

# Lumen Technologies Inc. reports fourth quarter 2020 results



**February 10, 2021**

DENVER, Feb. 10, 2021 /PRNewswire/ -- Lumen Technologies Inc. (NYSE: LUMN) reported results for the fourth quarter ended Dec. 31, 2020.

"We made significant transformational progress in 2020, launching the Lumen platform to support our customers' application and data needs for the 4<sup>th</sup> Industrial Revolution," said Jeff Storey, president and CEO of Lumen. "We invested in our Edge Cloud capabilities, enhanced our customers' digital experiences, and launched new platform-based solutions. These investments enabled us to improve our revenue growth trajectory and serve as the foundation for several new strategic partnerships. We are excited about the opportunity for growth in 2021 as we truly become the platform for amazing things."

Total revenue was \$5.125 billion for the fourth quarter 2020, compared to \$5.306 billion for the fourth quarter 2019.

## Financial Results

Metric	Fourth Quarter			Fourth Quarter			Full Year		Full Year	
<i>(\$ in millions, except per share data)</i>	<b>2020</b>			<b>2019<sup>(1)</sup></b>			<b>2020</b>		<b>2019<sup>(1)</sup></b>	
International and Global Accounts	\$	856		870			3,405		3,476	
Enterprise	1,430			1,434			5,722		5,696	
Small and Medium Business	618			665			2,557		2,727	
Wholesale	922			983			3,777		4,042	
Consumer	1,299			1,354			5,251		5,517	

Total Revenue	\$	5,125		5,306		20,712		21,458	
Cost of Services and Products		2,231		2,257		8,934		9,134	
Selling, General and Administrative Expenses		866		992		3,464		3,715	
Share-based Compensation Expenses		55		48		175		162	
Adjusted EBITDA <sup>(2)</sup>		2,083		2,105		8,489		8,771	
Adjusted EBITDA, Excluding Integration and Transformation Costs and Special Items <sup>(2)(3)</sup>		2,281		2,278		8,888		9,070	
Adjusted EBITDA Margin <sup>(2)</sup>		40.6%		39.7%		41.0%		40.9%	
Adjusted EBITDA Margin, Excluding Integration and Transformation Costs and Special Items <sup>(2)(3)</sup>		44.5%		42.9%		42.9%		42.3%	
Net Cash Provided by Operating Activities		1,682		1,909		6,524		6,680	
Capital Expenditures		758		940		3,729		3,628	
Unlevered Cash Flow <sup>(2)</sup>		1,297		1,486		4,416		5,065	
Unlevered Cash Flow, Excluding Cash Integration and Transformation Costs and Special Items <sup>(2)(4)</sup>		1,377		1,539		4,752		5,289	
Free Cash Flow <sup>(2)</sup>		924		969		2,795		3,052	
Free Cash Flow, Excluding Cash									

Integration and Transformation Costs and Special Items <sup>(2)(4)</sup>	1,004		1,022		3,131		3,276	
Net (Loss) Income	(2,289)		223		(1,232)		(5,269)	
Net Income, Excluding Integration and Transformation Costs and Special Items <sup>(5)</sup>	522		352		1,801		1,409	
Net (Loss) Income per Common Share - Diluted	(2.12)		0.21		(1.14)		(4.92)	
Net Income per Common Share - Diluted, Excluding Integration and Transformation Costs and Special Items <sup>(5)</sup>	0.48		0.33		1.67		1.32	
Weighted Average Shares Outstanding (in millions) - Diluted	1,080.5		1,078.2		1,079.1		1,071.4	

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> Excludes Integration and Transformation Costs and Special Items in the amounts of (i) \$198 million for the fourth quarter of 2020, (ii) \$173 million for the fourth quarter of 2019, (ii) \$399 million for the full year 2020, and (iv) \$299 million for the full year 2019.

<sup>(4)</sup> Excludes cash paid for Integration and Transformation Costs and Special Items of (i) \$80 million for the fourth quarter of 2020, (ii) \$53 million for the fourth quarter of 2019, (iii) \$336 million for the full year 2020, and (iv) \$224 million for the full year 2019.

<sup>(5)</sup> Excludes Integration and Transformation Costs and Special Items (net of the income tax effect thereof) in the amounts of (i) \$2.811 billion for the fourth quarter of 2020, (ii) \$129

million for the fourth quarter of 2019, (iii) \$3.033 billion for the full year 2020, and (iv) \$6.678 billion for the full year 2019.

