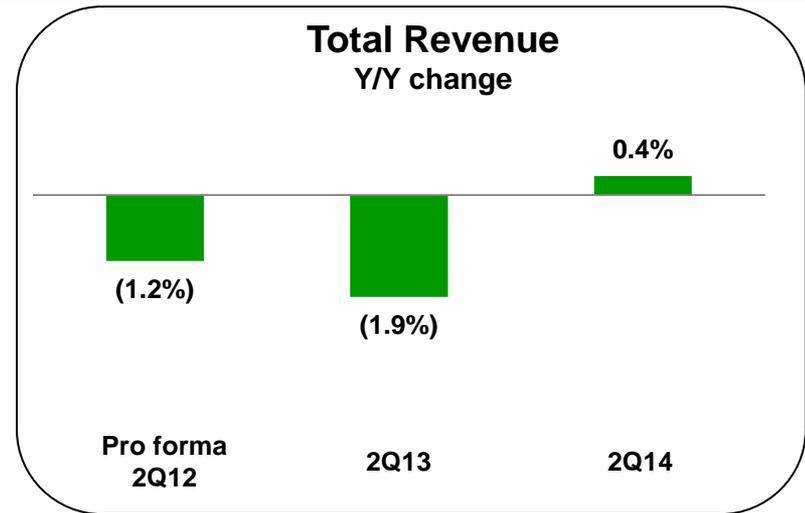
**Glen Post**

Chief Executive Officer & President



# Strong 2Q14 Results

- Total operating revenues, operating cash flow and Adjusted Diluted EPS exceeded expectations
- Total operating revenues of \$4.54 billion grew \$16 million Y/Y, or 0.4%
  - Compared to Y/Y declines of 1.9% in 2Q13 and 1.2% in pro forma 2Q12
- Core revenues<sup>1</sup> of \$4.10 billion declined slightly from 2Q13
  - Compared to Y/Y declines of 1.6% in 2Q13 and 2.2% in pro forma 2Q12



(1) Core revenue defined as Strategic revenue plus Legacy revenue (excludes Data Integration and Other Revenue)

# Key Drivers of 2Q14 Results

Core Revenue Y/Y Change



- Strategic revenue growth increased from prior year while legacy revenue decline slowed
- Demand for high-bandwidth data services and bundled service offerings from Business and Wholesale customers drove solid revenue growth

- Managed hosting revenue<sup>1</sup> grew 9.6% year-over-year and colocation revenue increased 1.9%
- Strength in high-speed Internet and Prism™ TV customer growth, price increases and improved churn resulted in year-over-year Consumer revenue growth

(1) Hosting revenue by product category was restated to allocate cross-connect revenue with the associated colocation or managed service.

# Strategic Priorities

## Business Network Solutions

- Expand MPLS, Ethernet, Wavelength and VoIP offerings
- Extend FTTT footprint for wireless data backhaul
- Drive more data traffic onto our network

- ❖ Continued strength in sale of high bandwidth data services
- ❖ Announced expansion of symmetrical broadband speeds up to 1 Gbps to business customers in 16 cities
- ❖ Completed 500 fiber-to-the-tower builds in 2Q, bringing total builds to nearly 19,700

## Hosting, Cloud and IT Services

- Expand and enhance cloud and hosting services platform
- Increase sales efficiency of direct channel and expand partner sales channel
- Offer complete portfolio of IT and cloud enablement services

- ❖ Launched our advanced cloud technology in Toronto data center for a total of 12 nodes in service
- ❖ Opened Minneapolis data center
- ❖ Generated solid bookings across Hosting business in second quarter

# Strategic Priorities (continued)

## Consumer Broadband and Video

- Deploy fiber deeper into network to drive higher speeds
  - Expand Prism TV footprint and penetration
- ❖ Announced expansion of symmetrical broadband speeds up to 1 Gbps to residential customers in 10 cities
  - ❖ Grew Prism TV footprint by over 60 thousand homes passed in second quarter

## Operating Efficiency

- Simplify and rationalize network infrastructure
  - Automate and improve processes
  - Continue to integrate and simplify systems
- ❖ Reduced the number of ATM access devices in the network by 13% Y/Y
  - ❖ Continue to manage expenses related to legacy services
  - ❖ Migrating internal IT services to our cloud platform

