

05-May-2015

# CenturyLink, Inc. (CTL)

Q1 2015 Earnings Call

## CORPORATE PARTICIPANTS

Tony Davis

*Vice President Investor Relations, CenturyLink, Inc.*

Glen F. Post, III

*President, Chief Executive Officer & Director*

R. Stewart Ewing, Jr.

*Executive Vice President, Chief Financial Officer & Assistant Secretary*

Karen A. Puckett

*Chief Operating Officer & Executive Vice President*

---

## OTHER PARTICIPANTS

David W. Barden

*Bank of America Merrill Lynch*

Simon Flannery

*Morgan Stanley & Co. LLC*

Batya Levi

*UBS Securities LLC*

Frank Garreth Louthan

*Raymond James & Associates, Inc.*

Tudor Mustata

*Jefferies LLC*

Michael I. Rollins

*Citigroup Global Markets, Inc. (Broker)*

---

## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day, ladies and gentlemen, and welcome to CenturyLink's First Quarter 2015 Earnings Conference Call. At this time all participants are in a listen-only mode. Later we'll conduct a question-and-answer session and instructions will be given at that time. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to turn the conference over to Mr. Tony Davis, Vice President of Investor Relations. Mr. Davis, you may begin.

---

Tony Davis

*Vice President Investor Relations, CenturyLink, Inc.*

Thank you, Sayed, and good afternoon, everyone, and welcome to our call today to discuss CenturyLink's first quarter 2015 results released earlier this afternoon. The slide presentation we will be reviewing during the prepared remarks portion of today's call is available in the Investor Relations section of our corporate website at [ir.centurylink.com](http://ir.centurylink.com). At the conclusion of our prepared remarks today, we will open the call for question-and-answer.

On slide two, you'll find our Safe Harbor language. We will be making certain forward-looking statements today, particularly as they pertain to guidance for full year and second quarter of 2015 and other outlooks on our business. We ask that you review our disclosure found on this slide, as well as in our press release and in our SEC filings, which describe factors that could cause our actual results to differ materially from those projected by us in our forward-looking statements.

We ask that you also note that our earnings release issued earlier this afternoon and the slide presentation and remarks made during this call contain certain non-GAAP financial measures. Reconciliation between the non-GAAP financial measures and the GAAP financial measures are available in our earnings release and on our website at [ir.centurylink.com](http://ir.centurylink.com).

Now as you turn to slide three, your host for today's call is Glen Post, Chief Executive Officer and President of CenturyLink. Joining Glen will be Stewart Ewing, CenturyLink's Chief Financial Officer and also available during the question-and-answer portion of today's call will be Karen Puckett, CenturyLink's President of Global Markets.

Our call today will be available for telephone replay through May 13, 2015 and the webcast replay of our call will be available through May 27, 2015. Anyone listening to a taped or webcast replay or reading a written transcript of this call should note that all information presented is current only as of May 5, 2015 and should be considered valid only as of this date regardless of the date heard or viewed.

As you move to slide four, I'll now turn the call over to Glen Post.

---

### Glen F. Post, III

*President, Chief Executive Officer & Director*

Thank you, Tony. Thank you for joining our call today as we discuss our first-quarter 2015 results of operations. We continue to make progress on a number of fronts during the first quarter, a few of which are our recent organizational realignment, the enhancement of broadband speeds across our network; also we made progress on the integration of DataGardens and the Cognilytics acquisition, further automation of our integrated network and hosting services solutions as well.

If you turn with me to slide five, overall we generated solid results for the first quarter. We continued to strengthen our ability to compete more effectively. We're beginning to see the benefits of our organization realignment implemented in late 2014 and we're confident that this streamlined operating structure positions us well to drive stronger sales results, strategic revenue growth, and operating efficiency over the long-term.

For the first quarter, operating cash flow exceeded our guidance primarily due to lower employee related expenses and favorable one-time items. I'm pleased with our overall efforts to control cost, as we remain focused on reducing spend in legacy areas while continuing to invest in our growth areas.

Total operating revenue was below the midpoint of our guidance range primarily due to lower data integration revenues related to customer premise equipment sales and core revenue is just below the midpoint of guidance, as hosting revenue came in lower than expected partially due to an unfavorable foreign currency impact and customer credits.

As anticipated, we did experience weaker large business sales in the first quarter, primarily due to our organizational realignment that resulted in customer account reassignments to various individual sellers as well as the restructuring of our sales force. However, we are pleased with improving sales following sales momentum we saw coming out of the quarter.

