

CenturyLink Reports Third Quarter 2019 Results

Highlights

- **Reported Net Income of \$302 million for the third quarter 2019; excluding Integration and Transformation Costs and Special Items, reported Net Income of \$328 million**
- **Generated Adjusted EBITDA of \$2.261 billion for the third quarter 2019, excluding Integration and Transformation Costs and Special Items of \$38 million**
- **Expanded Adjusted EBITDA margin, excluding Integration and Transformation Costs and Special Items, to 40.3% in the third quarter 2019, from 39.3% in the third quarter 2018**
- **Generated Net Cash Provided by Operating Activities of \$1.888 billion for the third quarter 2019**
- **Generated Free Cash Flow of \$983 million for the third quarter 2019, excluding cash paid for Integration and Transformation Costs and Special Items of \$52 million**
- **Achieved approximately \$360 million of annualized, run-rate Adjusted EBITDA synergy and transformation savings as of the end of the third quarter 2019**
- **Reiterated all full year 2019 financial outlook measures**

MONROE, La., Nov. 6, 2019 /[PRNewswire](#)/ -- [CenturyLink, Inc.](#) (NYSE: CTL) today reported results for the third quarter ended September 30, 2019.

"CenturyLink continues investing in both growth and operational efficiency," said Jeff Storey, president and CEO of CenturyLink. "You can see the benefits of those investments with the year-over-year growth in Enterprise and International/Global Accounts business units, along with expansion of Adjusted EBITDA margins. We remain committed to delivering an excellent customer experience while enhancing our product capabilities and expanding what I believe is the world's best fiber network."

Total revenue was \$5.61 billion for the third quarter 2019, compared to \$5.82 billion for the third quarter 2018.

Diluted earnings per share was \$0.28 for the third quarter 2019, compared to \$0.25 for third quarter 2018. Diluted earnings per share for the third quarter 2019 was \$0.31 compared to \$0.30 per share for the third quarter in 2018, excluding the aggregate effects of Integration and Transformation Costs and the Special Items of \$26 million and \$55 million, respectively.

Financial Results

Metric	Third Quarter	Third Quarter

<i>(\$ in millions, except per share data)</i>	2019	2018
International and Global Accounts	\$ 899	892
Enterprise	1,550	1,505
Small and Medium Business	734	785
Wholesale	1,025	1,097
Consumer	1,398	1,539
Total Revenue	\$ 5,606	5,818
Cost of Services and Products	2,590	2,672
Selling, General and Administrative Expenses	831	967
Share-based Compensation Expenses	38	49
Adjusted EBITDA ⁽¹⁾	2,223	2,228
Adjusted EBITDA, Excluding Integration and Transformation Costs and Special Items ^{(1), (2)}	2,261	2,287
Adjusted EBITDA Margin ⁽¹⁾	39.7%	38.3%
Adjusted EBITDA Margin, Excluding Integration and Transformation Costs and Special Items ^{(1), (2)}	40.3%	39.3%
Net Cash Provided by Operating Activities	1,888	1,787
Capital Expenditures	957	684
Unlevered Cash Flow ⁽¹⁾	1,382	1,612
Unlevered Cash Flow, Excluding Cash Integration and Transformation Costs and Special Items ^{(1), (3)}	1,434	1,672
Free Cash Flow ⁽¹⁾	931	1,103
Free Cash Flow, Excluding Cash Integration and Transformation Costs and Special Items ^{(1), (3)}	983	1,163
Net Income	302	272

Net Income, Excluding Integration and Transformation Costs and Special Items ⁽⁴⁾	328	327
Net Income per Common Share - Diluted	0.28	0.25
Net Income per Common Share - Diluted, Excluding Integration and Transformation Costs and Special Items ⁽⁴⁾	0.31	0.30
Weighted Average Shares Outstanding (in millions) - Diluted	1,074.8	1,072.4

(1) See the attached schedules for definitions of non-GAAP metrics and reconciliation to GAAP figures.