# 2Q14 Financial Results & Guidance Overview

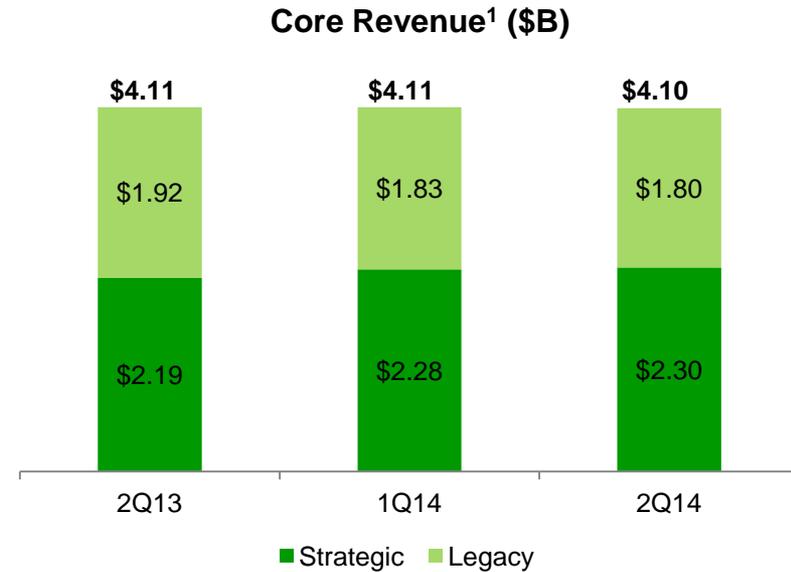
**Stewart Ewing**

Executive Vice President & Chief Financial Officer



# 2Q14 Financial Summary

- ▶ \$4.54 billion in Total revenue
  - \$4.10 billion Core revenue<sup>1</sup>, nearly flat from 2Q13 and 1Q14
  - \$2.3 billion Strategic revenue, 5.1% y/y increase from 2Q13 vs. 4.3% increase in 2Q13
  - \$1.8 billion Legacy revenue, a 6.2% y/y decrease from 2Q13 vs. 7.3% decrease in 2Q13