Now turning to slide six, we're continuing to transform our company from a provider of traditional network communications to an integrated provider of IP-enabled network, cloud hosting, and IT services to provide solutions for our customers. Also, we are focused on executing on several strategic priorities that we believe are key to successfully navigating the continued transformation of our company. The first of these is to grow our

business solutions. As part of our reorganization, we further integrated and restructured our go-to-market model in the first quarter as we consolidated network and hosting sales and marketing organizations.

We are confident that this approach will drive long-term sales efficiency across our full portfolio of capabilities by focusing on solution selling and customer acquisition. We continue to drive strategic revenue growth of meeting business and government demand for MPLS, Ethernet and Wavelength network services during the quarter. Additionally our Managed Office and Managed Enterprise solutions continued to gain traction and we are seeing increasing customer interest for both small and large business customers.

These managed services help free customers from the day-to-day management of their network and related services as well as freedom from equipment issues. We are seeing strong demand for GPON service from businesses and expect to drive additional revenue growth from our continued expansion of our GPON footprint in the months ahead.

For example, the GPON deployment along with the Managed Office product offering and an enhanced sales effort were key drivers of our solid improvement in SMB sales year-over-year. We had GPON available to approximately 390,000 business locations as of March 31 and we expect to continue to see upside in this segment with our plans to expand our business GPON footprint by more than 100,000 businesses by year-end 2015.

We continue to deploy faster broadband speeds through a combination of fiber deployment and speed enhancements on our existing network to help us more broadly compete in the marketplace. We've also made solid progress with our development of software-defined networks and network functions virtualization and the associated automated programming interfaces or APIs to the related support systems.

We have commercially deployed virtualized network-based security services, content delivery network, and cloud firewall services across a portion of our data center footprint with plans for further deployment in the months ahead, which we believe positions CenturyLink as one of the leaders in both SDN and NFV enablement.

We also continue to roll out enhancements to our core network offerings, including next-generation MPLS and SIP trunking services. In addition, we plan to continue to add new capabilities to Managed Office that we believe will provide unparalleled simplicity for SMB customers looking for a full outsourced solution for their network, hosting and cloud applications as well as associated equipment and maintenance.

Turning to wholesale services, revenues remain under pressure due to continued low-bandwidth data service disconnects and network grooming, along with reductions in intercarrier compensation and declining voice usage. As you are aware, secular trends in wholesale have resulted in revenue pressure from increased network grooming and the migration from low-speed private line services to fiber-enabled Ethernet services by wireless carriers and wireline customers.

Fortunately, we have had success in mitigating some of this revenue pressure by expanding our fiber-based wireless backhaul services. At the end of the first quarter, we enabled fiber to over 21,800 towers within our operating footprint, and we're expanding our focus on Ethernet services and leveraging our hosting products, including colocation, having recently won a 2-plus-megawatt data center contract with a major international telecom carrier.

Before I move into the consumer discussion, I would like to give you a little more detail about how we view our cloud and hosting results and how we look at that part of our business. We are beginning to see improved results in our colocation business with a good year-over-year increase in colocation sales results. We remain focused on improving those results, and expect to continue to see good performance in our colocation business as we have

nearly 40% of our sellable store space currently available across our total data center footprint. We are also seeing increased utilization of our new-generation CenturyLink Cloud platform, almost doubling the revenue driven from that platform over the last 12 months, and we expect that velocity to continue.

I want to be clear, though, that while we are seeing better results in some parts of our cloud and hosting business, overall our results are not what we expect them to be. CenturyLink Cloud, which is the platform we acquired in the Tier 3 transaction just over a year ago, enables a wide range of service and is growing, but it does not yet provide the full range of services required to serve all of our large enterprise customer needs.

We'll continue to invest in CenturyLink Cloud both through internal development and through service-enhancing acquisitions such as DataGardens and the most recently announced Orchestrate transaction. The consistent enhancement of the platform has received good reviews from our customers, which is reflected in both revenue growth and in positive customer surveys. We plan to make the CenturyLink Cloud platform the long-term focus of our cloud and hosting strategy.

That said, we have not performed as well as we should have with respect to the services that are supported by our legacy cloud and hosting platforms. We're near completion of some basic tool enhancements and automation development for these platforms, which we believe will help drive increased sales across all these legacy platforms. Although we did experience churn from some large colocation customers that had an unfavorable impact from foreign currency exchange rates during the quarter, we believe the primary issue here is really one of focus and execution, rather than product capabilities.

