

CenturyLink Reports Second Quarter 2020 Results

Highlights

DENVER, Aug. 5, 2020 /[PRNewswire](#)/ -- [CenturyLink Inc.](#) (NYSE: CTL) reported results for the second quarter ended June 30, 2020.

"We had a solid quarter of both revenue and sales results, highlighted by the performance in Enterprise, iGAM and consumer broadband," said Jeff Storey, president and CEO of CenturyLink. "We have delivered for our customers in record time, and our agility positions us well to combine our network infrastructure with our cloud, security, edge and collaboration services into a platform that meets our customers' data and application needs. I'm proud of the CenturyLink team's response to COVID-19 and how we have worked with our customers, communities and each other, both in the current crisis and for the long-term."

Total revenue was \$5.192 billion for the second quarter 2020, compared to \$5.375 billion for the second quarter 2019.

Financial Results

Metric	Second Quarter	Second Quarter
<i>(\$ in millions, except per share data)</i>	2020	2019 ⁽¹⁾
International and Global Accounts	\$ 849	877
Enterprise	1,433	1,409
Small and Medium Business	646	688
Wholesale	948	1,012
Consumer	1,316	1,389
Total Revenue	\$ 5,192	5,375
Cost of Services and Products	2,232	2,243
Selling, General and Administrative Expenses	895	960
Share-based Compensation Expenses	20	43
Adjusted EBITDA ⁽²⁾	2,085	2,215
Adjusted EBITDA, Excluding Integration and Transformation Costs and Special Items ⁽²⁾⁽³⁾	2,174	2,269
Adjusted EBITDA Margin ⁽²⁾	40.2%	41.2%
Adjusted EBITDA Margin, Excluding Integration and Transformation Costs and Special Items ⁽²⁾⁽³⁾	41.9%	42.2%

Net Cash Provided by Operating Activities	1,749	1,701
Capital Expenditures	1,009	800
Unlevered Cash Flow ⁽²⁾	1,184	1,468
Unlevered Cash Flow, Excluding Cash Integration and Transformation Costs and Special Items ⁽²⁾⁽⁴⁾	1,247	1,523
Free Cash Flow ⁽²⁾	740	901
Free Cash Flow, Excluding Cash Integration and Transformation Costs and Special Items ⁽²⁾⁽⁴⁾	803	956
Net Income	377	371
Net Income, Excluding Integration and Transformation Costs and Special Items ⁽⁵⁾	450	369
Net Income per Common Share - Diluted	0.35	0.35
Net Income per Common Share - Diluted, Excluding Integration and Transformation Costs and Special Items ⁽⁵⁾	0.42	0.34
Weighted Average Shares Outstanding (in millions) - Diluted	1,082.6	1,072.8

⁽¹⁾ Reflects certain reclassifications due to accounting changes made in the first quarter of 2020, which were announced in the Company's 8-K report filed with the SEC on April 30, 2020.

⁽²⁾ See the attached schedules for definitions of non-GAAP metrics, reconciliation to GAAP figures and further explanations of the adjustments referred to in notes 3, 4 and 5.

⁽³⁾ Excludes (i) \$89 million of Integration and Transformation Costs and Special Items for the second quarter of 2020 and (ii) \$54 million of Integration and Transformation Costs and Special Items for the second quarter of 2019.

⁽⁴⁾ Excludes (i) \$63 million of cash paid for Integration and Transformation Costs and Special Items for the second quarter of 2020 and (ii) \$55 million of cash paid for Integration and Transformation Costs and Special Items for the second quarter of 2019.

⁽⁵⁾ Excludes (i) \$73 million of Integration and Transformation Costs and Special Items for the second quarter of 2020 and (ii) (\$2) million of Integration and Transformation Costs and Special Items for the second quarter of 2019.

Revenue	Second Quarter	First Quarter	QoQ Percent	Second Quarter	YoY Percent
<i>(\$ in millions)</i>	2020	2020	Change	2019	Change

By Business Segment						
International and Global Accounts	\$	849	865	(2)%	877	(3)%
Enterprise		1,433	1,420	1%	1,409	2%
Small and Medium Business		646	658	(2)%	688	(6)%
Wholesale		948	958	(1)%	1,012	(6)%
Consumer		1,316	1,327	(1)%	1,389	(5)%
Total Revenue	\$	5,192	5,228	(1)%	5,375	(3)%

Cash Flow

Free Cash Flow, excluding Integration and Transformation Costs and Special Items, was \$803 million in the second quarter 2020, compared to \$956 million in the second quarter 2019.

