

Lumen Technologies reports third quarter 2020 results



November 4, 2020

Highlights

- Reported Net Income of \$366 million for the third quarter 2020, compared to reported Net Income of \$302 million for the third quarter 2019. Excluding Integration and Transformation Costs and Special Items, reported Net Income of \$430 million for the third quarter 2020, compared to \$328 million for the third quarter 2019
- Diluted EPS was \$0.34 for the third quarter 2020, compared to \$0.28 per share for the third quarter 2019. Excluding Integration and Transformation Costs and Special Items, Diluted EPS was \$0.40 per share for the third quarter 2020, compared to \$0.31 per share for the third quarter 2019
- Generated Adjusted EBITDA of \$2.190 billion for the third quarter 2020, excluding \$78 million of Integration and Transformation Costs and Special Items
- Generated Net Cash Provided by Operating Activities of \$1.794 billion for the third quarter 2020
- Generated Free Cash Flow of \$917 million for the third quarter 2020, excluding \$111 million of cash paid for Integration and Transformation Costs and Special Items
- Achieved approximately \$730 million of annualized run-rate Adjusted EBITDA cost transformation savings against the three-year goal of \$800 million to \$1 billion

DENVER, Nov. 4, 2020 /PRNewswire/ -- Lumen Technologies (NYSE: LUMN) reported results for the third quarter ended Sept. 30, 2020.

"In addition to delivering strong financial results in the third quarter, I am encouraged by the opportunities we are seeing as we repositioned the company as Lumen," said Jeff Storey, president and CEO of Lumen. "The Lumen platform leverages our rich fiber infrastructure assets to deliver industry-leading services to customers implementing the technologies that power the 4th Industrial Revolution. As we invest in addressable markets that are growing and in our own digital transformation, we believe our revenue trajectory will continue to improve over the long term."

Total revenue was \$5.167 billion for the third quarter 2020, compared to \$5.350 billion for the third quarter 2019.

Financial Results

Metric	Third	Third
--------	-------	-------

	Quarter		Quarter	
<i>(\$ in millions, except per share data)</i>	2020		2019(1)	
International and Global Accounts	\$	835	866	
Enterprise	1,439		1,428	
Small and Medium Business	635		674	
Wholesale	949		1,017	
Consumer	1,309		1,365	
Total Revenue	\$	5,167	5,350	
Cost of Services and Products	2,236		2,334	
Selling, General and Administrative Expenses	850		831	
Share-based Compensation Expenses	31		38	
Adjusted EBITDA(2)	2,112		2,223	
Adjusted EBITDA, Excluding Integration and Transformation Costs and Special Items(2)(3)	2,190		2,261	
Adjusted EBITDA Margin(2)	40.9%		41.6%	
Adjusted EBITDA Margin, Excluding Integration and Transformation Costs and Special Items(2)(3)	42.4%		42.3%	
Net Cash Provided by Operating Activities	1,794		1,888	
Capital Expenditures	988		957	
Unlevered Cash Flow(2)	1,229		1,382	
Unlevered Cash Flow, Excluding Cash Integration and Transformation Costs and Special Items(2)(4)	1,340		1,434	

Free Cash Flow(2)	806	931	
Free Cash Flow, Excluding Cash Integration and Transformation Costs and Special Items(2)(4)	917	983	
Net Income	366	302	
Net Income, Excluding Integration and Transformation Costs and Special Items(5)	430	328	
Net Income per Common Share - Diluted	0.34	0.28	
Net Income per Common Share - Diluted, Excluding Integration and Transformation Costs and Special Items(5)	0.40	0.31	
Weighted Average Shares Outstanding (in millions) - Diluted	1,085.7	1,074.8	

(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) \$78 million of Integration and Transformation Costs and Special Items for the third quarter of 2020 and (ii) \$38 million of Integration and Transformation Costs and Special Items for the third quarter of 2019.		
(4) Excludes (i) \$111 million of cash paid for Integration and Transformation Costs and Special Items for the third quarter of 2020 and (ii) \$52 million of cash paid for Integration and Transformation Costs and Special Items for the third quarter of 2019.		
(5) Excludes (i) \$64 million of Integration and Transformation Costs and Special Items for the third quarter of 2020 and (ii) \$26 million of Integration and Transformation Costs and Special Items for the third quarter of 2019.		

