CONTENTS

CenturyLink, Inc. NYSE:CTL

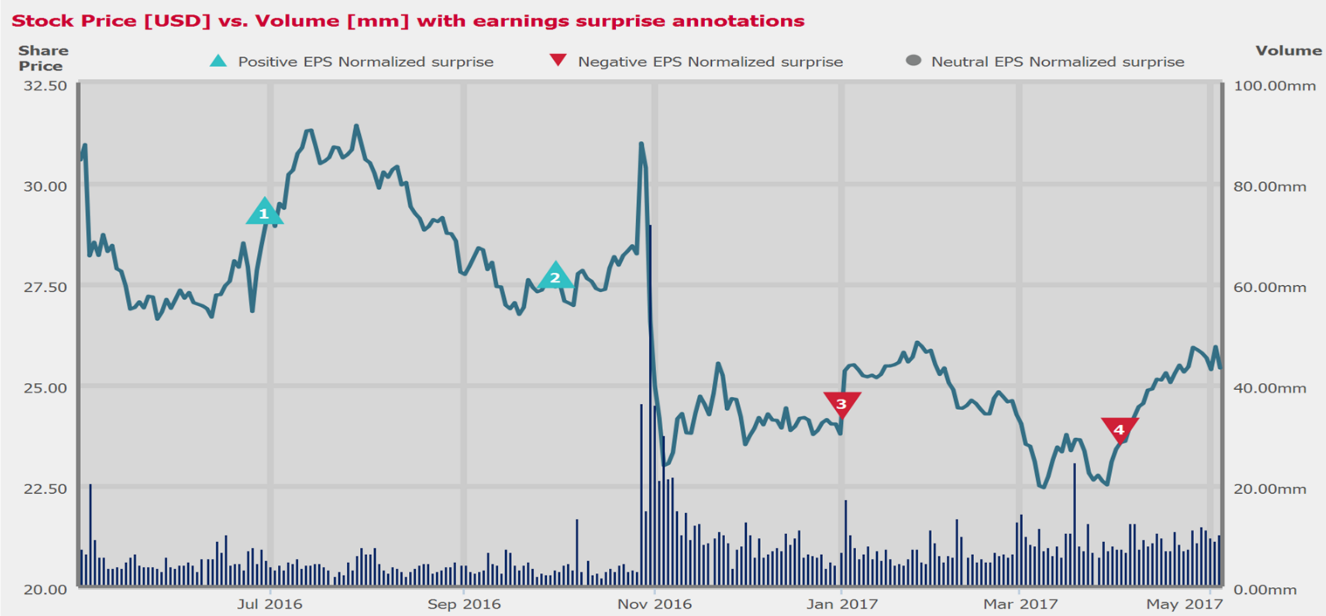
FQ2 2017 Earnings Call Transcripts

Wednesday, August 02, 2017 8:30 PM GMT

S&P Capital IQ Estimates

	-FQ2 2017-			-FQ3 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.49	0.46	▼(6.12 %)	0.51	2.05	1.98
Revenue (mm)	4088.24	4090.00	▲0.04	4092.83	16725.85	17644.84

Currency: USD
Consensus as of Jul-31-2017 9:10 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2016	0.59	0.63	▲6.78 %
FQ3 2016	0.55	0.56	▲1.82 %
FQ4 2016	0.56	0.54	▼(3.57 %)
FQ1 2017	0.53	0.52	▼(1.89 %)

Call Participants

EXECUTIVES

David D. Cole
Chief Accounting Officer, Executive Vice President of Operations Support and Controller

Dean J. Douglas
President of Enterprise Markets

Glen F. Post
Chief Executive Officer, President and Director

Maxine L. Moreau
President - Consumer

Tony Davis
Vice President of Investor Relations

ANALYSTS

Amir Rozwadowski
Barclays PLC, Research Division

Amy Yong
Macquarie Research

Batya Levi
UBS Investment Bank, Research Division

Brett Feldman
Goldman Sachs Group Inc., Research Division

David William Barden
BofA Merrill Lynch, Research Division

Frank Garrett Louthan
Raymond James & Associates, Inc., Research Division

Matthew Niknam
Deutsche Bank AG, Research Division

Michael L. McCormack
Jefferies LLC, Research Division

Philip A. Cusick
JP Morgan Chase & Co, Research Division

Simon William Flannery
Morgan Stanley, Research Division

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the CenturyLink Second Quarter 2017 Earnings Conference Call. [Operator Instructions] It is now my pleasure to hand the conference over to Mr. Tony Davis, Vice President of Investor Relations. Sir, you may begin.

Tony Davis
Vice President of Investor Relations

Thank you, Brian, and good afternoon, everyone, and welcome to our call today to discuss CenturyLink's second quarter 2017 results released earlier this afternoon. This slide presentation that we'll 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. At the conclusion of prepared remarks today, we will open the call for Q&A.

As you move to Slide 2, you'll find our safe harbor language. We will be making certain forward-looking statements today, particularly as they pertain to guidance for third quarter and full year 2017; the pending Level 3 transaction; and other outlooks in 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.

Moving to Slide 3. 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 these non-GAAP financial measures and the most comparable GAAP financial measures are available in our earnings release and on our website at ir.centurylink.com.

Now as you move to Slide 4, your host for today's call is Glen Post, Chief Executive Officer and President of CenturyLink. Unfortunately, Stewart Ewing, CenturyLink's Chief Financial Officer, will not be on today's call due to a loss of a family member late last week. Our thoughts and prayers continue to be with Stewart and his family during this difficult time.

So joining Glen on today's call is David Cole, CenturyLink's Executive Vice President, Operations, Support and Controller. Also available during the question-and-answer portion of today's call will be Dean Douglas, CenturyLink's President of Enterprise Markets; and Maxine Moreau, CenturyLink's President of Consumer Markets.