<b>Revenue</b>	<b>Fourth Quarter</b>		<b>Third Quarter</b>		<b>QoQ Percent</b>	<b>Fourth Quarter</b>		<b>YoY Percent</b>
<i>(\$ in millions)</i>	<b>2020</b>		<b>2020</b>		<b>Change</b>	<b>2019</b>		<b>Change</b>
<b>By Business Segment</b>								
International and Global Accounts	\$	856		835	3%		870	(2)%
Enterprise	1,430			1,439	(1)%	1,434		—%
Small and Medium Business	618			635	(3)%	665		(7)%
Wholesale	922			949	(3)%	983		(6)%
Consumer	1,299			1,309	(1)%	1,354		(4)%
<b>Total Revenue</b>	\$	5,125		5,167	(1)%		5,306	(3)%

### **Cash Flow**

Free Cash Flow, excluding Integration and Transformation Costs and Special Items, was \$1.004 billion in the fourth quarter 2020, compared to \$1.022 billion in the fourth quarter 2019.

As of Dec. 31, 2020, Lumen had cash and cash equivalents of \$406 million.

### **Goodwill Impairment**

Each year, the company is required under GAAP to undertake a goodwill impairment analysis of all its reporting units. The analysis compares the fair value of the equity for each of the reporting units to the carrying value of equity for each reporting unit. The analysis takes into account weighted average cost of capital and market multiples, along with the company's forecasts. Based on this analysis, in the fourth quarter of 2020 the company recorded an aggregate \$2.642

billion non-cash goodwill impairment across multiple reporting units.

## **2021 Reporting Changes**

### ***Segment and Sales Channel Reporting***

The company is making changes to its segment and customer-facing sales channel reporting categories in 2021 to align with operational changes designed to better support its customers.

Beginning next quarter, the company will report two segments: Business and Mass Markets. The Business segment will include four sales channels: International & Global Accounts, Large Enterprise, Mid-Market Enterprise, and Wholesale. Mass Markets includes both Consumer and our Small Business Group (SBG).

For the Business and Mass Markets segments, proforma for these upcoming changes, fourth quarter 2020 revenue was:

<b>Revenue</b>	<b>Proforma Fourth Quarter 2020</b>		
<i>(\$ in millions)</i>			
<i>By Sales Channel</i>			
International & Global Accounts	\$	1,033	
Large Enterprise		986	
Mid-Market Enterprise		716	
Wholesale		930	
<b>Business Segment</b>	\$	3,665	
<b>Mass Markets Segment</b>		1,460	
Total Revenue	\$	5,125	

## ***Product Category Reporting***

Additionally, beginning next quarter the company is making changes to the product category reporting to better reflect product life cycles and the company's go to market approach. These changes include both the creation of new product categories and the realignment of products and services within previously reported product categories.

For Business segment revenue, the company will report the following product categories: Compute & Application Services, IP & Data Services, Fiber Infrastructure Services and Voice & Other.

Proforma for these upcoming changes, fourth quarter 2020 product categories for the Business Segment were:

<b>Business</b>	<b>Proforma Fourth Quarter 2020</b>		
<b>By Product Category</b>			
<i>(\$ in millions)</i>			
Compute & Application Services	\$	454	
IP & Data Services		1,588	
Fiber Infrastructure Services		575	
Voice & Other		1,048	
Total Revenue	\$	3,665	

For Mass Markets segment revenue, the company will report in the following product categories: Consumer Broadband, Small Business Group (SBG) Broadband, Voice & Other, and CAF II.

Proforma for these upcoming changes, fourth quarter 2020 product categories revenue for the Mass Markets segment were:

<b>Mass Markets</b>	<b>Proforma</b>

<b>By Product Category</b>	<b>Fourth Quarter 2020</b>		
<i>(\$ in millions)</i>			
Consumer Broadband	\$	731	
SBG Broadband	37		
Voice & Other	569		
CAF II	123		
Total Revenue	\$	1,460	

### **Adjusted EBITDA and Free Cash Flow excluding Special Items**

Going forward, the company plans to discontinue reporting Integration and Transformation savings and associated costs.

The company plans to continue to provide disclosure on Adjusted EBITDA, Free Cash Flow and other profitability measures, including and excluding Special Items. Special Items will include expenses such as severance, material legal settlements or other unforeseen material items that are one-time or unusual in nature.