As of June 30, 2020, CenturyLink had cash and cash equivalents of \$1.763 billion, a portion of which was used to redeem \$1.2 billion of Level 3 Financing's outstanding senior notes on July 15, 2020.

2020 Business Outlook

"We are lowering our interest expense outlook for the year by about \$100 million, driven by progress on our deleveraging and refinancing initiatives along with a low interest rate environment," said Neel Dev, CenturyLink's executive vice president and chief financial officer. "For the full year 2020, we now expect GAAP Interest Expense of \$1.7 billion, down from our previous outlook of \$1.8 billion, and Cash Interest Expense of \$1.65 to \$1.7 billion, down from our previous range of \$1.75 to \$1.8 billion."

Metric ^{(1), (2)}	Current Outlook	Previous Outlook ^{(3), (4)}
GAAP Interest Expense	\$1.7 billion	\$1.8 billion
Net Cash Interest	\$1.65 billion to \$1.70 billion	\$1.75 billion to \$1.80 billion
Dividends ⁽⁵⁾	\$1.1 billion	\$1.1 billion
Depreciation and Amortization	\$4.7 billion to \$4.9 billion	\$4.7 billion to \$4.9 billion
Share-based Compensation Expenses	\$200 million	\$200 million
Cash Income Taxes	\$100 million	\$100 million
Full Year Effective Income Tax Rate	~28%	~28%
⁽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 Aug. 5, 2020. See "Forward Looking Statements" below.

(3) Refers to initial full-year 2020 financial outlook provided on Feb. 12, 2020

(4) The full-year 2020 financial outlook for Adjusted EBITDA, Free Cash Flow, and Capital Expenditures was withdrawn on May 6, 2020

(5) 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 June 30, 2020. 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 p.m. ET today, Aug. 5, 2020. The conference call will be streamed live over CenturyLink's website at ir.centurylink.com. Additional information regarding second quarter 2020 results, including the presentation materials 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 +1 877-283-5145 (U.S. Domestic) or +1 312-281-1201 (International).

A telephone replay of the call will be available beginning at 7 p.m. ET on Aug. 5, 2020, and ending Nov. 3, 2020, at 6 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 21966106. A webcast replay of the call will also be available on our website beginning at 7 p.m. ET on Aug. 5, 2020, and ending Nov. 3, 2020, at 6 p.m. ET.

About CenturyLink

CenturyLink (NYSE: CTL) is a technology leader delivering hybrid networking, cloud connectivity, and security solutions to customers around the world. 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: uncertainties due to events outside of our control regarding the impact that COVID-19 health and economic disruptions will continue to have on our business, operations, employees, customers, suppliers, distribution channels, controls, regulatory environment, access to capital, operating or capital plans and corporate initiatives, and ultimately on our financial performance, financial position and cash flows; 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, privacy 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 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 successfully and timely implement our operating plans and corporate strategies, including our delevering strategy; changes in our operating plans, corporate strategies, dividend payment plans or other capital allocation plans, whether based upon COVID-19 disruptions, 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, regulations or disruptions caused by the COVID-19 pandemic; the potential negative impact of customer complaints, government investigations, security breaches or service outages impacting us or our industry; 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 and covenants, 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, or continue to do business with, financially-troubled customers, including those adversely impacted by the economic dislocations caused by the COVID-19 pandemic; our ability to use our net operating loss carryforwards 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 additional future impairment charges; the effects of adverse weather, terrorism, epidemics, pandemics or other natural or man-made disasters; the potential adverse effects if our internal controls over financial reporting have weaknesses or deficiencies, or otherwise fail to operate as intended; 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 set forth or referenced in our filings with the U.S. Securities and Exchange Commission (the "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 SIX MONTHS ENDED JUNE 30, 2020 AND 2019														
(UNAUDITED)														
(\$ in millions, except per share amounts; shares in thousands)														
		Three months ended June 30,					Increase / (decrease)		Six months ended June 30,					Increase / (decrease)
		2020			2019 ⁽¹⁾				2020			2019 ⁽¹⁾		
OPERATING REVENUE	\$	5,192			5,375		(3)%		10,420			10,802		(4)%
OPERATING EXPENSES														
Cost of services and products		2,232			2,243		—%		4,467			4,543		(2)%
Selling, general and administrative		895			960		(7)%		1,748			1,892		(8)%
Depreciation and amortization		1,162			1,196		(3)%		2,322			2,384		(3)%
Goodwill		—			—		nm		—			6,506		nm