Our call today will be available for a telephone replay through August 9, 2017, and a webcast replay of our call will be available through August 24, 2017. 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 today, August 2, and should be considered valid only as of this date regardless of the date heard or viewed.

So as we move to Slide 5, I will now turn the call over to Glen Post. Glen?

Glen F. Post
Chief Executive Officer, President and Director

Thank you, Tony, and thank you for joining our call today. Beginning on Slide 6, I want to cover a few highlights for the second quarter as well as some important trends in our business. Our second quarter colo revenues below our expectations as we had higher losses in legacy revenues along with higher broadband unit losses and our growth in MPLS revenues was a little lower than anticipated. However, our adjusted EBITDA met our target. Our employees did a great job of controlling expenses and stayed focus even with all the Level 3 acquisition integration planning activities that are in progress.

Second quarter Enterprise high-bandwidth data services revenues grew 1% year-over-year, although this growth is slower than the prior quarter. Adjusting for a contracted price reduction in wholesale and a favorable settlement in the year-ago period, Enterprise high-bandwidth data services revenue increased

5% year-over-year. We remain confident that the future growth opportunity for these services remain significant for a number of reasons. First, we continue to outperform MPLS market growth projections forecasted by leading industry analysts. In the second quarter, we had a nearly 2,000 MPLS customers. This performance was driven in particular by our SMB customers, where we are seeing improved install intervals of nearly 20%, which should help accelerate our revenue recognition as we move into the third and fourth quarters of this year.

Next, we launched a number of new products and then we've launched a number of new products in the past few months, including our CenturyLink Ethernet service. We've also had 3 simplified bundles of SD-WAN plus network packages. We rolled out a competitively priced cloud enabled small business VoIP offering. And we rolled out a new comprehensive managed enterprise offering that is an end-to-end solution that includes WiFi management, network management, video surveillance, security and mobility management, all from a single interface. Also we have increased focus on customer retention and we are seeing lower credits and adjustments as a result.

In addition, CenturyLink continues to be one of the leaders in network virtualization through the deployment of software-defined networking and network function virtualization capabilities. Based on initial results, we expect these services to create significant value in the months ahead. Also with the continuous onslaught of new security threats, such as WannaCry, has brought greater interest in and sales of our strong network and cybersecurity capabilities as we believe CenturyLink is growing in recognition as a leading provider in security services that are so important to our Enterprise customers. And lastly, based on third-party research support, U.S. Enterprise high-bandwidth data services are forecast to grow at mid-single-digit compounded annual growth rates through 2021, and U.S. Enterprise managed network services are forecast to grow at mid- to upper single-digit compounded annual growth rate through 2021. Now this forecast gives even more confidence in the opportunity to continue to grow Enterprise business in the months ahead.

Second, our IT services revenue, which is primarily driven by IT consulting, cybersecurity, IT service management and big data and analytics is growing. And our managed hosting business also showed a solid turnaround this quarter. The team overcame the market confusion and sales disruption created by the colocation sale and grew cloud revenue, especially driven or aided by our Cloud Application Manager suite.

Next, as expected we had a seasonally challenging quarter, consumer broadband subscribers approximately 65,000 residential subscriber loss was higher than anticipated. This was driven to a great degree by stronger cable competition, particularly 1 gig offerings in some of our key markets, coupled with aggressive pricing. Over the past year, we have made a pivot toward higher-quality, more profitable consumer broadband sales by removing several low-priced promotional offers and increased credit standards. As a result, despite the unit weakness, our consumer broadband revenue was flat sequentially. Additionally, we saw the lowest second quarter churn rate since the Qwest-CenturyLink combination. We anticipate that the changes we're making will drive ongoing churn benefits.

We continue to see higher levels of penetration and growth. We have 40 megabits of higher speeds available. We ended the second quarter with nearly 9.4 million 40 megabits and higher addressable locations, with more than 3.8 million 100 megabits in higher addressable locations, representing an increase of 240,000 and 350,000 addressable locations, respectively, during the quarter.

In second quarter, we rolled out simplified service and price offerings that we called price for life, and part of our footprint, these simplified offers have improved sales trends and improved our early-life churn results. We expect to further deploy these offers as well as continue to invest and improve customer and digital experiences and further speed enhancements in the months ahead. We expect these changes to improve our Consumer broadband trends in the last half of the year.

Consumer video revenues were down year-over-year, primarily due to the restructuring of one of our satellite TV agreements discussed in the last quarter. We also made a pivot on our Prism product in the middle of the first quarter to focus more on profitability and overall customer lifetime value rested on top line revenue or unit metrics. Finally, revenues from legacy services, primarily switched to voice services and low-bandwidth data services have been declining for a number of years due to regulatory change, wireless' placement and technology transition to IP-enabled services. Although we believe the decline in our legacy revenues has been better than most of our peers, we have experienced higher levels of declines in recent months than we have in prior quarters.

Moving on to Slide 7. We're making good progress in obtaining the necessary approvals to complete pending -- the pending acquisition of Level 3. We now have clearance from 23 states and territories, with 2 additional state approvals needed. We continue to work diligently toward receiving the remaining state and federal approvals in order to close by the end of September. Also the integration planning process is going very well, and we are highly confident in our ability to achieve the $975 million annual run rate operating cash -- capital cash synergies target we provided when we announced the transaction last October. The organization planning is moving along with several executive leaders naming their leadership teams. I'm looking forward to Jeff Storey joining as COO at the time of close. Also we announced -- as we announced, I'm planning to retire as CEO at the beginning of 2019. At that time, I will move to Executive Chairman and Jeff will take over as CEO, and I'm confident Jeff will do a great job. I believe we assembled an incredibly talented and experienced leadership team that is well positioned to lead the combined company post closing and drive growth and value in the months and years ahead.