(2) Excludes (i) \$38 million of integration and transformation costs and special items for the third quarter of 2019 and (ii) \$59 million of integration costs and special items for the third quarter of 2018.

(3) Excludes cash paid (i) for integration and transformation costs and special items of \$52 million for the third quarter of 2019, and (ii) for integration costs and special items of \$60 million for the third quarter of 2018.

(4) Excludes (i) \$26 million of integration and transformation costs and special items for the third quarter of 2019 and (ii) \$55 million of integration costs and special items for the third quarter of 2018.

	Third Quarter	Second Quarter	QoQ Percent	Third Quarter	YoY Percent
Revenue (\$ in millions)	2019	2019	Change	2018	Change
By Business Unit					
International and Global Accounts	\$ 899	902	—%	892	1%
Enterprise	1,550	1,505	3%	1,505	3%
Small and Medium Business	734	736	—%	785	(6)%
Wholesale	1,025	1,018	1%	1,097	(7)%
Consumer	1,398	1,417	(1)%	1,539	(9)%
Total Revenue	\$ 5,606	5,578	1%	5,818	(4)%

Cash Flow

Free Cash Flow, excluding integration and transformation costs and special items, was \$983 million in the third quarter 2019, compared to \$1.163 billion in the third quarter 2018.

As of September 30, 2019, CenturyLink had cash and cash equivalents of \$1.404 billion, which includes proceeds from Level 3 financing's 4.625% Senior Notes issued in the third quarter. In October, using those proceeds, the company paid down \$400 million of debt and is scheduled to pay down an additional \$600 million in December.

2019 Business Outlook

"Year-to-date, Adjusted EBITDA grew compared to the same period in 2018, driven by our continued focus on profitable revenue and cost transformation initiatives," said Neel Dev, CenturyLink's executive vice president and chief financial officer. "We are pleased with our solid performance and are reiterating all of our financial outlook measures for the full year 2019."

Metric (1), (2)	2019 Outlook
Adjusted EBITDA	\$9.00 billion to \$9.20 billion
Free Cash Flow	\$3.10 billion to \$3.40 billion
Dividends (3)	\$1.095 billion
Free Cash Flow after Dividends	\$2.005 billion to \$2.305 billion
GAAP Interest Expense	\$2.100 billion
Cash Interest	\$2.05 billion to \$2.10 billion
Capital Expenditures	\$3.50 billion to \$3.80 billion
Depreciation and Amortization	\$4.75 billion to \$4.85 billion
Non-cash Compensation Expense	\$210 million
Cash Income Taxes	\$100 million
Full Year Effective Income Tax Rate	~25%

(1) See the attached schedules for definitions of non-GAAP metrics and reconciliation to GAAP figures.

(2) Outlook measures in this release and the accompanying schedules (i) exclude integration and transformation costs, (ii) exclude the effects of special items, future changes in our operating or capital allocation plans, unforeseen changes in regulation, laws or litigation, and other unforeseen events or circumstances impacting our financial performance and (iii) speak only as of November 6, 2019. See "Forward Looking Statements" below.

(3) Dividends is defined as dividends paid as disclosed in the Consolidated Statements of Cash Flows. Assumes payment of dividends at the rate of \$1.00 per share per year, based on the number of shares outstanding on September 30, 2019. Payments of all dividends are at the discretion of the board of directors.

Investor Call

CenturyLink's management will host a conference call at 5:00 p.m. ET today, November 6, 2019. The conference call will be streamed live over CenturyLink's website at ir.centurylink.com. Additional information regarding third quarter 2019 results, including the presentation management will review during the conference call, will be available on the Investor Relations website prior to the call. If you are unable to join the call via the Web, the call can be accessed live at +1 877-283-5643 (U.S. Domestic) or +1 312-281-1200 (International).