[illegible]

Transformation Costs and Special Items ⁽²⁾	\$	73	(2)	nm	158	6,523	(98)%
NET INCOME EXCLUDING INTEGRATION AND TRANSFORMATION COSTS AND SPECIAL ITEMS	\$	450	369	22%	849	729	16%
DILUTED EARNINGS PER SHARE EXCLUDING INTEGRATION AND TRANSFORMATION COSTS AND SPECIAL ITEMS	\$	0.42	0.34	24%	0.78	0.68	15%

(1) Reflects certain reclassifications due to accounting changes made in the first quarter of 2020, which were announced in the Company's 8-K report filed with the SEC on April 30, 2020.

(2) 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 JUNE 30, 2020 AND DECEMBER 31, 2019

(UNAUDITED)

(\$ in millions)

	June 30, 2020	December 31, 2019
<u>ASSETS</u>		
CURRENT ASSETS		

Cash and cash equivalents	\$	1,763		1,690	
Accounts receivable, less allowance of \$124 and \$106		2,182		2,259	
Other		913		819	
Total current assets		4,858		4,768	
Property, plant and equipment, net of accumulated depreciation of \$30,332 and \$29,346		26,079		26,079	
GOODWILL AND OTHER ASSETS					
Goodwill		21,469		21,534	
Other intangible assets, net		8,903		9,567	
Other, net		2,862		2,794	
Total goodwill and other assets		33,234		33,895	
TOTAL ASSETS	\$	64,171		64,742	
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>					
CURRENT LIABILITIES					
Current maturities of long-term debt	\$	2,885		2,300	
Accounts payable		1,448		1,724	
Accrued expenses and other liabilities					
Salaries and benefits		917		1,037	
Income and other taxes		337		311	
Current operating lease liabilities		474		416	
Interest		303		280	
Other		349		386	
Current portion of deferred revenue		759		804	
Total current liabilities		7,472		7,258	
LONG-TERM DEBT		31,414		32,394	

DEFERRED CREDITS AND OTHER LIABILITIES				
Deferred income taxes, net	3,094		2,918	
Benefit plan obligations, net	4,428		4,594	
Other	4,301		4,108	
Total deferred credits and other liabilities	11,823		11,620	
STOCKHOLDERS' EQUITY				
Common stock	1,097		1,090	
Additional paid-in capital	21,376		21,874	
Accumulated other comprehensive loss	(2,902)		(2,680)	
Accumulated deficit	(6,109)		(6,814)	
Total stockholders' equity	13,462		13,470	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 64,171		64,742	

CenturyLink, Inc.				
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS				
SIX MONTHS ENDED JUNE 30, 2020 AND 2019				
(UNAUDITED)				
(\$ in millions)				
	Six months ended			
	June 30, 2020		June 30, 2019	
OPERATING ACTIVITIES				
Net Income (Loss)	\$ 691		(5,794)	
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				

Depreciation and amortization	2,322		2,384	
Impairment of goodwill and other assets	—		6,506	
Deferred income taxes	220		244	
Provision for uncollectible accounts	90		85	
Net loss (gain) on early retirement and modification of debt	86		(66)	
Share-based compensation	89		76	
Changes in current assets and liabilities, net	(435)		(611)	
Retirement benefits	(62)		(8)	
Changes in other noncurrent assets and liabilities, net	51		67	
Other, net	(4)		—	
Net cash provided by operating activities	3,048		2,883	
INVESTING ACTIVITIES				
Capital expenditures	(1,983)		(1,731)	
Proceeds from sale of property, plant and equipment and other assets	84		26	
Other, net	1		(12)	
Net cash used in investing activities	(1,898)		(1,717)	
FINANCING ACTIVITIES				
Net proceeds from issuance of long-term debt	2,425		—	
Payments of long-term debt	(3,696)		(760)	
Net proceeds on revolving line of credit	825		100	
Dividends paid	(562)		(554)	
Other, net	(75)		(30)	
Net cash used in financing activities	(1,083)		(1,244)	
Net increase (decrease) in cash, cash equivalents and restricted cash	67		(78)	
Cash, cash equivalents and restricted cash at beginning of period	1,717		518	

