



CenturyLink®

# 1st Quarter 2015 Earnings Results

May 5, 2015

# Forward-Looking Statements / Non-GAAP Financial Measures

Certain non-historical statements made in this presentation and future oral or written statements or press releases by us or our management are intended to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current expectations only, and are subject to a number of assumptions, risks and uncertainties, many of which are beyond our control. Actual events and results may differ materially from those anticipated, estimated, projected or implied by us if one or more of these risks or uncertainties materialize, or if our underlying assumptions prove incorrect. Factors that could affect actual results include but are not limited to: the timing, success and overall effects of competition from a wide variety of competitive providers; the risks inherent in rapid technological change, including product displacement; the effects of ongoing changes in the regulation of the communications industry, including the outcome of regulatory or judicial proceedings relating to intercarrier compensation, access charges, universal service, broadband deployment, data protection and net neutrality; our ability to effectively adjust to changes in the communications industry, and changes in our markets, product mix and network; our ability to effectively manage our expansion opportunities, including retaining and hiring key personnel; possible changes in the demand for, or pricing of, our products and services, including our ability to effectively respond to increased demand for high-speed broadband service; our ability to successfully introduce new product or service offerings on a timely and cost-effective basis; the adverse impact on our business and network from possible equipment failures, security breaches or similar attacks on our network; our ability to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages; our ability to use our net operating loss carryovers in projected amounts; our continued access to credit markets on favorable terms; our ability to collect our receivables from financially troubled companies; our ability to maintain favorable relations with our key business partners, suppliers, vendors, landlords and financial institutions; any adverse developments in legal or regulatory proceedings involving us; changes in our operating plans, corporate strategies, dividend payment plans or other capital allocation plans, including those caused by changes in our cash requirements, capital expenditure needs, debt obligations, pension funding requirements, cash flows, or financial position, or other similar changes; the effects of adverse weather; other risks referenced from time to time in our filings with the SEC; and the effects of more general factors such as changes in interest rates, in tax laws, in accounting policies or practices, in operating, medical, pension or administrative costs, in general market, labor or economic conditions, or in legislation, regulation or public policy. These and other uncertainties related to our business and our recent acquisitions are described in greater detail in Item 1A of our Form 10-K for the year ended December 31, 2014, as updated and supplemented by our subsequent SEC reports. You should be aware that new factors may emerge from time to time and it is not possible for us to identify all such factors nor can we predict the impact of each such factor on the business or the extent to which any one or more factors may cause actual results to differ from those reflected in any forward-looking statements. Given these uncertainties, we caution investors not to unduly rely on our forward-looking statements. We undertake no obligation to update or revise any forward-looking statements for any reason, whether as a result of new information, future events or developments, changed circumstances, or otherwise. Furthermore, any information about our intentions contained in any of our forward-looking statements reflects our intentions as of the date of this release, and is based upon, among other things, the existing regulatory and technological environment, industry and competitive conditions, economic and market conditions, and our assumptions as of such date. We may change our intentions, strategies or plans at any time and without notice, based upon any changes in such factors, in our assumptions or otherwise.

## **Non-GAAP Financial Measures**

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

# Participants

## **Glen Post**

Chief Executive Officer & President

## **Stewart Ewing**

Executive Vice President & Chief Financial Officer

## **Karen Puckett**

President, Global Markets

# 1Q15 Highlights & Strategic Overview

**Glen Post**

Chief Executive Officer & President



# 1Q15 Highlights

- Solid first quarter results
- Operating cash flow exceeded guidance due to lower than anticipated cash expenses
- Operating revenues below mid-point of guidance range primarily due to lower customer premise equipment (CPE) sales
- Core revenues slightly below mid-point of guidance primarily due to lower hosting revenue
- As expected, sales slightly softer due to impact of organizational realignment; sales momentum improved late in first quarter

# Strategic Priorities

## Business Solutions

- Grow MPLS, Ethernet, Wavelength, Business GPON and VoIP offerings
- Enhance cloud and hosting services platform
- Grow Managed Network and Infrastructure Services
- Increase sales efficiency of direct channel and expand partner sales channel
- Deliver a broad portfolio of network, hosting/cloud and IT solutions