A telephone replay of the call will be available beginning at 7:00 p.m. ET on November 6, 2019, and ending February 4, 2020, at 6:00 p.m. ET. The replay can be accessed by dialing +1 800-633-8284 (U.S. Domestic) or +1 402-977-9140 (International), reservation code 21931504. A webcast replay of the call will also be available on our website beginning at 7:00 p.m. ET on November 6, 2019 and ending February 4, 2020 at 6:00 p.m. ET.

About CenturyLink

CenturyLink (NYSE: CTL) is a technology leader delivering hybrid networking, cloud connectivity, and security solutions to customers located in more than 60 countries. Through its extensive global fiber network, CenturyLink provides secure and reliable services to meet the growing digital demands of businesses and consumers. CenturyLink strives to be the trusted connection to the networked world and is focused on delivering technology that enhances the customer experience.

Learn more at <http://news.centurylink.com/>.

Forward Looking Statements

Except for historical and factual information, the matters set forth in this release and other of our oral or written statements identified by words such as "estimates," "expects," "anticipates," "believes," "plans," "intends," and similar expressions are forward-looking statements as defined by the federal securities laws, and are subject to the "safe harbor" protections thereunder. These forward-looking statements are not guarantees of future results and are based on current expectations only, are inherently speculative, 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 in those statements if one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect. Factors that could affect actual results include but are not limited to: the effects of competition from a wide variety of competitive providers, including decreased demand for our more mature service offerings and increased pricing pressures; the effects of new, emerging or competing technologies, including those that could make our products less desirable or obsolete; our ability to attain our key operating imperatives, including simplifying and consolidating our network, simplifying and automating our service support systems, strengthening our relationships with customers and attaining projected cost savings; our ability to safeguard our network, and to avoid the adverse impact on our business from possible security breaches, service outages, system failures, equipment breakage or similar events impacting our network or the availability and quality of our services; the effects of ongoing changes in the regulation of the communications industry, including the

outcome of regulatory or judicial proceedings relating to intercarrier compensation, interconnection obligations, special access, universal service, broadband deployment, data protection and net neutrality; our ability to effectively adjust to changes in the communications industry and changes in the composition of our markets and product mix; possible changes in the demand for our products and services, including our ability to effectively respond to increased demand for high-speed data transmission services; our ability to successfully maintain the quality and profitability of our existing product and service offerings and to introduce profitable new offerings on a timely and cost-effective basis; our ability to generate cash flows sufficient to fund our financial commitments and objectives, including our capital expenditures, operating costs, debt repayments, dividends, pension contributions and other benefits payments; our ability to implement our operating plans and corporate strategies, including our delevering strategies; changes in our operating plans, corporate strategies, dividend payment plans or other capital allocation plans, whether based upon changes in our cash flows, cash requirements, financial performance, financial position, market conditions or otherwise; our ability to effectively retain and hire key personnel and to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages; the negative impact of increases in the costs of our pension, health, post-employment or other benefits, including those caused by changes in markets, interest rates, mortality rates, demographics or regulations; adverse changes in our access to credit markets on favorable terms, whether caused by changes in our financial position, lower debt credit ratings, unstable markets or otherwise; our ability to meet the terms and conditions of our debt obligations, including our ability to make transfers of cash in compliance therewith; our ability to maintain favorable relations with our key business partners, suppliers, vendors, landlords and financial institutions; our ability to collect our receivables from financially troubled customers; our ability to use our net operating loss carry forwards in the amounts projected; any adverse developments in legal or regulatory proceedings involving us; changes in tax, communications, pension, healthcare or other laws or regulations, in governmental support programs, or in general government funding levels; the effects of changes in accounting policies, practices or assumptions, including changes that could potentially require future additional impairment charges; the effects of adverse weather, terrorism or other natural or man-made disasters; adverse effects of material weaknesses or any other significant deficiencies identified in our internal controls over financial reporting; the effects of more general factors such as changes in interest rates, in exchange rates, in operating costs, in public policy, in the views of financial analysts or in general market, labor, economic or geo-political conditions; and other risks referenced from time to time in our filings with the U.S. Securities and Exchange Commission ("SEC"). For all the reasons set forth above and in our SEC filings, you are cautioned not to unduly rely upon our forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly 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 such forward-looking statement, and is based upon, among other things, existing regulatory, technological, industry, competitive, economic and market conditions, and our assumptions as of such date. We may change our intentions, strategies or plans without notice at any time and for any reason.