Cash, cash equivalents and restricted cash at end of period	\$	1,784		440	
Cash, cash equivalents and restricted cash:					
Cash and cash equivalents	\$	1,763		410	
Restricted cash	21			30	
Total	\$	1,784		440	

CenturyLink, Inc.									
OPERATING METRICS									
(UNAUDITED)									
<i>(In thousands)</i>									
			June 30, 2020		March 31, 2020		June 30, 2019		
Operating Metrics									
Consumer broadband subscribers		4,638		4,667		4,750			
<p>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.</p>									

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, accounts payable, payroll and capital expenditures. Unlevered Cash Flow should not be used as a substitute for net change in cash, cash equivalents and restricted cash 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 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, accounts payable, payroll and capital expenditures. Free Cash Flow should not be used as a substitute for net change in cash, cash equivalents and restricted cash 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						2Q20		2Q19		2Q20		2Q19	
Consumer litigation						\$	6		15		6		15
Total special items impacting adjusted EBITDA						6		15		6		15	
Plus: Integration and Transformation Costs						83		39		117		73	
Total Integration and Transformation Costs and Special Items impacting adjusted EBITDA						\$	89		54		123		88
						Actual QTD			Actual YTD				
Integration and Transformation Costs and Special Items Impacting Net Income (Loss)						2Q20		2Q19		2Q20		2Q19	
Consumer litigation						\$	6		15		6		15
Impairment of goodwill						—		—		—		6,506	
Loss (gain) on early debt retirement						7		(57)		86		(66)	
Total Special Items impacting net income (loss)						13		(42)		92		6,455	

Plus: Integration and Transformation Costs	83		39		117	73	
Total Integration and Transformation Costs and Special Items impacting net income (loss)	96		(3)		209	6,528	
Income tax effect of Integration and Transformation Costs and Special Items (2)	(23)		1		(51)	(5)	
Total Integration and Transformation Costs and Special Items impacting net income (loss), net of tax	\$ 73		(2)		158	6,523	
(1) Represents the cost of obtaining the synergy and transformations savings over 2019-2021 that the Company initially discussed in its Feb. 13, 2019 earnings release.							
(2) Tax effect calculated using the annualized effective statutory tax rate, excluding any non-recurring discrete items, which was 24.3% and 24.4% for the three and six months ended June 30, 2019 and 2020, respectively.							

CenturyLink, Inc.							
Non-GAAP Cash Flow Reconciliation							
(UNAUDITED)							
(\$ in millions)							
					2Q20	2Q19	
Net cash provided by operating activities	\$	1,749			1,701		
Capital expenditures		(1,009)			(800)		
Free Cash Flow		740			901		
Cash interest paid		445			570		
Interest income		(1)			(3)		
Unlevered Cash Flow	\$	1,184			1,468		
Free Cash Flow	\$	740			901		
Add back: cash Integration and Transformation Costs ⁽¹⁾		51			54		
Add back: Special Items ⁽¹⁾		12			1		

Free Cash Flow excluding cash Integration and Transformation Costs and Special Items	\$	803		956	
Unlevered Cash Flow	\$	1,184		1,468	
Add back: cash Integration and Transformation Costs	51			54	
Add back: Special Items	12			1	
Unlevered Cash Flow excluding cash Integration and Transformation Costs and Special Items	\$	1,247		1,523	
(1) Refer to <i>Non-GAAP Integration and Transformation Costs and Special Items</i> table for details of the Integration and Transformation Costs and Special Items included above.					

CenturyLink, Inc.				
Adjusted EBITDA Non-GAAP Reconciliation				
(UNAUDITED)				
(\$ in millions)				
		2Q20		2Q19
Net income	\$	377		371
Income tax expense		136		131
Total other expense, net		390		474
Depreciation and amortization expense		1,162		1,196
Share-based compensation expense		20		43
Adjusted EBITDA	\$	2,085		2,215
Add back: Integration and Transformation Costs ⁽¹⁾	\$	83		39
Add back: Special Items ⁽¹⁾		6		15
Adjusted EBITDA excluding Integration and Transformation Costs and Special Items	\$	2,174		2,269

Total revenue	\$	5,192	5,375
Adjusted EBITDA margin		40.2%	41.2%
Adjusted EBITDA margin excluding Integration and Transformation Costs and Special Items		41.9%	42.2%

(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.

SOURCE CenturyLink, Inc.

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