As we move into the remainder of 2015, we are renewing our focus on driving better results into the legacy cloud and managed services platforms, and we expect to see improvement as we move into the second quarter and beyond.

As you all know, the demand for cloud and managed service offerings is expected to continue to rapidly expand. We believe in these growth projections. And while we have not consistently generated results we've expected in this area, we continue to very strongly believe in the opportunity and the assets we have to take advantage of. We believe our recent acquisitions and investments position us well over the long-term to capture our share of the significant growth market in the months ahead.

To summarize, we're in the process of establishing what we believe is a unique position in the market to offer enterprise customers highly scalable, secure and differentiated offerings that bring together a set of highly automated network, hybrid cloud, security and value creating IT and data analytic services that enterprise customers really need. We believe we'll be able to demonstrate the power of our network and hybrid cloud offerings in the months ahead.

Turning on to slide seven, in the Consumer segment we continue to see good results in those markets where we have deployed higher bandwidth and IPTV services. In our early GPON markets like Omaha, the take rates continue to be strong and are exceeding our expectations. We continue to expand our gigabit footprint to residential customers in select locations in 10 cities, including some of our larger markets and we expect to have gigabit service available to approximately 700,000 residential consumers by the year-end 2015 and followed by further expansion in 2016 and beyond.

During the first quarter, we also expanded Prism TV service to an additional 73,000 homes within the existing markets, ending the quarter with over 2.4 million addressable homes. We also added 8,000 Prism customers during the quarter, but these adds were negatively impacted by price increase implemented in January to cover content cost increases.

As of quarter end, we had more than 249,000 Prism TV customers representing a penetration rate of 10.2%. We anticipate expanding Prism TV service to approximately 425,000 additional households through the remainder of 2015 and we expect to reach more than 2.8 million total addressable households by year-end.

Finally, we are focused on driving improved operating efficiency through a number of methods, including network simplification and rationalization that should improve our end-to-end provisioning time and help drive standardization. Also we continue to manage expenses related to our declining legacy revenues, while we continue to invest in areas that are driving growth. We have laid the foundation to migrate our internal IT operations to our cloud platform as we continue to invest in IT virtualization. We are using a cloud-first approach to rapidly deploy the same innovative platform infrastructure and software-as-a-service solution across our internal IT operations that we are selling to our cloud and IT hosting customers. This effort is expected to reduce our IT cost and improve security and other efficiencies for our company.

Lastly, we continue to make progress in simplifying our process and streamlining our workflow. Our network inventory consolidation effort, which we have mentioned before, continues to progress well. Additionally, we have implemented an automated sales tool to increase our seller efficiency with anywhere, anytime access to our back-office systems.

In summary, I believe we are well-positioned in our markets with a strong portfolio of strategic assets. We're also investing in an expanded unified distribution structure and we have a laser focus on continuing to improve our revenue trends in the months ahead.

Now I will turn the call over to Stewart for an in-depth look at our financial results and second-quarter 2015 guidance.

---

## R. Stewart Ewing, Jr.

*Executive Vice President, Chief Financial Officer & Assistant Secretary*

Thank you, Glen. I will spend the next few minutes reviewing the financial highlights from the first quarter and then conclude my remarks with an overview of the second quarter 2015 guidance we included in our earnings release issued earlier this afternoon. Beginning on slide nine, I will review some highlights from our first quarter results. I will be reviewing the results excluding special items as outlined in the earnings release and associated financial schedules.

Operating revenues were \$4.45 billion on a consolidated basis, a 1.9% decline from first quarter 2014 operating revenues. Core revenue which is defined as strategic revenue plus legacy revenue was \$4.06 billion for the first quarter, a decrease of 1.3% from the year-ago period. Strategic revenues grew 2.2% year-over-year and represent 52% of our total revenues compared to 50% a year ago.

Strength in strategic products such as high-speed Internet, high-bandwidth data, and Prism TV continue to drive this growth. We added more than 35,000 high-speed Internet customers and approximately 8,000 Prism TV customers during the quarter. Additionally, we generated strong operating cash flow of approximately \$1.74 billion for the first quarter and achieved an operating cash flow margin of 39%.