Reconciliation to GAAP

This release includes certain non-GAAP historical and forward-looking financial measures, including but not limited to Adjusted EBITDA, free cash flow, unlevered cash flow, and adjustments to GAAP and non-GAAP measures to exclude the effect of integration and transformation costs and special items. In addition to providing key metrics for management to evaluate the company's performance, we believe these measurements assist investors in their understanding of period-to-period operating performance and in identifying historical and prospective trends.

Reconciliations of non-GAAP financial measures to the most comparable GAAP measures are included in the attached

financial schedules. Reconciliation of additional non-GAAP historical financial measures that may be discussed during the call described above, along with further descriptions of non-GAAP financial measures, will be available in the Investor Relations portion of the company's website at ir.centurylink.com. Non-GAAP measures are not presented to be replacements or alternatives to the GAAP measures, and investors are urged to consider these non-GAAP measures in addition to, and not in substitution for, measures prepared in accordance with GAAP. CenturyLink may present or calculate its non-GAAP measures differently from other companies.

CenturyLink, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

(UNAUDITED)

(\$ in millions, except per share amounts; shares in thousands)

	Three months ended September 30,		Increase / (decrease)	Nine months ended September 30,		Increase / (decrease)
	2019	2018		2019	2018	
OPERATING REVENUE	\$ 5,606	5,818	(4)%	16,831	17,665	(5)%
OPERATING EXPENSES						
Cost of services and products	2,590	2,672	(3)%	7,556	8,205	(8)%
Selling, general and administrative	831	967	(14)%	2,723	3,191	(15)%
Depreciation and amortization	1,235	1,285	(4)%	3,619	3,858	(6)%
Goodwill impairment	—	—	nm	6,506	—	nm

Total operating expenses	4,656	4,924	(5)%	20,404	15,254	34%
OPERATING INCOME (LOSS)	950	894	6%	(3,573)	2,411	nm
OTHER (EXPENSE) INCOME						
Interest expense	(496)	(557)	(11)%	(1,537)	(1,638)	(6)%
Other (expense) income, net	(44)	(8)	nm	(5)	29	(117)%
Income tax expense	(108)	(57)	89%	(377)	(123)	nm
NET INCOME (LOSS)	\$ 302	272	11%	(5,492)	679	nm
BASIC EARNINGS (LOSS) PER SHARE	\$ 0.28	0.25	12%	(5.13)	0.64	nm
DILUTED EARNINGS (LOSS) PER SHARE	\$ 0.28	0.25	12%	(5.13)	0.63	nm
WEIGHTED AVERAGE SHARES OUTSTANDING						
Basic	1,072,543	1,066,904	1%	1,070,921	1,065,410	1%
Diluted	1,074,790	1,072,351	—%	1,070,921	1,069,726	—%
DIVIDENDS PER COMMON SHARE	\$ 0.25	0.54	(54)%	0.75	1.62	(54)%

Exclude:
integration
and
transformation
costs and
special
items⁽¹⁾

26	55	(53)%	6,549	192	nm
----	----	-------	-------	-----	----

NET INCOME
EXCLUDING
INTEGRATION AND
TRANSFORMATION
COSTS AND
SPECIAL ITEMS

\$	328	327	—%	1,057	871	21%
----	-----	-----	----	-------	-----	-----

DILUTED
EARNINGS PER
SHARE
EXCLUDING
INTEGRATION AND
TRANSFORMATION
COSTS AND
SPECIAL ITEMS

\$	0.31	0.30	3%	0.99	0.81	22%
----	------	------	----	------	------	-----

(1) Excludes the integration and transformation costs and special items described in the Non-GAAP Integration and Transformation Costs and Special Items table, net of the income tax effect thereof.

nm - Percentages greater than 200% and comparisons between positive and negative values are considered not meaningful.