- Seeing benefits of refined go-to-market strategy completed during 1Q
- Continued strength in sale of high-bandwidth data services and improved SMB sales
- Expanded and enhanced competitive speeds throughout broadband footprint
- Continued network innovation with deployment of SDN/NFV and enhanced MPLS and SIP capabilities
- Increasing customer demand for colocation and CenturyLink Cloud solutions
- Continued investment in network and cloud platforms to enable differentiated managed services solutions

# Strategic Priorities (continued)

## Consumer Broadband and Video

- Deploy fiber deeper into network to drive higher speeds
  - Expand Prism TV footprint and penetration
- Currently have fiber-to-the-premise available to ~390K businesses and ~360K households
  - Expanded Prism™ TV availability to an additional 73,000 addressable homes

## Operating Efficiency

- Simplify and rationalize network infrastructure
  - Automate and improve processes
  - Continue to integrate and simplify systems
- Continue to manage expenses related to legacy services
  - Migrating internal IT services to our cloud platform
  - Streamline and modernize our workflow processes

# 1Q15 Financial Results & Guidance Overview

**Stewart Ewing**

Executive Vice President & Chief Financial Officer

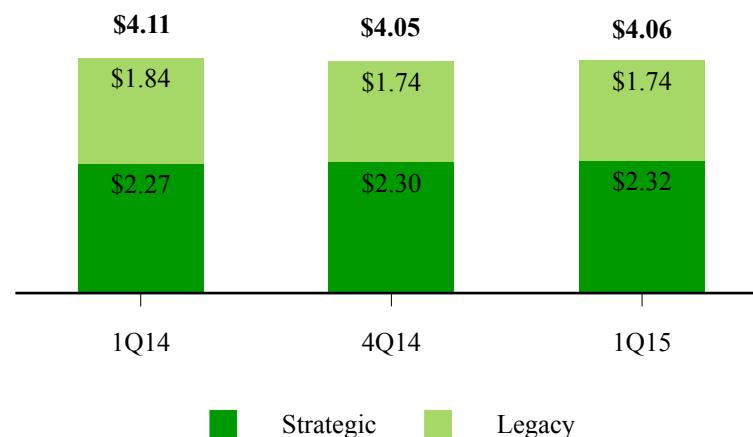




# 1Q15 Financial Summary

- \$4.45 billion in Total revenue
  - \$4.06 billion Core revenue<sup>1</sup>, 1.3% Y/Y decline from 1Q14
  - \$2.32 billion Strategic revenue<sup>2</sup>, 2.2% Y/Y increase from 1Q14 vs. 5.5% Y/Y increase in 1Q14
  - \$1.74 billion Legacy revenue<sup>2</sup>, a 5.7% Y/Y decrease from 1Q14 vs. 6.3% Y/Y decrease in 1Q14

Core Revenue (\$B)



- Added more than 35,000 high-speed Internet customers and 8,000 Prism™ TV customers
- Operating cash flow<sup>3</sup> of \$1.74 billion and free cash flow<sup>3</sup> of \$849 million
- \$0.67 Adjusted Diluted EPS<sup>3</sup>
- Repurchased 4.5 million shares for nearly \$170 million during 1Q15

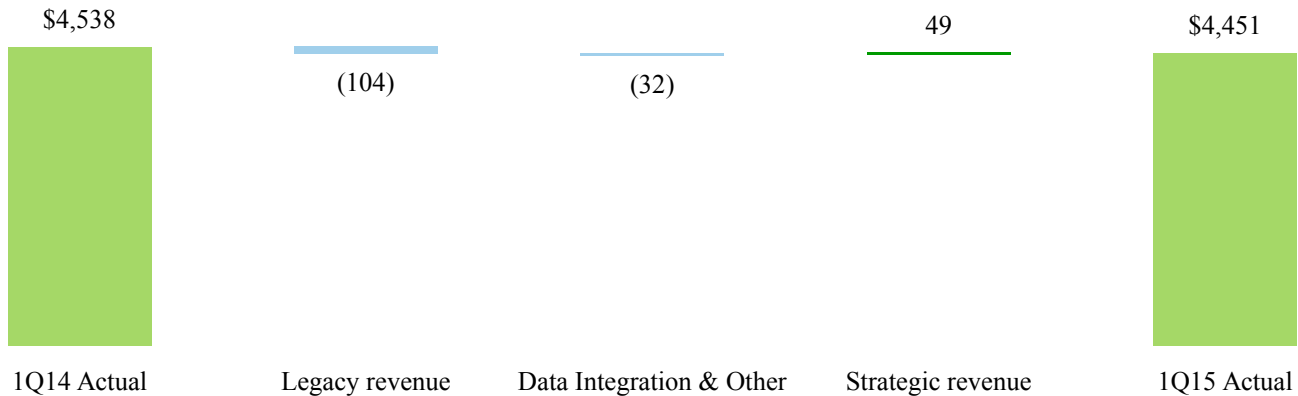
(1) Core revenue defined as strategic revenue plus legacy revenue (excludes data integration and other revenue)