Revenue	Third Quarter	Second Quarter	QoQ Percent	Third Quarter	YoY Percent

(\$ in millions)	2020			2020			Change	2019			Change
By Business Segment											
International and Global Accounts	\$	835		849			(2)%	866			(4)%
Enterprise	1,439			1,433			—%	1,428			1%
Small and Medium Business	635			646			(2)%	674			(6)%
Wholesale	949			948			—%	1,017			(7)%
Consumer	1,309			1,316			(1)%	1,365			(4)%
Total Revenue	\$	5,167		5,192			—%	5,350			(3)%

Cash Flow

Free Cash Flow, excluding Integration and Transformation Costs and Special Items, was \$917 million in the third quarter 2020, compared to \$983 million in the third quarter 2019.

As of Sept. 30, 2020, Lumen had cash and cash equivalents of \$526 million, a portion of which was used to redeem \$160 million of Qwest Corporation's outstanding senior notes on Oct. 26, 2020.

2020 Outlook

"Compared to the second quarter 2020, we grew Adjusted EBITDA this quarter and expect another quarter of sequential growth in the fourth quarter 2020," said Neel Dev, Lumen's executive vice president and chief financial officer. "Additionally, with our continued focus on deleveraging, we are again lowering and narrowing our Net Cash Interest outlook for the full year 2020."

Metric (1), (2)	Current Outlook	Previous Outlook (3), (4)
Net Cash Interest	\$1.62 billion to \$1.65 billion	\$1.65 billion to \$1.70 billion
GAAP Interest Expense	\$1.7 billion	\$1.7 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 Nov. 4, 2020. See "Forward-Looking Statements" below.		
(3) Refers to full-year 2020 financial outlook provided on Aug. 5, 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 Sept. 30, 2020. Payments of all dividends are at the discretion of the board of directors.		

Investor Call

Lumen's management will host a conference call at 5 p.m. ET today, Nov. 4, 2020. The conference call will be streamed live over Lumen's website at ir.lumen.com. Additional information regarding third 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 Nov. 4, 2020, and ending Jan. 2, 2021, 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 21970799. A webcast replay of the call will also be available on our website beginning at 7 p.m. ET on Nov. 4, 2020, and ending Jan. 2, 2021, at 6 p.m. ET.

About Lumen*

Lumen Technologies (NYSE: LUMN) is guided by our belief that humanity is at its best when technology advances the way we live and work. With approximately 450,000 route fiber miles and serving customers in more than 60 countries, we deliver the fastest, most secure platform for applications and data to help businesses, government and communities deliver amazing experiences.

Learn more about Lumen's network, edge cloud, security, communication and collaboration solutions and our purpose to further human progress through technology at news.lumen.com, LinkedIn: /lumentechologies, Twitter: @lumentechco, Facebook: /lumentechologies, Instagram: @lumentechologies and YouTube: /lumentechologies. Lumen and Lumen Technologies are registered trademarks of Lumen Technologies LLC in the United States. Lumen Technologies LLC is a wholly-owned affiliate of CenturyLink Inc.

**On Sept. 14, 2020, the company announced the "Lumen" brand launch and effective Sept. 18, 2020, began trading under the ticker symbol "LUMN". As a result, CenturyLink Inc. is referred to as "Lumen Technologies," or simply "Lumen." The legal name "CenturyLink, Inc." is expected to be formally changed to "Lumen Technologies, Inc." upon satisfying all applicable legal requirements.*

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; our ability to obtain approvals to implement our new brand name change; any adverse developments in legal or regulatory proceedings involving us; changes in tax, communications, pension, health care or other laws or regulations, in governmental support programs, or in general government funding levels, including those that might occur after the U.S. elections on Nov. 3, 2020; 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.lumen.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. Lumen may present or calculate its non-GAAP measures differently from other companies.

CenturyLink, Inc.																	
(doing business as Lumen Technologies)																	
CONSOLIDATED STATEMENTS OF OPERATIONS																	
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019																	
(UNAUDITED)																	
(\$ in millions, except per share amounts; shares in thousands)																	
			Three months ended September 30,					Increase / (decrease)		Nine months ended September 30,					Increase / (decrease)		
			2020		2019 (1)					2020		2019 (1)					
	OPERATING REVENUE		\$	5,167		5,350		(3)%		15,587		16,152		(3)%			
	OPERATING EXPENSES																
	Cost of services and products		2,236			2,334			(4)%		6,703			6,877			(3)%
	Selling, general and administrative		850			831			2%		2,598			2,723			(5)%

	Basic		1,080,505				1,072,543				1%					1,078,672				1,070,921				1%			
	Diluted		1,085,666				1,074,790				1%					1,083,368				1,070,921				1%			
DIVIDENDS PER COMMON SHARE			\$	0.25			0.25			—%				0.75			0.75			—%							
	Exclude: Integration and Transformation Costs and Special Items(2)		\$	64			26			nm				222			6,549			(97)%							
NET INCOME EXCLUDING INTEGRATION AND TRANSFORMATION COSTS AND SPECIAL ITEMS			\$	430			328			31%				1,279			1,057			21%							
DILUTED EARNINGS PER SHARE EXCLUDING INTEGRATION AND TRANSFORMATION COSTS AND SPECIAL ITEMS			\$	0.40			0.31			29%				1.18			0.99			19%							

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

CenturyLink, Inc.