Before turning it over to David, I'd like to comment on recent litigation regarding our consumer billing practices. This series of litigation began with a former CenturyLink employee filing a wrongful termination lawsuit that alleges our company charged some of our customers for products and services they did not authorize. That claim quickly escalated in a punitive class action being filed in multiple states. These, as best we can tell, in the claims in the former employee -- on the former employee suit and a sampling of customer complaints pooled from social media.

In addition, a couple of weeks ago, the Minnesota Attorney General had a -- held a press conference announcing a lawsuit against CenturyLink, alleging that we engaged in improper sales and billing practices. We are limited in the things we can say while litigation and investigations are pending, but I do want to be very clear that the allegations contained in these lawsuits are contrary to everything I believe we stand for as a company. They do not represent our values, our principles or our commitment to always try to do the right thing in running our business. That said, we take these allegations seriously and are very diligently investigating them.

In addition to management's efforts, our Board of Directors appointed a special committee and hired the law firm, O'Melveny & Myers, to conduct independent review of these issues. This decision was made immediately after learning about the initial lawsuit, not because there was evidence of wrongdoing, but because we wanted to be sure that our board had an independent view of these issues. I and our management team fully support this decision. A special committees process is underway, and we did not expect that it will be completed until the fourth quarter. And while we are supporting those efforts, we cannot speak for the work before it's complete. Our business and the systems that supported are complex will serve millions of customers -- consumer customers and have thousands of interactions with them every day. Sometimes we do make mistakes just like anyone else, but suggestions that we defrauded our customers were against everything that we strive to be as a company. Whatever is found in the investigation of these matters will be fair and do the right thing. We will defend ourselves when required, and we will fairly address any mistakes we may have made, not because of the litigation but because it's what we expect of ourselves.

I spent more than 40 years at CenturyLink including 25 as CEO. I've seen a lot of highs and lows during my tenure but CenturyLink has always worked hard to maintain what I believe is a genuine commitment to honesty and integrity throughout our organization. And we are maintaining that commitment as we work through these issues.

With that, I'll turn the call over to David to discuss the results for the second quarter in more detail and review our third quarter guidance. David?

David D. Cole
Chief Accounting Officer, Executive Vice President of Operations Support and Controller

Thank you, Glen. Over the next few months -- actually minutes, I'll review our second quarter results and provide an overview of third quarter 2017 guidance that we included in our earnings release issued earlier today. Please note that I'll be reviewing some of these results excluding special items, as outlined in our earnings release and associated financial schedules. In addition, we have retitled operating cash flow as adjusted EBITDA and free cash flow as adjusted free cash flow beginning this quarter.

Also, as detailed in the earnings release, our quarterly results were impacted by the accounting for the data center and Colocation Sale on May 1, 2017. The net negative impact of onetime charges related to this sale was approximately $115 million of net income or approximately $0.21 per share.

Now turning to Slide 9. CenturyLink reported second quarter results with revenues, adjusted EBITDA and adjusted diluted EPS all within our previously provided guidance ranges.

Before going into the detail of the quarter, I do want to point out that our second quarter 2017 results do include the following impact related to the Colocation Sale and leaseback entry that are required under GAAP accounting standards as referenced in the press release and reflected in the table to the right in this slide. Just a summary of those impacts are: that $12 million of operating revenues in the second quarter; a $3 million reduction in cost of services; a $117 million increase in SG&A expenses, both as a onetime loss on the sale; $54 million of depreciation expense with approximately $44 million of this amount representing a onetime catch-up entry. There was also $8 million of interest expense and $63 million of a related income tax benefit for these entries. This accounting treatment will be followed through year-end 2018 when the new lease accounting standard that was issued last year is implemented and these entries will no longer be required. We also provided these entries for comparison showing what the third quarter recurring impacts would be.

Second quarter operating revenue on a consolidated basis was approximately $4.1 billion, a 7% decrease from second quarter 2016 operating revenues. Core revenue, defined as strategic revenue plus legacy revenue, was $3.66 billion for the second quarter, a decrease of 7.9% from the year-ago period. As a reminder, the sale of our data centers and the colocation business on May 1 resulted in approximately $100 million of this decline in core revenues compared to both the year-ago period and also to the prior quarter.

Operating income was $367 million for the second quarter which reflects approximately $150 million in onetime charges related to the data center sale. We generated adjusted EBITDA of approximately $1.44 billion for the second quarter, and we achieved an adjusted EBITDA margin of 35.3% for the second quarter of the year. Our cash expenses for the second quarter decreased approximately $100 million year-over-year, primarily to the elimination of approximately $60 million related to the sold colocation business as well as strong expense controls, including lower salaries and wages expenses related to the headcount reduction in the fourth quarter of 2016.

Adjusted free cash flow, defined as adjusted EBITDA less cash paid for taxes, interest and capital expenditures, along with the cash impact of pension OPEB costs, the ongoing impact of the ASC 840-40 accounting treatment related to the Colo Sale, stock-based compensation and other income was a negative $52 million for the quarter. This adjusted free cash flow for the quarter was lower primarily due to higher capital expenditures, seasonally higher cash interest and approximately $265 million of cash tax payments in the quarter. We expect each of these items to decline from second quarter levels in the third quarter and fourth quarter, and I'll give a little bit more guidance on this a little later in the presentation.

Our diluted earnings per share for the second quarter was $0.03, a decrease from $0.36 in the year-ago period. Again, however, as a reminder, this EPS figure does include the $0.21 per share impact of the colocation entries mentioned earlier. Adjusted diluted EPS for the quarter was $0.46.

Moving to Slide 10 and our Enterprise segment. In the second quarter, the Enterprise segment generated $2.22 billion in operating revenues, which decreased 9% from the same period a year ago. Second quarter Enterprise strategic revenues were $985 million, a decrease of 8.9% compared to the second quarter 2016. Excluding the revenue impact of the Colocation Sale, Enterprise strategic revenues grew slightly, and normalizing for high-bandwidth data revenues for contracted price reductions and a favorable settlement from the year-ago period, our Enterprises strategic revenues grew approximately 4%.