CenturyLink, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30, 2019 AND DECEMBER 31, 2018

(UNAUDITED)

(\$ in millions)

	September 30, 2019	December 31, 2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,404	488
Restricted cash	3	4
Other current assets	3,182	3,328
Total current assets	4,589	3,820
PROPERTY, PLANT AND EQUIPMENT, Net of accumulated depreciation of \$28,760 and \$26,859	25,874	26,408
GOODWILL AND OTHER ASSETS		
Goodwill	21,507	28,031
Operating lease assets ⁽¹⁾	1,721	—
Restricted cash	24	26
Other, net	11,013	11,971
Total goodwill and other assets	34,265	40,028
TOTAL ASSETS	\$ 64,728	70,256
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 1,744	652
Other current liabilities ⁽¹⁾	4,845	4,879
Total current liabilities	6,589	5,531

LONG-TERM DEBT	33,381	35,409
DEFERRED CREDITS AND OTHER LIABILITIES ⁽¹⁾	11,084	9,488
STOCKHOLDERS' EQUITY	13,674	19,828
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 64,728	70,256

⁽¹⁾ The Company adopted Accounting Standards Update ("ASU") 2016-02, Leases (ASC 842) beginning January 1, 2019 and recorded operating lease assets and operating lease liabilities in its Condensed Consolidated Balance Sheets for 2019.

CenturyLink, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

(UNAUDITED)

(\$ in millions)

Nine months ended

	September 30, 2019	September 30, 2018
OPERATING ACTIVITIES		
Net (Loss) Income	\$ (5,492)	679
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	3,619	3,858
Impairment of goodwill and other assets	6,516	46
Deferred income taxes	350	486
Provision for uncollectible accounts	116	119
Net (gain) loss on early retirement of debt	(70)	30

Share-based compensation	114	144
Changes in current assets and liabilities, net	(464)	16
Retirement benefits	(24)	(639)
Changes in other noncurrent assets and liabilities, net	72	324
Other, net	34	(27)
Net cash provided by operating activities	4,771	5,036
INVESTING ACTIVITIES		
Capital expenditures	(2,688)	(2,260)
Proceeds from sale of property, plant and equipment and intangible assets	54	125
Other, net	(37)	(61)
Net cash used in investing activities	(2,671)	(2,196)
FINANCING ACTIVITIES		
Net proceeds from issuance of long-term debt	988	130
Payments of long-term debt	(1,459)	(1,539)
Net proceeds on revolving line of credit	150	185
Dividends paid	(829)	(1,735)
Other, net	(37)	(48)
Net cash used in financing activities	(1,187)	(3,007)
Net increase (decrease) in cash, cash equivalents and restricted cash	913	(167)
Cash, cash equivalents and restricted cash at beginning of period	518	587
Cash, cash equivalents and restricted cash at end of period	\$ 1,431	420

CenturyLink, Inc.

OPERATING METRICS

(UNAUDITED)

(In thousands)

	September 30, 2019	June 30, 2019	September 30, 2018
--	--------------------	---------------	--------------------

Operating Metrics

Consumer broadband subscribers	4,714	4,750	4,843
--------------------------------	-------	-------	-------

Consumer broadband subscribers are customers that purchase broadband connection service through their existing telephone lines, stand-alone telephone lines, or fiber-optic cables. Our methodology for counting our consumer broadband subscribers includes only those lines that we use to provide services to external customers and excludes lines used solely by us and our affiliates. It also excludes unbundled loops and includes stand-alone consumer broadband subscribers. We count lines when we install the service.