As Glen mentioned, we exceeded our operating cash flow guidance as we had lower cash expenses than anticipated. Expenses were below expectations due primarily to lower employee-related costs, along with lower CPE costs related to our data integration revenues and approximately \$30 million of favorable one-time items during the quarter.

Free cash flow of \$849 million for the quarter was very strong. As a reminder, free cash flow is defined as operating cash flow, less cash paid for taxes, interest and capital expenditures, along with other income. Our solid cash flows continue to provide us with the financial strength and flexibility to meet our business objectives and drive long-term shareholder value.

Adjusted diluted earnings per share for the first quarter was \$0.67, coming in \$0.06 above our guidance range. As we have discussed on prior earnings calls, adjusted diluted EPS excludes special items and certain non-cash purchase accounting adjustments, as outlined in our press release and associated supplemental financial schedules. Additionally, onto the \$1 billion share repurchase program, we repurchased 4.5 million shares during the quarter for an investment of \$170 million. We expect to continue to be opportunistic in completing this program within the 24-month period outlined earlier.

Now turning to slide 10, first quarter 2015 operating revenues declined \$87 million or 1.9% compared to first quarter 2014, as the growth in strategic revenues was more than offset by the decline in legacy revenues, due primarily to access line losses and lower data integration revenues. The growth in our strategic revenues was primarily driven by strength again in high-speed Internet, high-bandwidth business data services, and Prism TV. Although legacy revenues continue to decline, the decline in first quarter 2015 was 16% lower than the first quarter revenue decline a year ago.

Moving to slide 11 on our Business segment, in the first quarter the Business segment generated \$2.7 billion in operating revenues, which decreased \$78 million or 2.8% from the same period a year ago. First quarter strategic revenues for the segment increased 0.8% to \$1.6 billion from first quarter 2014, driven primarily by strength in high-bandwidth services such as MPLS, Ethernet and Wavelength, which was largely offset by the continued decline of low-bandwidth data services and lower hosting revenues.

We continue to generate solid growth across the enterprise customer market, and we see an opportunity for further investment in the small and medium-size business space to improve market share and drive further growth. Our legacy revenues for the segment declined 5.4% from first quarter 2014, due to primarily declining access lines. Total Business segment expenses decreased slightly from the year-ago period, driven by lower CPE cost. Our segment margin of 45% declined from 45.8% a year ago. This decrease was primarily due to the continued decline in Business segment legacy and low-bandwidth data services revenue.

On slide 12, I'll provide a little more detail on the revenue mix within the Business segment. Our high-bandwidth data services revenue grew \$70 million or 11% year-over-year compared to first quarter 2014, driven by continued strength in sales to enterprise and governmental customers. Low-bandwidth data services, including private line, continued to decline in first quarter. The year-over-year revenue decline of \$88 million or 14% was primarily due to wholesale customers' network grooming efforts and migration to fiber-based services that we've experienced over the past year.

We anticipate this level of year-over-year decline to improve over the coming quarters as we cycle through this period of higher disconnects and grooming. Hosting revenues declined \$10 million or 3% from the prior year, driven primarily by an unfavorable foreign currency impact of \$5 million and lower non-recurring revenue compared to the year-ago period. In the first quarter, data integration revenues decreased approximately \$35 million or 20% compared to first quarter 2014, driven by lower CPE sales.

Now turning to slide 13, in our Consumer segment, Consumer generated \$1.5 billion in operating revenues on 0.8% decline from first quarter a year ago. Strategic revenues in this segment grew 5.1% year-over-year to \$738 million, driven by growth in high-speed Internet and Prism TV customers and select price adjustments. Legacy

revenues for the Consumer segment declined 6% from first quarter 2014 as access line and long-distance revenue declines were partially offset by select price adjustments. Operating expenses were flat compared to the same period a year ago as lower employee-related costs offset the higher Prism TV cost.

Now turning to slide 14, for second quarter 2015 we expect operating revenues of \$4.41 billion to \$4.6 billion, and core revenues of \$4.02 billion to \$4.07 billion, both of which are expected to be flat to slightly down from first quarter 2015. Our operating cash flow is projected to be between \$1.67 billion to \$1.72 billion, a decrease compared to first quarter 2015, primarily due to higher employee-related expenses, the impact of the continued decline in higher-margin legacy revenue, and the \$30 million of favorable one-time expense items I mentioned earlier that occurred during the first quarter. Adjusted diluted EPS is expected to range from \$0.59 to \$0.64 in second quarter 2015 compared to the \$0.67 in first quarter of 2015. Our full year guidance that we provided in February for full year 2015 remains unchanged.