Legacy revenues for the segment declined 10.1% for second quarter 2016, due primarily to a continuing decline in VoIP and low-bandwidth data services revenues. Our total Enterprise segment expenses declined $87 million or 6.3% from second quarter 2016, primarily due to the reduction of approximately $60 million in expenses related to the sold colocation business in addition to other operating expense reductions.

Now turning to Slide 11 and the Consumer segment. The Consumer segment generated approximately $1.4 billion in total operating revenues, a decrease of 6.2% from second quarter 2016. Consumer strategic revenues declined 4% year-over-year to $768 million, due primarily to the restructuring of a satellite video contract and the impact of lower broadband units. While the satellite contract change was a onetime revenue reduction in the first quarter, it will continue to influence the year-over-year comparisons throughout the year 2017. Our legacy revenue for the Consumer segment declined 8.8% from second quarter 2016, primarily due to access line declines. Our operating expenses declined $47 million or 7.4% from the year-ago period, primarily due to lower employee-related expenses.

Finally, turning to Slide 12. I'd like to review our third quarter guidance along with a few notes for the remainder of the year. For third quarter 2017, we expect operating revenues of $4.06 billion to $4.12 billion; core revenues of $3.59 billion to $3.65 billion; and adjusted EBITDA between $1.43 billion and $1.49 billion. Our adjusted diluted EPS were the quarter is expected to range -- following the range of $0.44 to $0.50.

CenturyLink anticipates our growth in strategic revenues to offset the expected declines in legacy revenues in third quarter 2017 compared to second quarter 2017, excluding the appropriate -- excluding the approximately $50 million decline in colocation revenue, due to the timing of the sale during the second quarter of 2017. The company also expects a slight increase in third quarter 2017 adjusted EBITDA compared to our second quarter 2017 results. Although we don't provide quarterly guidance for adjusted free cash flow, I do want to point out that we do expect the significant increase in third quarter 2017 adjusted free cash flow compared to second quarter 2017 results, due to the seasonal timing of our cash interest and cash tax payments along with an anticipated decline in the level of capital expenditures in the third quarter of 2017 compared to the second quarter of 2017. Similar to prior years, we are still expecting to make a voluntary $100 million pension contribution during the third quarter.

Turning now to our full year expectations. And again, based on the first half 2017 results, and our current expectations for the remainder of the year, we do anticipate coming in slightly below our full year 2017 revenue and adjusted diluted EPS guidance, primarily driven by higher legacy revenue declines and lower consumer broadband revenue growth than anticipated. The company continues to expect adjusted EBITDA and adjusted free cash flow to be near the lower end of our prior full year guidance as we mentioned on last quarter's call.

CenturyLink is not providing updated guidance ranges for full year 2017, due to the pending acquisition of Level 3 currently anticipated to be completed by the end of the third quarter of 2017 and the expected consolidation of results for the combined company in the fourth quarter. In addition, we are still expecting our dividend payout ratio to be in the mid- to high 70% range for 2017. While we continue to take pressures related to strategic revenue growth and our legacy revenue declines, we remain confident in our business and our ability to improve the revenue and adjusted EBITDA trajectory over time. Now I'll ask the operator to begin the Q&A portion of the call.

Question and Answer

Operator

[Operator Instructions] Our first question will come from the line of Amir Rozwadowski with Barclays.

Amir Rozwadowski
Barclays PLC, Research Division

I was wondering if we could dive in a bit on the Consumer segment. If we take a look at some of the below expected performance of that segment, how should we think about your strategy for that business going forward? Clearly, with the Level 3 acquisition, there's a lot more focus and exposure to the Enterprise. Are there goals that you guys are meeting or thinking about to improve the Consumer segment? Or should we consider this shift away from the Consumer sort of de-emphasizing that business going forward?

Glen F. Post
Chief Executive Officer, President and Director

Amir, first of all, this is Glen. There are several things we're doing here. First of all, we continue to build on infrastructure and increase the availability of speeds. Where we have 40 megabits or more speed, we're seeing good penetration in the marketplace. The other thing we're doing, which is really we're seeing a lot of success from is a simplified pricing and service offer, what we call Price for Life, and we're seeing significant take rates in that. We've only rolled that out in a few of our markets this past quarter. We just rolled out, I guess, about 2 weeks ago in a number of other markets like all of our legacy CenturyLink markets, and we are rolling that out in the legacy Qwest markets. Our plan is by the end of August. We're seeing significant good take rates there, especially with the higher speeds available. So it's not giving up or turning back on the Consumer business. There's a lot of cash flow there. We have been successful in the past competing with cable. We believe we have opportunity to continue to grow that business, and I think we're going to see much better results. We expect to see a leveling off of the losses in the third quarter. Actually, we expect positive unit growth in the fourth quarter of the year.

Amir Rozwadowski
Barclays PLC, Research Division

That's very helpful. And just a follow-up, if I may, in terms of overall customer reception, I mean, as we get closer to the close of the transaction, how has the overall customer reception been to the anticipation of the close of the deal? Meaning, how should we think about potential customer churn risk? And what you folks are doing to ensure that, that doesn't take place, things along those lines?