(2) Beginning first quarter 2015, certain revenues were reclassified between strategic and legacy services. All historical periods have been restated to reflect this change

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

# 1Q15 Revenue Drivers

## 1Q15 vs. 1Q14 Revenue Waterfall \$ in millions

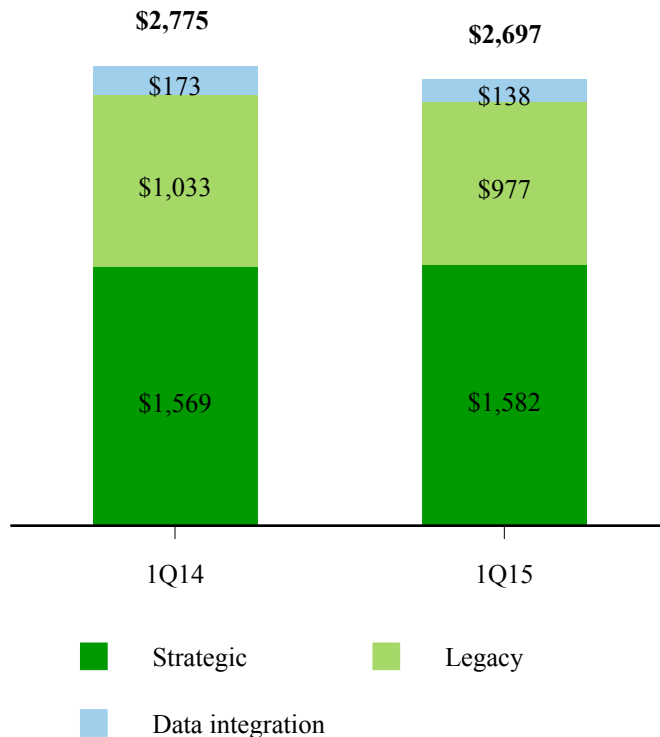


### Year-over-year: 1Q15 vs. 1Q14

- Strategic revenue growth driven by MPLS & Ethernet services, high-speed Internet and Prism™ TV
- Legacy revenue decline of \$104 million due primarily to access line losses; Compares favorably to \$124 million decline in 1Q14
- Data integration and other revenue decreased primarily due to lower CPE sales