That concludes our prepared remarks for the day. So at this time, I'll ask the operator to provide instructions for the Q&A portion of the call.

---

## QUESTION AND ANSWER SECTION

**Operator:** Thank you, sir. [Operator Instructions] First question comes from David Barden from Bank of America. Your line is open. Please go ahead.

David W. Barden

*Bank of America Merrill Lynch*

Q

Hey, guys. Thanks for taking the questions. I guess first, Stewart, just with respect to first quarter results and then the second quarter midpoint guidance and then comparing that to your full-year guidance, splitting it up equally, it looks like revenue would have to move into the \$4.5 billion to \$4.6 billion range to kind of get to the midpoint of the full-year number. Could you talk about the moving parts that are going to get us from that \$4.435 billion to that \$4.5 billion number that seems to be embedded in the full-year guidance would be...? And the second part of that question would be, if we are looking at an upward swing in revenue growth sequentially through the back part of the year, could you talk about what the drivers for 2016 would be to kind of keep that going? Thanks.

R. Stewart Ewing, Jr.

*Executive Vice President, Chief Financial Officer & Assistant Secretary*

A

Yeah, so, David, you're right. There is somewhat of a hockey stick in the second half of the year, which was really implied more or less in the first quarter guidance that we gave as well. And really, there are three areas that we think that we'll see improvements on, really starting somewhat in the second quarter, but then more so in the last half of the year. One is, we – as Glen mentioned, we expect the reorganization that we did and the sales results from that reorganization to improve during the year, as we saw some improvement in the month of March over January and February. So we expect to see continued improvement there and that to be one of the items that hopefully will push our revenue in the second half of the year. Secondly, I mentioned surprise adjustments, so we'll have price adjustments that we put in that will basically help continue to improve revenue during the year.

And then also, we think the latter half of the year, we will really get through most of the grooming that we're seeing from some of the other carriers in terms of wholesale, particularly on the private line side. And we're seeing fewer tower builds which means that basically we're not seeing migration from the copper circuits to Ethernet that we experienced last year, too. So we expect to see a little bit of that. In terms of 2016, we're hopeful that the

momentum we have from a sales standpoint going into 2016 will help us overcome the – to the extent we don't have price adjustments in 2016 that equal 2015 which we don't know yet, we're not sure what sort of pricing adjustments we'll have next year. But to the extent we don't have those pricing adjustments equal to this year, we're hopeful that the sales momentum would continue to carry us through the tougher comps that we would have in the first part of this year related to the price adjustments that we made.

Glen F. Post, III

*President, Chief Executive Officer & Director*

A

And David, this is Glen, I just had a couple comments. The one is talking about 2016, we expect greater sales force efficiency as we get through the next few months and really transform our sales force to a little different go-to-market strategy with the solution selling that we're working toward with all of our IP products and cloud hosting, also regular network products. Also, additional product rollout, as I mentioned, we're expanding our GPON footprint during this year, so we'll have that really rolled out. We're expanding our Prism to close to 500,000 additional households past this year. And then the Cloud hosting product advancements we're working on, we think, are really significant and can drive a lot of potential sales growth there.

And then bringing in our Big Data, Advanced Analytics – the Cognilytics acquisition is driving a lot of activity for us, lot of interest throughout the business community for those services, and along with those IP services, we're not just providing the Cloud service, we're providing convergence to the Cloud and software support, application support and just the overall increased broadband speeds that we expect to roll out over the next 12 months.

David W. Barden

*Bank of America Merrill Lynch*

Q

Awesome. Sounds great, guys. Congrats. Thanks.

**Operator:** Thank you. Our next question comes from Simon Flannery from Morgan Stanley. Your line is open. Please go ahead.

Simon Flannery

*Morgan Stanley & Co. LLC*

Q

Great. Thank you very much. You were active in the market buying back stock this quarter. Can you just update us on what you have left in the current authorization and how you're thinking about next steps after that given the potential cash tax impact next year? And any potential M&A that might be out there? And then if you could also just comment on your thoughts on the CAF-II proposals from the FCC? Thanks.