Glen F. Post
Chief Executive Officer, President and Director

One of the primary focus of the integration work is being sure we have as little interruption with momentum and with the loss of customers as possible or loss of revenue streams due to the integration of work. We are working hard to -- of course, we cannot -- first of all, let me say, we can't about specific customers yet as far as our teams are concerned because of the limits on any type of collusion here, working -- anti-competitive work, so we're limited right now. But that is a primary focus of our company going forward is to have our sales team ready. We have a clean room that we have independent folks working through sales information and customer information that when we close the transaction, we'll be able to immediately work with those folks to try to appropriately address each customer opportunity. Obviously, where we have

[Audio Gap]

our respective teams working with specific customers, we will rationalize those teams. We'll try to pick the very best approach with those customers and let those customers even make some of those decisions. But that is a primary focus, it's always difficult, but we believe we're very much prepared for that. It's not the first time we've gone through this. The only other item I mentioned there is that as we bring these companies together, we are seeing some delays by customers just waiting for companies to come together and see which -- what network infrastructure we're going to utilize, any of the changes that the combination these companies might offer, so we're seeing some delays. They're not really going to other -- our competitors right now, but they are delaying their decision like we believe partially [indiscernible] wanting to see the companies come together.

Operator

Our next question will come from David Barden with Bank of America.

David William Barden
BofA Merrill Lynch, Research Division

I guess my first question, Glen, would be kind of as a follow-up to your answer to Amir's question, kind of on delays related to Enterprise decision-making. I think last quarter, you talked about how the funnel for the forward growth was about as good as you'd ever seen it, maybe 2 or 3x, would have been at the same time last year. I was wondering if you could kind of talk about that funnel right now and kind of what that funnel informs you around revenue growth in Enterprise. And then the second question, I guess, is my kind of usual question, which is if I add up first quarter EBITDA and second quarter EBITDA and the midpoint of your third quarter EBITDA, and I look at your guidance from the beginning of the year minus the data centers, it implies that fourth quarter EBITDA would have to be north of $1.5 billion to get to that very low end. And if -- I mean that or anywhere close to right, it would mean that we're starting to see improving EBITDA trends. So I was wondering if you could kind of speak a little bit more to the key moving parts, things that have to work for that to be true and the things that definitely don't have to break for that to be true.

Glen F. Post
Chief Executive Officer, President and Director

Yes. David, I'll start with -- on the sales funnel issues. We had a really good sales month of June, which was one of our strongest sales month in quite a while, and we feel really good about that. We are still seeing some of those delays I just mentioned earlier in decision-making, but we feel really good about the demand for the services and products we've got out there. And the future it looks bright there. I'll let Dean Douglas comment. Dean? His view of that.

Dean J. Douglas
President of Enterprise Markets

So we continue to see strength in the development of our funnel and the funnel as it's going forward. In the first quarter, we had over 50% increase in our funnel and we've seen that in that increase in our MRR funnel in the second quarter continue. In fact, it's greater than the 60% increase in our MRR funnel for the second quarter. So continued strong opportunity identification. And then as we have looked at the business and converted those funnel activities to sales, as Glen mentioned, we had a very, very strong June performance in our business. In fact, for our high-speed bandwidth products, we had one of the strongest Junes we had in a few years. So a very, very strong performance, converting that funnel to actual sales. With regard to EBITDA, I'll turn it over to David.

David D. Cole
Chief Accounting Officer, Executive Vice President of Operations Support and Controller

Yes. Well, Thank you, Dean. I'll address the question as far as the EBITDA for the second half of the year -- as far as those improvements that we're expecting. And again, it is the expectations for improved EBITDA performance for both the third quarter and the fourth quarter, driven by both revenue improvements and also expense reductions. Only on the revenue improvement side, you'll see a little of that really turning around the third quarter. As we're -- as looking at experiencing that, we're kind of been running around the $50 million legacy revenue decline, is what we ran in the second quarter. We are expecting a little bit of improvement there, but most of our improvement that really in the third quarter is in the strategic revenue area as we're looking at improvements in the MPLS Ethernet or high-bandwidth areas, we're looking for improved [curve] there. Also in the VoIP area, we have a number of improvements in rolling out an improved product and looking for growth in VoIP. And as Glen mentioned in his discussion, the cloud product and our cloud manager application continues to do well across the board. And those are really kind of the key issues on the third quarter revenues. On the fourth quarter revenues, we really continue those trends. IT Managed Services, IT normally had very strong fourth quarter. We also, at that point, looked at our broadband with our plan that we're talking about as far as rolling out that product into the additional market that, that should be completed during the third quarter, and we should see the results of that impacting our fourth quarter from a positive standpoint. We also have an order on the revenue side, the data integration revenue is a pretty good spike in that in the last half of the year. Again, I would say that's one [indiscernible] from a risk standpoint, we probably have some risk there. But again, from a margin standpoint, there's very little margin associated with that revenue, so it should not really impact us as far as adjusted EBITDA number. On the expense side, again, as we mentioned, we are continuing to see good expense controls, particularly in the area of headcount through attrition and the management of cost there. Also Amir and his group have done a great job of bringing our network and facility cost and trying to manage to those. We continue to see that. The last couple of years, we have had reductions in the fourth quarter in our expenses, part of that due to the seasonality that we typically have where we kind of cycle out the third quarter with our over time and some of those -- we actually have a little bit of that over time built into our third quarter expenses this year, but that will decrease in the fourth quarter along with other expense savings that we typically see in that. And I guess, just the -- and also the continued headcount savings that we're anticipating from the team putting together an aggressive plan of being able to control cost.

Operator

Our next question will come from the line of Simon Flannery with Morgan Stanley.

Simon William Flannery
Morgan Stanley, Research Division

On the merger approval, can you give us any color around the time line from here what hearing schedules or anything when you expect to get the last 2 states. And I think the FCC's -- last time I look was still on day 170 when that might start again. And then on the lawsuits, have there been -- and I appreciate the color on that, have there been any changes to your policies or procedures in the field, in the call centers since the lawsuits were filed?