Description of Non-GAAP Metrics

Pursuant to Regulation G, the company is hereby providing definitions of non-GAAP financial metrics and reconciliations to the most directly comparable GAAP measures.

The following describes and reconciles those financial measures as reported under accounting principles generally accepted in the United States (GAAP) with those financial measures as adjusted by the items detailed below and presented in the accompanying news release. These calculations are not prepared in accordance with GAAP and should not be viewed as alternatives to GAAP. In keeping with its historical financial reporting practices, the company believes that the supplemental presentation of these calculations provides meaningful non-GAAP financial measures to help investors understand and compare business trends among different reporting periods on a consistent basis.

We use the term *Special items* as a non-GAAP measure to describe items that impacted a period's statement of operations for which investors may want to give special consideration due to their magnitude, nature or both. We do not call these items *non-recurring* because, while some are infrequent, others may recur in future periods.

Adjusted EBITDA (\$) is defined as net income (loss) from the Statements of Operations before income tax (expense) benefit, total other income (expense), depreciation and amortization, share-based compensation expense and impairments.

Adjusted EBITDA Margin (%) is defined as Adjusted EBITDA divided by total revenue.

Management believes that Adjusted EBITDA and Adjusted EBITDA Margin are relevant and useful metrics to provide to investors, as they are an important part of CenturyLink's internal reporting and are key measures used by Management to evaluate profitability and operating performance of CenturyLink and to make resource allocation decisions. Management believes such measures are especially important in a capital-intensive industry such as telecommunications. Management also uses Adjusted EBITDA and Adjusted EBITDA Margin (and similarly uses these terms excluding integration and transformation costs) to compare CenturyLink's performance to that of its competitors and to eliminate certain non-cash and non-operating items in order to consistently measure from period to period its ability to fund capital expenditures, fund growth, service debt and determine bonuses. Adjusted EBITDA excludes non-cash stock compensation expense and impairments because of the non-cash nature of these items. Adjusted EBITDA also excludes interest income, interest expense and income taxes, and in our view constitutes an accrual-based measure that has the effect of excluding period-to-period changes in working capital and shows profitability without regard to the effects of capital or tax structure. Adjusted EBITDA also excludes depreciation and amortization expense because these non-cash expenses primarily reflect the impact of historical capital investments, as opposed to the cash impacts of capital expenditures made in recent periods, which may be evaluated through cash flow measures. Adjusted EBITDA excludes the gain (or loss) on extinguishment and modification of debt and other, net, because these items are not related to the primary operations of CenturyLink.

There are material limitations to using Adjusted EBITDA as a financial measure, including the difficulty associated with comparing companies that use similar performance measures whose calculations may differ from CenturyLink's calculations. Additionally, this financial measure does not include certain significant items such as interest income, interest expense, income taxes, depreciation and amortization, non-cash stock compensation expense, the gain (or loss) on extinguishment and modification of debt and net other income (expense). Adjusted EBITDA and Adjusted EBITDA Margin (either with or without integration and transformation costs adjustments and special items) should not be considered a substitute for other measures of financial performance reported in accordance with GAAP.

Unlevered Cash Flow is defined as net cash provided by (used in) operating activities less capital expenditures, plus cash interest paid and less interest income all as disclosed in the Statements of Cash Flows or the Statements of Operations. Management believes that Unlevered Cash Flow is a relevant metric to provide to investors, because it reflects the operational performance of CenturyLink and, measured over time, provides management and investors with a sense of the underlying business' growth pattern and ability to generate cash. Unlevered Cash Flow excludes cash used for acquisitions and debt service and the impact of exchange rate changes on cash and cash equivalents balances.