R. Stewart Ewing, Jr.

*Executive Vice President, Chief Financial Officer & Assistant Secretary*

A

Yeah. So, Simon, first on the share buyback, basically through – a couple of days ago, I guess through the shares that we've settled as of really yesterday, we had repurchased about 11.6 million shares under the existing program and spent about \$439 million, so there's \$561 million remaining of the \$1 billion program that we had. And we continue to expect to opportunistically buy shares back and would expect still to complete the program within the 24-month period from which we started it, which we started it in February or so – May actually, May of 2014. So by May of 2016, we would expect to complete that.

Beyond that, we haven't really talked with the board about the next step from the standpoint of returning cash to shareholders, although as you point out, we will see an increase, a significant increase in cash taxes or expect to see a significant increase in cash taxes in 2016, which we'll use quite a bit of the free cash flow that we've had. In

terms of the CAF-II proposal, of course we've just got that – I guess the FCC just released that a week or so ago and started the 120-day clock running basically, so we have until August 27 to make the FCC aware of which of the 37 states that we have the option of the right of first refusal in to take up to \$514 million is what was allocated to us.

So we have started the process now that we know the census blocks that are included. We started the process of reviewing the capital expenditures that would be required to get the 10 down/1 up service, and I would imagine we will take most of the time allotted to come to some conclusion as to how much of the CAF II monies that we won't accept.

---

Simon Flannery

*Morgan Stanley & Co. LLC*

Q

Do you have any sort of initial – do you think you'll take most of it, or it's still too early to say?

---

R. Stewart Ewing, Jr.

*Executive Vice President, Chief Financial Officer & Assistant Secretary*

A

It's really still too early to say, Simon.

---

Simon Flannery

*Morgan Stanley & Co. LLC*

Q

Okay. Great. Thank you.

---

**Operator:** Thank you. And our next question comes from Batya Levi from UBS. Your line is open. Please go ahead.

---

Batya Levi

*UBS Securities LLC*

Q

Great. Thank you. First, a question on the strategic services within the Business segment. You explained the pressure that you saw on the hosting side and the low-bandwidth services, but can you provide more color on why we saw the high-bandwidth revenues come down sequentially and how you think about that piece going – tracking from here on? And the second question on the other strategic services, it's been very lumpy, but you had a big quarter this time. What was in there? Is there any one-timer and how do you expect that going forward? Thank you.

---

R. Stewart Ewing, Jr.

*Executive Vice President, Chief Financial Officer & Assistant Secretary*

A

Yes. So, Batya, we had a re-class from strategic services to legacy services in the first quarter that in the aggregate was about \$10 million. About half of it was related to basically network services that Savvis had been providing. And we decided that as we merge the sales force as we looked at it closer and decided that it really should be in legacy revenue. And then the other was just some other strategic revenue that we found that we really needed to re-class to legacy too, so that was about \$10 million of it.

And then also, the SAB 104 deferral revenue, I guess we didn't have as many one-time sales in the first quarter as we had in the first quarter a year ago, and that basically – the way we account for it reduced the strategic revenue somewhat.

Batya Levi

UBS Securities LLC

Q

Okay. Maybe putting it all together, how should we think about the strategic services within the Business segment trending from here on?

R. Stewart Ewing, Jr.

Executive Vice President, Chief Financial Officer &amp; Assistant Secretary

A

Yeah, so I mean, we would expect basically based on the sales effort that the business strategic revenues should hopefully trend better going forward. And then also, as Glen mentioned, the Prism build-out that we have in process and the GPON rollout and the higher-bandwidth services that we'll be providing to our high-speed internet customers both on the Business and Consumer side, that all of that should help drive those strategic revenue lines over the course of the year.

Batya Levi

UBS Securities LLC

Q

Okay. Thank you.

**Operator:** Thank you. And our next question comes from Frank Louthan from Raymond James. Your line is open. Please go ahead.

Frank Garreth Louthan

Raymond James &amp; Associates, Inc.

Q

Great. Thank you. One just quick clarification and sort of strategic question. You mentioned on the hosting side down a little bit because of FX and some lower non-recurring. Can you quantify that, how much of it was the FX, and then what exactly was the impetus for the non-recurring? And then, as you look out at M&A going forward, how should we think about your appetite for various assets and particularly landline assets? Are those as interesting to you as they were in the past or you see – looking for other opportunities?

R. Stewart Ewing, Jr.

Executive Vice President, Chief Financial Officer &amp; Assistant Secretary

A

Yeah, so, Frank, the foreign exchange was \$5 million during the quarter negative, and that was mostly the British pound. And then, we had about \$4 million of lower non-recurring sales, and it was just an opportunity that we had in the first quarter of 2014 that we didn't have – with a partner, that we really didn't have again in the first quarter 2015.