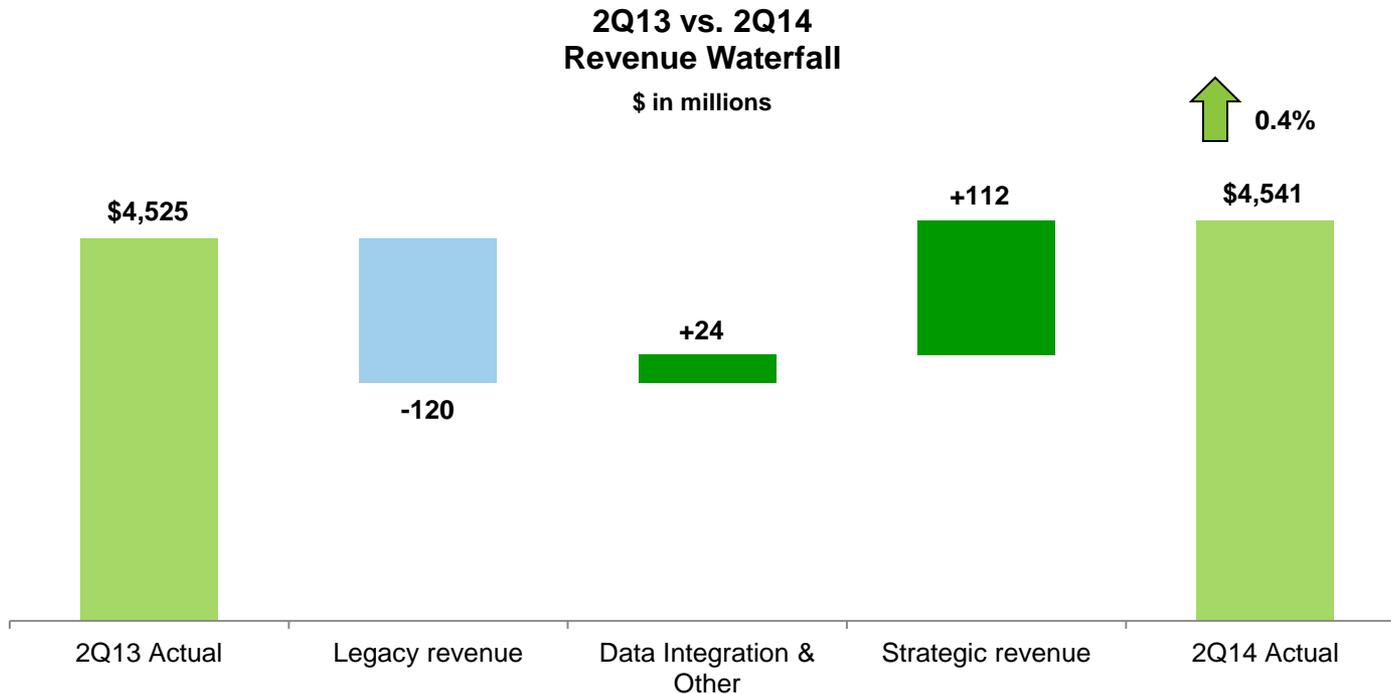


- ▶ Added approximately 16,000 Prism™ TV customers; Decline of 2,100 high-speed Internet customers
- ▶ Operating cash flow<sup>2</sup> of \$1.81 billion and free cash flow<sup>2</sup> of \$677 million
- ▶ \$0.72 Adjusted Diluted EPS<sup>2</sup>
- ▶ Completed \$2 billion share repurchase plan in 2Q purchasing nearly 60 million shares during the program; Commenced follow-on \$1 billion program

(1) Core revenue defined as Strategic revenue plus Legacy revenue (excludes Data Integration and Other Revenue)

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

# 2Q14 Revenue Drivers



## Year-over-year: 2Q14 vs. 2Q13

- ▶ Strategic revenue growth driven by MPLS & Ethernet services, HSI, Managed Hosting & Cloud and Prism™ TV
- ▶ Legacy revenue decline of \$120 million due to access line losses and lower access revenue; Compares favorably to \$159 million decline in 2Q13
- ▶ Data integration and other revenue increased primarily due to higher CPE sales

# Consumer

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

\$ in millions

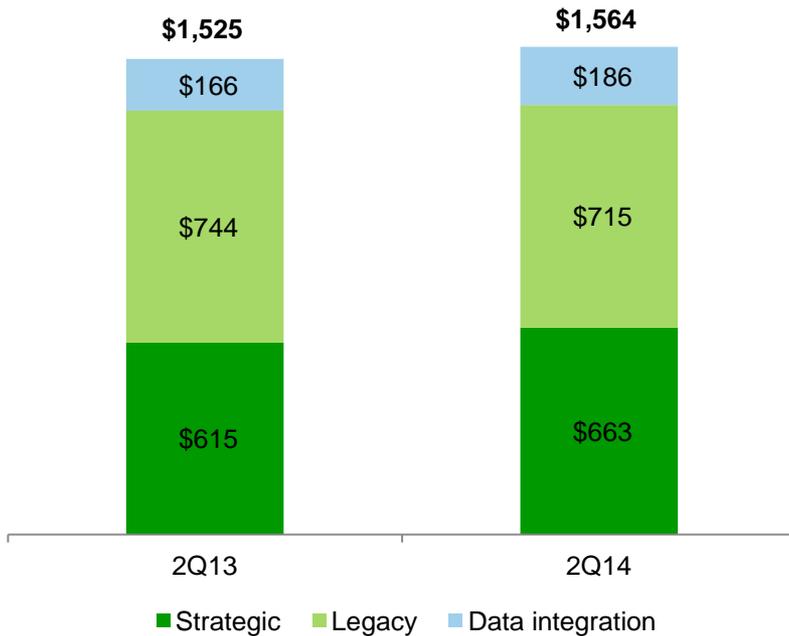


- ▶ Total Y/Y revenue growth
- ▶ Strategic revenue increased 8.6% from year-ago period driven by growth of high-speed Internet and Prism™ TV customers and select price increases
- ▶ Legacy services revenue declined 6.0% in 2Q14 due to lower local and LD revenue partially offset by select price increases; 9.3% decline in 2Q13
- ▶ Operating expenses increased from 2Q13, primarily driven by higher Prism™ TV costs