There are material limitations to using Unlevered Cash Flow to measure CenturyLink's cash performance as it excludes certain material items such as payments on and repurchases of long-term debt, interest income, cash interest expense and cash used to fund acquisitions. Comparisons of CenturyLink's Unlevered Cash Flow to that of some of its competitors may be of limited usefulness since CenturyLink does not currently pay a significant amount of income taxes due to net operating loss carryforwards, and therefore, currently generates higher cash flow than a comparable business that does pay income taxes. Additionally, this financial measure is subject to variability quarter over quarter as a result of the timing of payments related to accounts receivable and accounts payable and capital expenditures. Unlevered Cash Flow should not be used as a substitute for net change in cash and cash equivalents in the Consolidated Statements of Cash Flows.

Free Cash Flow is defined as net cash provided by (used in) operating activities less capital expenditures as disclosed in the Statements of Cash Flows. Management believes that Free Cash Flow is a relevant metric to provide

to investors, as it is an indicator of the CenturyLink's ability to generate cash to service its debt. Free Cash Flow excludes cash used for acquisitions, principal repayments and the impact of exchange rate changes on cash and cash equivalents balances.

There are material limitations to using Free Cash Flow to measure CenturyLink's performance as it excludes certain material items such as principal payments on and repurchases of long-term debt and cash used to fund acquisitions. Comparisons of CenturyLink's Free Cash Flow to that of some of its competitors may be of limited usefulness since CenturyLink does not currently pay a significant amount of income taxes due to net operating loss carryforwards, and therefore, generates higher cash flow than a comparable business that does pay income taxes. Additionally, this financial measure is subject to variability quarter over quarter as a result of the timing of payments related to interest expense, accounts receivable and accounts payable and capital expenditures. Free Cash Flow should not be used as a substitute for net change in cash and cash equivalents on the Consolidated Statements of Cash Flows.

CenturyLink, Inc.

Non-GAAP Integration and Transformation Costs and Special Items

(UNAUDITED)

(\$ in millions)

	Actual QTD		Actual YTD	
Integration and Transformation Costs⁽¹⁾ and Special Items Impacting Adjusted EBITDA	3Q19	3Q18	3Q19	3Q18
Consumer litigation settlement	\$ —	—	15	—
OTT/Stream impairment of content commitment and hardware, software, and internal labor	—	18	—	60
Total special items impacting adjusted EBITDA	—	18	15	60
Plus: integration and transformation costs	38	41	111	266
Total integration and transformation costs and special items impacting adjusted EBITDA	\$ 38	59	126	326
	Actual QTD		Actual YTD	
Integration and Transformation Costs and Special Items Impacting Net Income (Loss)	3Q19	3Q18	3Q19	3Q18

Consumer litigation settlement	\$	—	—	15	—
Impairment of goodwill		—	—	6,506	—
OTT/Stream impairment of content commitment and hardware, software, and internal labor		—	18	—	60
(Gain) loss on early debt retirement		(4)	33	(70)	33
Total special items impacting net income (loss)		(4)	51	6,451	93
Plus: integration and transformation costs		38	43	111	276
Total integration and transformation costs and special items impacting net income (loss)		34	94	6,562	369
Income tax effect of integration and transformation costs and special items ⁽²⁾		(8)	(19)	(13)	(91)
Tax benefit from carryback losses		—	—	—	(142)
Impact of tax reform		—	7	—	83
FIN 48 release due to statute expiration		—	(27)	—	(27)
Total integration and transformation costs and special items impacting net income (loss), net of tax	\$	26	55	6,549	192

⁽¹⁾ Represents (i) for the third quarter of 2019, the cost of obtaining the synergy and transformations savings over 2019-2021 that the Company discussed in its February 13, 2019 earnings release and (ii) for the third quarter of 2018, the cost of obtaining the acquisition-related synergies that the Company captured between November 1, 2017 and December 31, 2018 following the combination of CenturyLink and Level 3.

⁽²⁾ Tax effect calculated using the annualized effective statutory tax rate, excluding any non-recurring discrete items, which was 24.6% for Q3 2018 and 24.3% for Q3 2019.

CenturyLink, Inc.