Glen F. Post, III

President, Chief Executive Officer &amp; Director

A

And, Frank, regarding the access line-type acquisitions, we are – as I've said before, we're less interested in those today just because of the difficulty in having those revenue streams that would drive growth for us. It is difficult, as you know. We believe we've assembled a really strong group of assets that form a really good foundation from which we can drive attractive growth in the months ahead and years ahead.

That being said, we're always looking for opportunities to accelerate our growth and strengthen our position in the market. We don't believe we have any gaping holes we need to fill in our product portfolio or in our key asset base. But if opportunities arise in which we can enhance our Cloud hosting offering, expand our fiber reach, our fiber access or accelerate our growth profile, we would certainly consider those opportunities. As you know, we've made

some small acquisitions that have enhanced our hosting and Cloud capabilities and IT service capabilities in recent months. They were small, but all those fit very well strategically with where we're headed. But any opportunity we look at would only be evaluated under our very disciplined approach, acquisition process.

Frank Garreth Louthan

*Raymond James & Associates, Inc.*

Q

Great. Thank you very much.

**Operator:** Thank you. And our next question comes from Mike McCormack from Jefferies. Your line is open, please go ahead.

Tudor Mustata

*Jefferies LLC*

Q

Hi, guys. This is Tudor for Mike. Just a question on the competitive environment, have you guys seen any incremental competition from Level 3 and tw telecom now they've merged? And any commentary you guys have on the hosting and managed hosting market?

Karen A. Puckett

*Chief Operating Officer & Executive Vice President*

A

Michael (sic) [Tudor], this is Karen Puckett. In terms of Level 3, I would say we continue to do very well on our high-bandwidth capability to our customers, so we have not seen a slip in our win rates and continue to take share from many carriers. So, we feel good about that. And on the second question – second question was around the hosting, managed hosting, I would say that the issue there is more in terms of our focus versus competition. And clearly on the public Cloud side, that continued to grow, AWS, Microsoft, but that's not – we are not a pure play, we really are focused on that broad hybrid proposal and what we see. And if you look at the kinds of wins that we're winning from global to midsize, we've got a product portfolio with our network that provides a little latency with our collocation and then with our dedicated and public Cloud that allows really any size customer to scale up or scale down. And we can handle the enterprise grade and security capability that's required.

So when I look at our wins and when I look at our funnel – what's in our funnel, it's really encouraging in terms of the opportunity we have in front of us.

Tudor Mustata

*Jefferies LLC*

Q

Thank you.

**Operator:** Thank you. Our next question comes from Michael Rollins from Citi. Your line is open. Please go ahead.

Michael I. Rollins

*Citigroup Global Markets, Inc. (Broker)*

Q

Hi, thanks for taking the questions. Actually, really just one tonight. I was curious if you could talk a little bit about your thoughts on the OpCo/PropCo structuring or considerations for that?

R. Stewart Ewing, Jr.

*Executive Vice President, Chief Financial Officer & Assistant Secretary*

A

Yeah, Mike, so this is Stewart. We really haven't changed our view from before. The spin-off just occurred a week or two ago. Basically, we continue to see a lot of opportunity to create value for shareholders by using the assets that we have today and would be concerned about those assets being in someone else's hands – another group of shareholders basically with different interests. However, we'll continually evaluate the best ways to try to deliver long-term shareholder value, so as such, we'll monitor their performance over the course of the next couple quarters or so and we'll see how much value is created there and then we'll weigh that against what we believe our potential downsides associated with using that structure.

Michael I. Rollins

*Citigroup Global Markets, Inc. (Broker)*



Thanks very much.

**Operator:** Thank you. I'm showing no further questions at this time. I would like to hand the conference over to Mr. Glen Post for closing marks.

Glen F. Post, III

*President, Chief Executive Officer & Director*

Thank you, Sayed. In conclusion, overall we are pleased with our solid first quarter operating and financial results. And we are confident that the reorganization and the investments we're making continue to position us to effectively compete in the marketplace and drive revenue growth from our strategic products and services in the months and years ahead. So thank you all for joining our call today and we look forward to speaking with you in the weeks ahead.

**Operator:** Ladies and gentlemen, thank you for participating in today's conference. This concludes our program for today. You may all disconnect and have a wonderful day.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2015 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.