Glen F. Post
Chief Executive Officer, President and Director

Yes, the filing -- the time line for closing last 2 states, we really can't predict that. We believe they're moving along well overall. And so we think we'll get those approvals in the weeks ahead. We're working diligently with them to answer any remaining questions they might have, and we feel comfortable we'll get there. Across the DOJ -- we're working with the DOJ to answer the final -- hopefully, the final questions we'll have there. There's no way to predict, and I'm not going to try to anticipate what that -- when we'll actually get through that, but we believe that will get done successfully by the end of September. I don't have the data as far as the FCC's dates, but they're working diligently with us as well. I don't expect the FCC to be the major issue here in getting approval. I think we're moving well there. So overall, we're confident just -- anything -- any specific issue or collections that come up over the last minute that should never know about. But we believe right now, we're on track to close by the end of September.

Simon William Flannery
Morgan Stanley, Research Division

And then on the policies?

Glen F. Post
Chief Executive Officer, President and Director

I'll let Maxine address the call center policies.

Maxine L. Moreau
President - Consumer

Good afternoon. So no, not in particular from a call center policy change. But what we are doing is if you look at the -- from the compliance that you read in social media and other venues is around complexity of our pricing, complexity of our bill. And the things we're doing to address that is the launch of this new simplified price -- there's no hidden fees, there's no promotional pricing, no changes, no contracts as well as when they see their bill, it's very easy to understand and that's what we're making changes to, make it simple for the customer, make it simple for our call center agents, our field personnel, so that we can explain the offers to the customers and the customers understand them and they're clear.

Simon William Flannery
Morgan Stanley, Research Division

Has that been something that's been ongoing for a while before this all happened?

Maxine L. Moreau
President - Consumer

Absolutely, yes. We actually started the new pricing planning around early February and have been implementing those throughout the year. So yes, this was well in place before any of this came up.

Operator

Our next question will come from the line of Matthew Niknam with Deutsche Bank.

Matthew Niknam
Deutsche Bank AG, Research Division

Just 2 if I could. One housekeeping item first. Can you talk to how much the contract reprice for a wholesale customer that you would call out? How much did that impact 2Q? And is there any lingering impact next quarter? And then secondly, just going back to the -- on the Consumer side. As it relates to broadband, can you maybe help us think through some of the weakness we saw this quarter, how that broke out between gross adds and churn and where you're expecting the improvements to come from in the second half?

Glen F. Post
Chief Executive Officer, President and Director

David, go ahead.

David D. Cole
Chief Accounting Officer, Executive Vice President of Operations Support and Controller

Yes, as far as the impact to the contract reprice, probably not to give an exact dollar amount for that. It is ongoing. So it is basically a contract that had different pricing structures built in at certain times over the contract, so just basically implementing that new pricing structure during the second quarter. So that will impact us going forward. Yes, that is also part of the reason why on the third -- it did impact us in the second quarter as far as our incremental change from first to second.

Maxine L. Moreau
President - Consumer

And regarding broadband for the second quarter, if you recall, last quarter, we've talked about continuing to tighten up our credit standards. We have also eliminated several very low-priced offers that were in the market as well as we've removed some of our higher churn sales channels. And so those are the key things. Our churn looks really good. I think Glen mentioned that in his talking points. Our churn looks bright. We want to continue to see that churn at those levels going forward. So what you'll see in the third and fourth quarter is more of an increase in the ARPU of our customers and a stickier customer with our offers. So we're driving for customer lifetime value in overall revenue growth. You can -- as you see from first quarter to second quarter, while we did have a miss in our units, our units were not where we wanted them to be, our revenue was flat quarter-over-quarter.

David D. Cole
Chief Accounting Officer, Executive Vice President of Operations Support and Controller

This is David. Just one additional follow-up I did want to clarify. On the contract repricing, it was effective 4 1. So that impact is fully baked in the second quarter. So there will be no more -- no incremental impact. It would just be that pricing continuing at the same rate into the third and fourth quarter.

Operator

Our next question will come from Phil Cusick with JPMorgan.

Philip A. Cusick
JP Morgan Chase & Co, Research Division

Two, I guess, clarifications. Can you expand on the disappointing broadband growth last quarter? Cable was more aggressive. I'm wondering why you'd expect cable to be any less aggressive forward -- going forward? And then second on the Enterprise side, can you clarify the sort of discussion of what the funnel of sales is? Is the funnel actual sales? Or is that just you're having wider discussions than in the past?

Glen F. Post
Chief Executive Officer, President and Director

Yes, on the -- on the cable competition, we don't expect them to be any less. What did happen in the second quarter, we had several key markets they rolled out their gig service and came in a very aggressive pricing. What we're doing is coming back with our -- what we're seeing success is the Price for Life product, our pricing plan and the higher speeds we've been able to roll out as we accelerated CapEx into the first half of the year and the second quarter as we just discussed. We have a lot -- we more capacity to sell into, higher speeds to offer our customers as well as a pricing plan we believe is really proven to be very successful. It's proven more able to compete going forward than we were in the second quarter. And Maxine, you want to?

Maxine L. Moreau
President - Consumer

And I would add to -- when you're looking at our net adds, what you're not seeing in that number is the speed mix. So where we're losing customers is really on the low end like under 20 MB. But when you get to 20, 40 and above, we're seeing growth year-over-year in subscribers. And what we say is as the customers move in higher-speed tiers, we see a corresponding reduction in churn. Even in the markets where we have gig, customers they're not buying gig. They might buy 40 MB, 100 MB even though we have 1 gig available. So from that standpoint, we'll continue to invest, as Glen mentioned, in enabling higher speeds in our footprint and competing with cable on a go-forward basis.

Glen F. Post
Chief Executive Officer, President and Director

With regards to clarifying the federal versus sales, the funnel is identified opportunities. Sales are booked backlog. So that's the way you ought to be thinking about the definition. So the sale was actually an order, a real order and the funnel is the identified opportunities we've seen in the marketplace.

Philip A. Cusick
JP Morgan Chase & Co, Research Division

Have you seen a better conversion of that funnel to sales over the last 6 months as well?