Non-GAAP Cash Flow
Reconciliation

(UNAUDITED)

(\$ in millions)

	3Q19	3Q18
Net cash provided by operating activities	\$ 1,888	1,787
Capital expenditures	(957)	(684)
Free cash flow	931	1,103
Cash interest paid	456	512
Interest income	(5)	(3)
Unlevered cash flow	\$ 1,382	1,612
Free cash flow	\$ 931	1,103
Add back: cash integration and transformation costs	52	57
Add back: special items	—	3
Free cash flow excluding cash integration and transformation costs and special items	\$ 983	1,163
Unlevered cash flow	\$ 1,382	1,612
Add back: cash integration and transformation costs	52	57
Add back: special items	—	3
Unlevered cash flow excluding cash integration and transformation costs and special items	\$ 1,434	1,672

CenturyLink, Inc.

Adjusted EBITDA Non-GAAP
Reconciliation

(UNAUDITED)

(\$ in millions)

	3Q19	3Q18
Net income	\$ 302	272
Income tax expense	108	57
Total other expense, net	540	565
Depreciation and amortization expense	1,235	1,285
Share-based compensation expense	38	49
Adjusted EBITDA	\$ 2,223	2,228
Add back: integration and transformation costs ⁽¹⁾	\$ 38	41
Add back: special items ⁽¹⁾	—	18
Adjusted EBITDA excluding integration and transformation costs and special items	\$ 2,261	2,287
Total revenue	\$ 5,606	5,818
Adjusted EBITDA margin	39.7%	38.3%
Adjusted EBITDA margin excluding integration and transformation costs and special items	40.3%	39.3%

⁽¹⁾ Refer to *Non-GAAP Integration and Transformation Costs and Special Items* table for details of the integration and transformation costs and special items included above.

Outlook

To enhance the information in our outlook with respect to non-GAAP metrics, we are providing a range for certain GAAP measures that are components of the reconciliation of the non-GAAP metrics. The provision of these ranges is in no way meant to indicate that CenturyLink is explicitly or implicitly providing an outlook on those GAAP components of the reconciliation. In order to reconcile the non-GAAP financial metric to GAAP, CenturyLink has to use ranges for the GAAP components that arithmetically add up to the non-GAAP financial metric. While CenturyLink feels reasonably comfortable about the outlook for its non-GAAP financial metrics, it fully expects that the ranges

used for the GAAP components will vary from actual results. We will consider our outlook of non-GAAP financial metrics to be accurate if the specific non-GAAP metric is met or exceeded, even if the GAAP components of the reconciliation are different from those provided in an earlier reconciliation.

CenturyLink, Inc.

2019 OUTLOOK ⁽¹⁾

(UNAUDITED)

(\$ in millions)

Adjusted EBITDA Outlook

Twelve Months Ended December 31, 2019

	Range	
	Low	High
Net loss	\$ (5,320)	(4,850)
Income tax expense	400	550
Total other expense	2,100	1,900
Depreciation and amortization expense	4,850	4,750
Non-cash compensation expense	220	200
Goodwill impairment	6,500	6,500
Integration and transformation costs	250	150
Adjusted EBITDA	\$ 9,000	9,200

Free Cash Flow Outlook

Twelve Months Ended December 31, 2019

	Range	
	Low	High

Net cash provided by operating activities	\$ 6,900	6,900
Capital expenditures	(3,800)	(3,500)
Free cash flow	\$ 3,100	3,400

(1) Footnotes (1) and (2) from the outlook table included at page 4 are incorporated herein by reference.

SOURCE CenturyLink, Inc.

For further information: Media Relations, Tracey Lucas, tracey.lucas@centurylink.com, +1 720-888-4443 or Investor Relations, Mark Stoutenberg, mark.stoutenberg@centurylink.com, +1 720-888-1662

<https://news.lumen.com/2019-11-06-CenturyLink-Reports-Third-Quarter-2019-Results>