(1) 2Q13 and 2Q14 revenue sum does not match Earnings Release or accompanying schedules due to exclusion of data integration revenue from this chart

## Business - Operating Revenue

\$ in millions



- ▶ Total Y/Y revenue growth of 2.6%
- ▶ Strategic revenue increased 7.8% from 2Q13 driven by continued strength in high-bandwidth products including MPLS, Ethernet and Wavelength
- ▶ Legacy services revenue declined 3.9% in 2Q14 due to lower voice revenue
- ▶ Data integration revenue increased 12% driven by higher CPE sales
- ▶ Operating expenses increased \$60 million, or 6.6%, from 2Q13 primarily driven by increased CPE and facility costs, along with higher employee-related expenses

# Wholesale

## Wholesale - Operating Revenue

\$ in millions



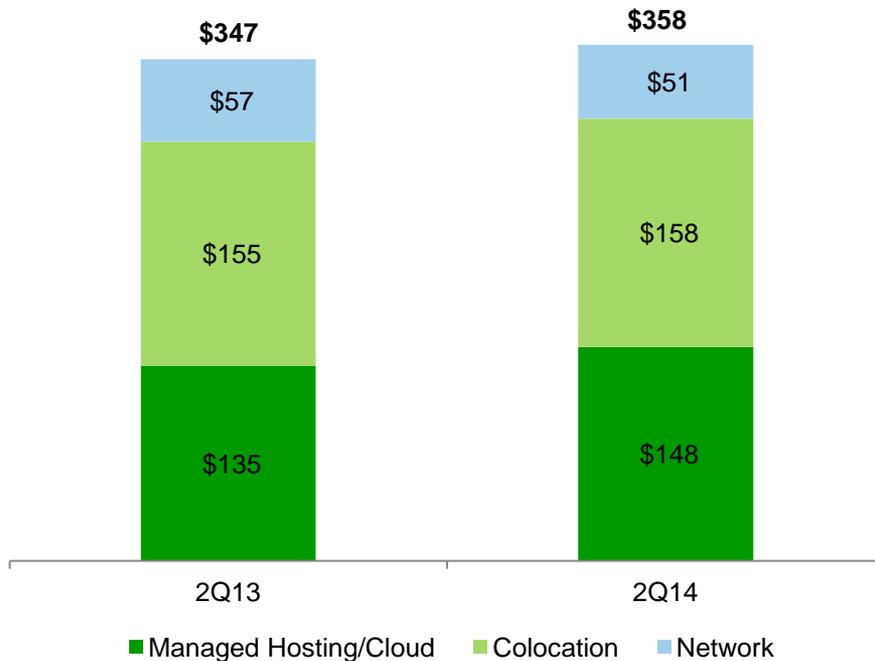
- ▶ Strategic revenue was nearly flat from 2Q13 as declines in low-speed data revenue offset growth in Ethernet services and wireless bandwidth expansion
- ▶ Legacy revenue declined as continued implementation of the CAF Order<sup>1</sup> and lower minutes of use continue to pressure wholesale access revenue
- ▶ Segment expenses declined \$18 million, or 6%, from 2Q13 primarily driven by lower employee-related and facility costs

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

# Hosting

## Hosting - Operating Revenue<sup>1</sup>

\$ in millions



- ▶ Total Y/Y revenue growth of 3.2%
- ▶ Managed hosting/cloud revenue grew 9.6% over year-ago period and colocation grew 1.9% over the same period
- ▶ Colocation growth was impacted by customer churn and price erosion
- ▶ Expenses<sup>2</sup> increased \$10 million, or 3.9%, from 2Q13 primarily due to higher employee costs

- (1) Hosting revenue by product category was restated to allocate cross-connect revenue with the associated colocation or managed service.
- (2) Current and prior period Hosting expenses restated to remove certain administrative expenses in order to conform reporting methodology of all segments.

# 3Q14 Guidance

## 3rd Quarter 2014

Operating Revenue	\$4.47 to \$4.52 billion
Core Revenue	\$4.06 to \$4.11 billion
Operating Cash Flow	\$1.72 to \$1.77 billion
Adjusted Diluted EPS	\$0.58 to \$0.63

Full-year 2014 guidance remains unchanged from that provided on our February earnings call.

Q & A