Dean J. Douglas
President of Enterprise Markets

Our final conversion stays -- has stayed about same. We haven't seen a significant improvement or degradation in funnel conversion. What we have seen, however, is that for the MPLS market specifically, more of our midrange and some of our smaller customers are actually signing up for the MPLS services. So our conversion -- I'm sorry, our actual rate of revenue conversion or getting revenue from the MPLS sales is shortening as we convert those midrange customer orders into real revenues because the provisioning time is shorter and generally on that and something that we can do much more rapidly from a revenue standpoint. So that is the difference that we've seen in the second quarter.

Philip A. Cusick
JP Morgan Chase & Co, Research Division

All right. If I can be a pest. So if the funnel has expanded so dramatically and the conversion has been the same, at what point should we start to see a real acceleration in that sales number?

Glen F. Post
Chief Executive Officer, President and Director

So we had a very strong June, as mentioned. We expect to have a very solid third quarter going forward. And so you should start to see our sales number improve, as I believe was mentioned earlier. We expect that our strategic revenues also are going to improve sequentially.

Operator

Our next question will come from Batya Levi with UBS.

Batya Levi
UBS Investment Bank, Research Division

On the Enterprise side, legacy service revenue decline has been accelerating. Is there anything that you could point to or some improvement on that? And on the carrier repricing, is there a phase 3 that we should be thinking about? Third, on the video business, as you focus on profitable customers, how should we think about the impact on Consumer ARPU and margins going forward?

Glen F. Post
Chief Executive Officer, President and Director

Do you want to start David?

David D. Cole
Chief Accounting Officer, Executive Vice President of Operations Support and Controller

I'll take that. First of all, Batya, on the Enterprise as far as on the legacy services, there are some things -- again, I admit I thought it was Enterprise only, so let me check them. One is on our fiber, I do want to make sure you notice that we restated the numbers, but I did want to make sure everyone did notice that on the fiber sales we have -- or fiber or maintenance leasing, we have moved that into the strategic. So If you're looking at prior numbers and not looking at the release, it will look out as a difference there, so please take a note of that. No change to total revenue, no change to total core revenue but a movement from legacy to strategic. We are also seeing declines in our private line revenue on the Enterprise side that has impacted us as far as on the legacy side. And again, we'll continue to do what we can to control that, but that's probably on Enterprise side, the main issue's affecting our legacy revenue at this point. Of course, the carrier repricing [indiscernible]. There is not anytime at least within the next year any further step-down as far as [indiscernible] maybe further out in that, but at least within the next calendar year, I'm not aware of anything.

Batya Levi
UBS Investment Bank, Research Division

Okay. And on the video side?

Glen F. Post
Chief Executive Officer, President and Director

Repeat the question, Batya, if you will.

Batya Levi
UBS Investment Bank, Research Division

On the video side, can you maybe mention how many subscribers you've lost the impact on ARPU and just trends going forward?

Maxine L. Moreau
President - Consumer

Yes, the change in revenue you're seeing on the consumer video is due to the satellite contract that we renegotiated in the first quarter. And as we talked about, you'll see that trend year-over-year. From a Prism video revenue year-over-year, we're pretty flat year-over-year.

Batya Levi
UBS Investment Bank, Research Division

And in terms of subscribers, Prism subscribers?

Maxine L. Moreau
President - Consumer

Yes, we don't report our Prism subscribers. What I will say though, and I think we mentioned it last quarter, is we are doing a shift to pivot in our video approach. And we are open to offering customers multiple video options. Our Prism TV service, we are at an extent, and we also resell DIRECTV, I think you're aware of, and of course, we are trialing our own over-the-top product.

Glen F. Post
Chief Executive Officer, President and Director

And Batya, I'll just follow up. We have talked about I think the Prism customer. We lost that 21,000 Prism customers this year as we deemphasized that product and because of the margin issue and higher content cost.

Operator

Our next question will come from the line of Amy Yong with Macquarie.

Amy Yong
Macquarie Research

So 2 questions, one on Enterprise and one on cost. So on the Enterprise segments, you had mentioned that I think high-bandwidth data services and managed network services are poised to grow on mid-single and mid- to upper single, and I was just wondering what you feel like the steps are needed to kind of bridge the growth -- that growth and the level of growth that you're seeing right now. And then my other question is on the cost side. I know you laid out a couple of expense reductions, but are there any onetime costs that we should be aware of related perhaps to the integration for 3Q or 4Q or areas -- or area that you're going to invest in?

Glen F. Post
Chief Executive Officer, President and Director

Amy, regarding the high-speed data service and Managed Services and with the markets mid to high to this growth, but look at just the high-bandwidth data services, excluding a normalized basis, they were at 5% growth rates. So we feel pretty good about that and with a few -- some improvements that we have planned, the new services, products I've talked about we've rolled out recently, we think we certainly hit that higher mid-single-digit -- our mid- to higher single digits in that growth rate. So we -- also with Managed Services we turned it around this last quarter. We think it's very doable that we'll see mid- to high single digits there as well. So we feel positive about the changes we've made in those services. And just one example is the -- our cloud application management services is really selling well with our -- in our Enterprise space. And our secured -- Managed Security Sevices and SMB space is really growing well. So we feel good about the services that are starting to take off at a higher level than they were previously. So we think that can -- that we can hit those growth rates. And then with the Level 3 acquisition, to bring these companies together, we have a lot broader range of products and services and we have the international fees that we didn't have before, a much broader international footprint, network footprint which should give us some advantages that we have. And we also just scaled with the Level 3. We're the second largest domestic carrier, put us in a position to compete in a level we really think [indiscernible], and we'll be able to when we -- as we close this transaction.