(doing business as Lumen Technologies)

CONDENSED CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30, 2020 AND DECEMBER 31, 2019

(UNAUDITED)

(\$ in millions)

	September 30, 2020			December 31, 2019		
<u>ASSETS</u>						
CURRENT ASSETS						
Cash and cash equivalents	\$	526		1,690		
Accounts receivable, less allowance of \$156 and \$106		2,143		2,259		
Other		835		819		
Total current assets		3,504		4,768		
Property, plant and equipment, net of accumulated depreciation of \$30,921 and \$29,346		26,290		26,079		
GOODWILL AND OTHER ASSETS						
Goodwill		21,476		21,534		
Other intangible assets, net		8,563		9,567		

Other, net	2,766		2,794	
Total goodwill and other assets	32,805		33,895	
TOTAL ASSETS	\$ 62,599		64,742	
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>				
CURRENT LIABILITIES				
Current maturities of long-term debt	\$ 1,487		2,300	
Accounts payable	1,364		1,724	
Accrued expenses and other liabilities				
Salaries and benefits	898		1,037	
Income and other taxes	378		311	
Current operating lease liabilities	401		416	
Interest	278		280	
Other	335		386	
Current portion of deferred revenue	738		804	
Total current liabilities	5,879		7,258	
LONG-TERM DEBT	31,105		32,394	
DEFERRED CREDITS AND OTHER LIABILITIES				
Deferred income taxes, net	3,232		2,918	
Benefit plan obligations, net	4,345		4,594	
Other	4,349		4,108	
Total deferred credits and other liabilities	11,926		11,620	

STOCKHOLDERS' EQUITY				
Common stock	1,097		1,090	
Additional paid-in capital	21,130		21,874	
Accumulated other comprehensive loss	(2,795)		(2,680)	
Accumulated deficit	(5,743)		(6,814)	
Total stockholders' equity	13,689		13,470	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 62,599		64,742	

CenturyLink, Inc.				
(doing business as Lumen Technologies)				
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS				
NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019				
(UNAUDITED)				
(\$ in millions)				
	Nine months ended			
	September 30, 2020		September 30, 2019	
OPERATING ACTIVITIES				
Net Income (Loss)	\$	1,057		(5,492)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				

Depreciation and amortization	3,515		3,619	
Impairment of goodwill and other assets	—		6,516	
Deferred income taxes	315		350	
Provision for uncollectible accounts	137		116	
Net loss (gain) on early retirement and modification of debt	78		(70)	
Share-based compensation	120		114	
Changes in current assets and liabilities, net	(677)		(464)	
Retirement benefits	(96)		(24)	
Changes in other noncurrent assets and liabilities, net	287		72	
Other, net	106		34	
Net cash provided by operating activities	4,842		4,771	
INVESTING ACTIVITIES				
Capital expenditures	(2,971)		(2,688)	
Proceeds from sale of property, plant and equipment and other assets	119		54	
Other, net	12		(37)	
Net cash used in investing activities	(2,840)		(2,671)	
FINANCING ACTIVITIES				
Net proceeds from issuance of long-term debt	3,257		988	
Payments of long-term debt	(6,334)		(1,459)	
Net proceeds on revolving line of credit	825		150	

Dividends paid	(837)		(829)	
Other, net	(83)		(37)	
Net cash used in financing activities	(3,172)		(1,187)	
Net increase (decrease) in cash, cash equivalents and restricted cash	(1,170)		913	
Cash, cash equivalents and restricted cash at beginning of period	1,717		518	
Cash, cash equivalents and restricted cash at end of period	\$ 547		1,431	
Cash, cash equivalents and restricted cash:				
Cash and cash equivalents	\$ 526		1,404	
Restricted cash	21		27	
Total	\$ 547		1,431	

<https://news.lumen.com/lumen-lede?item=920>

CenturyLink, Inc.					
(doing business as Lumen Technologies)					
OPERATING METRICS					
(UNAUDITED)					
<i>(In thousands)</i>					
		September 30, 2020	June 30, 2020	March 31, 2020	
Operating Metrics					
Consumer broadband subscribers	4,563				

--	--	--	--