## Business - Operating Revenue

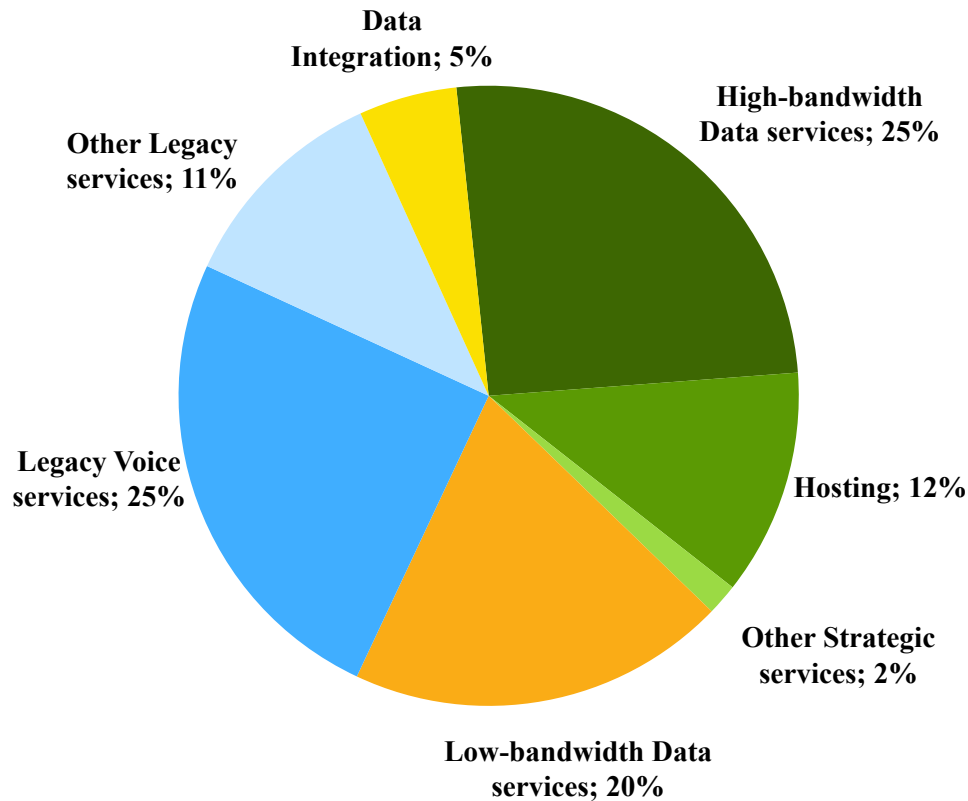
\$ in millions



- Total Y/Y revenue decline of 2.8%
- Strategic revenue increased 0.8% from 1Q14 driven by continued growth in high-bandwidth products including MPLS, Ethernet and Wavelength, partially offset by low-bandwidth data and hosting revenue declines
- Legacy revenue declined 5.4% from 1Q14 due to lower voice and switched access revenue
- Operating expenses decreased slightly from 1Q14 primarily driven by lower CPE costs

# Business Revenue Mix

## Business Revenue Mix - 1Q15



- High-bandwidth data services<sup>1</sup> revenue grew approximately 11% Y/Y in 1Q15
- Low-bandwidth data services<sup>2</sup> revenue declined 14% Y/Y primarily due to customers' continued network grooming and migration to fiber-based services
- Hosting revenue declined 3.0% Y/Y due to unfavorable foreign currency impacts and lower non-recurring revenue
- Data integration revenue decreased \$35 million, or 20%, driven by lower CPE sales

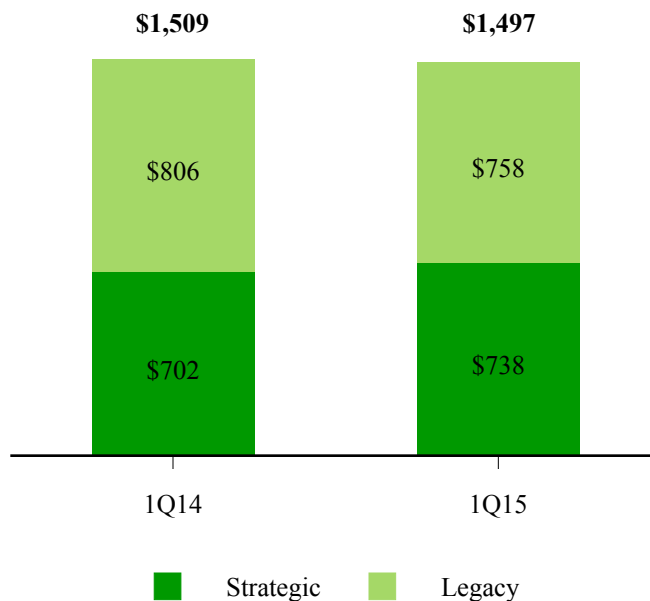
(1) High-bandwidth Data services includes MPLS, Ethernet and Wavelength revenue

(2) Low-bandwidth Data services includes private line and high-speed Internet revenue

# Consumer

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

\$ in millions



- Total Y/Y revenue decline of 0.8%
- Strategic revenue increased 5.1% from year-ago period driven by growth of high-speed Internet and Prism™ TV customers and select price increases
- Legacy revenue declined 6.0% from 1Q14 due primarily to lower local and LD revenue
- Operating expenses were approximately flat from 1Q14 as higher Prism™ TV costs were offset by lower employee-related costs

(1) Total revenue for 1Q14 and 1Q15 includes \$1 million of data integration revenue not reflected graphically in the chart

# 2Q15 Guidance

## 2nd Quarter 2015

Operating Revenue	\$4.41 to \$4.46 billion
Core Revenue	\$4.02 to \$4.07 billion
Operating Cash Flow	\$1.67 to \$1.72 billion
Adjusted Diluted EPS	\$0.59 to \$0.64

Q & A