David D. Cole
Chief Accounting Officer, Executive Vice President of Operations Support and Controller

As far as on the expense reduction, there are no onetime debt downs related to the integration in the third and fourth quarter [cost of debt] that we are using. These are really other headcount cost reductions and other cost reductions that we are looking, as I mentioned, on the network side. I mean, we have been, at least particularly in the corporate areas, we've probably been not as quick to fill some of those positions with an organization announcement taking place, particularly a higher level positions as we have attrition. But on the sales side, I would point that we definitely are aggressively filling any positions we have there and we continue to focus on being fully staffed in our sales and sales support organizations going forward.

Operator

Our next question will come from the line of Mike McCormack with Jefferies.

Michael L. McCormack
Jefferies LLC, Research Division

Maybe just a couple of things. On the Consumer broadband side, you mentioned some of the gigabit products in the marketplace taking some share. Is it really a battle on speed? Or is it more that you're seeing loss to a bundled offering and [indiscernible] in price, I guess, as well. And then secondly, just on the Enterprise legacy revenue, what things can you put in place to try to stem some of those losses?

Glen F. Post
Chief Executive Officer, President and Director

First of all, Mike, on the Consumer broadband, it's really about speed more than bundles. It's really [indiscernible] aggressive pricing or price point speeds was it about [indiscernible]. We didn't get your -- will you repeat the second question, I'm sorry, Mike.

Michael L. McCormack
Jefferies LLC, Research Division

Yes, Glen. I'm just asking about the Enterprise, the legacy Enterprise revenue. Anything that you can do or the strategies in place to try to stem some of the losses?

Glen F. Post
Chief Executive Officer, President and Director

We are trying to convert as many of those customers that we possibly can. What's in that private line, where those customers are either going away or many of them are converting to higher speeds, and we're aggressively going after those customers and trying to convert them to our high-speed products. So that's a big part of what we're doing and also our new Ethernet product is really a strong offering that we believe can drive a lot of that to our -- if we can migrate a lot of those customers to our Ethernet product platforms. So those are the things we're really moving, aggressively working towards to kind of stem some of that loss on those lower speed customers.

Operator

Our next question will come from the line of Brett Feldman with Goldman Sachs.

Brett Feldman

Goldman Sachs Group Inc., Research Division

You -- I mentioned earlier you're still trialing the OTT product. I know you've been working on that for a little while. I was wondering if you could maybe just give us an update on where you are, how soon you think you may bring it to market. And then just with so many of the streaming products having come to the market, do you think it's essential to have your own product in a bundle? Or do you think that maybe there's some opportunities to start bundling some of these other stand-alone offers that are out there and sort of meet the same objectives you might have through your own offering?

Glen F. Post
Chief Executive Officer, President and Director

Yes, Brett, first of all, we are in the process of rolling out our over-the-top product. We have some -- we have one key advantage we have with our product is that cloud DVR across multiple devices. That's really been a compelling part of our offer. We have flexible packaging including a lot of on-demand local broadcast, national channels, got some genre additions. But we are very open to looking at other options. We don't have [indiscernible] these other stand-alone or different partners we could have to provide over-the-top video, then we're open to that. As a matter of fact, we continually talk to some of these other providers. Look, the best ways we can bring that service and also other ways in working with them to reduce our content [indiscernible]. That will be a key objective even with our over-the-top products. So yes, we're very open to that. It does not have to be our product.

Brett Feldman
Goldman Sachs Group Inc., Research Division

Is it safe to assume that the ultimate goal here is just to lower the churn profile of your broadband subs?

Glen F. Post
Chief Executive Officer, President and Director

That's really a lot of just bring that bundle together, a little bit churn and also generate additional average revenue per customer.

Operator

Our next question will now come from the line of Frank Louthan with Raymond James.

Frank Garrett Louthan
Raymond James & Associates, Inc., Research Division

Just following up -- you mentioned the strength in June. Was that in sales or strength more on the revenue conversion side? And then yes, looking ahead at some of the changes of the FCC, is there any products or any thing you might do differently after we see some changes to Title II and so forth, any major strategic revenue opportunities that you see that might open up?

Glen F. Post
Chief Executive Officer, President and Director

First of all, Frank, on the strength in June, it was sales is where the strength was in June. It wasn't conversion ratio. It's all that we see in this business. David mentioned we're shortening of intervals and between as far as -- install intervals and that's helping us convert more quickly to revenue. Especially in the SMB space, we're seeing a lot of improvement there. There's job revenue [metaphors]. And as far as the opportunity with the FCC, we're very pleased moving away from a Title II requirements that we've been -- really [a cloud over for a while there, this overall improvement in the direction of FCC], in our view, of a less stringent regulation. And we believe that -- and on the Internet side, we think [indiscernible] certainly put control and protection in for consumers for Open Internet while at the same time allowing for real competition there. So overall, we're very pleased with where we're headed with regulation. We'll see what happens. It will not go our way. But as far as the changes we're seeing, we're very pleased, thus far, with FCC policies.

Operator

Ladies and gentlemen, this concludes our question-and-answer session for today. So now, it's my pleasure to hand the conference back over to Mr. Glen Post for some closing comments or remarks. Sir?

Glen F. Post
Chief Executive Officer, President and Director

Thank you, operator. And I am pleased with the progress we continue to make in transforming CenturyLink into a leading global enterprise network service provider. We're encouraged by the continuing demand for businesses and consumers for advanced network services and related trends we're seeing and the associated opportunities to provide IP and Managed Services to help Enterprise customers enable their digital transformation. We believe our continued progress in the virtualization of our network, enhancements in our broadband speeds in improving our customer experience through simplification, optimization, help position us to drive future growth in our business. Additionally, we expect the pending acquisition of Level 3 to move us further toward our goal of being one of the world's leading network providers. We're excited about the benefits and implications of this acquisition. We want to thank you for joining our call today, and we look forward to speaking with you in the weeks ahead.

Operator
Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program and you may all disconnect. Everybody, have a wonderful day.