Proforma for these upcoming changes, 2020 profitability and cash flow metrics were:

<b>Proforma Adjusted EBITDA Reporting</b>			<b>Proforma Free Cash Flow Reporting</b>		
<b>Metric</b>	<b>2020 Reported</b>	<b>2020 Proforma</b>	<b>Metric</b>	<b>2020 Reported</b>	<b>2020 Proforma</b>
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>\$8,489</b>	<b>\$8,489</b>	<b>Free Cash Flow<sup>(1)</sup></b>	<b>\$2,795</b>	<b>\$2,795</b>
Severance <sup>(2)</sup>	\$151	\$151	Severance <sup>(2)</sup>	\$137	\$137

Other Integration and Transformation Costs	\$224	n/a		Other Integration and Transformation Costs	\$152	n/a
Subtotal	\$375	\$151		Subtotal	\$289	\$137
Special Items	\$24	\$24		Special Items	\$47	\$47
<b>Total Add Backs</b>	<b>\$399</b>	<b>\$175</b>		<b>Total Add Backs</b>	<b>\$336</b>	<b>\$184</b>
<b>Adjusted EBITDA</b>  Excl. Integration and Transformation Costs and Special items	<b>\$8,888</b>	n/a		<b>Free Cash Flow</b>  Excl. Integration and Transformation Costs and Special Items	<b>\$3,131</b>	n/a
<b>Adjusted EBITDA</b>  Excl. Special Items	n/a	<b>\$8,664</b>		<b>Free Cash Flow</b>  Excl. Special Items	n/a	<b>\$2,979</b>
Adjusted EBITDA Margin <sup>(3)</sup>	43%	42%				

(1) For definitions of non-GAAP metrics and reconciliation to GAAP figures, see the attached schedules and Lumen's Investor Relations website.

(2) Severance costs were previously classified within Integration and Transformation Costs. Effective in 2021, this will be reported within Special Items.

(3) 2020 reported Adj. EBITDA margin excludes Integration and Transformation Costs and Special Items; 2020 proforma Adj. EBITDA margin excludes only Special Items (including



severance costs).

## **2021 Outlook**

<b>2021 Metric <sup>(1)(2)</sup></b>	<b>2020 Proforma<sup>(3)</sup></b>	<b>2021 Outlook</b>
Adjusted EBITDA (excluding Special Items)	\$8.664 billion	\$8.4 to \$8.6 billion
Free Cash Flow (excluding Special Items) <sup>(4)</sup>	\$2.979 billion	\$2.8 to \$3.0 billion
<b>2021 Metric <sup>(1)(2)</sup></b>	<b>2020 Actual</b>	<b>2021 Outlook</b>
Net Cash Interest	\$1.627 billion	\$1.525 to \$1.575 billion
GAAP Interest Expense	\$1.668 billion	\$1.550 billion
Dividends <sup>(5)</sup>	\$1.1 billion	\$1.1 billion
Capital Expenditures	\$3.729 billion	\$3.5 to \$3.8 billion
Depreciation and Amortization	\$4.710 billion	\$4.2 to \$4.4 billion
Share-based Compensation Expenses	\$175 million	~\$200 million
Cash Income Taxes	\$70 million	\$100 million
Full Year Effective Income Tax Rate <sup>(6)</sup>	24%	27%

<sup>(1)</sup> For definitions of non-GAAP metrics and reconciliation to GAAP figures, see the attached schedules and Lumen's Investor Relations website.

<sup>(2)</sup> Outlook measures in this chart and the accompanying schedules (i) 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 (ii) speak only as of Feb. 10, 2021. See "Forward-Looking Statements."

(3) For 2020 results, Adjusted EBITDA and Free Cash Flow are on a proforma basis to reflect our upcoming 2021 reporting. All other metrics are on an as reported basis.

(4) Free Cash Flow outlook does not include any potential discretionary pension fund contribution.

(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 Dec. 31, 2020. Payments of all dividends are at the discretion of the Board of Directors.

(6) 2020 Actual excludes goodwill impairment.

### **Investor Call**

Lumen's management will host a conference call at 5 p.m. ET today, Feb. 10, 2021. The conference call will be streamed live over Lumen's website at [ir.lumen.com](http://ir.lumen.com). Additional information regarding fourth 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 Feb. 10, 2021, and ending May 11, 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 21989194. A webcast replay of the call will also be available on our website beginning at 7 p.m. ET on Feb. 10, 2021, and ending May 11, 2021, at 6 p.m. ET.

### **About Lumen**

Lumen Technologies Inc. (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 the Lumen network, edge cloud, security, communication and collaboration solutions and our purpose to further human progress through technology at [news.lumen.com/home](https://news.lumen.com/home), 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 Lumen Technologies, Inc.

### **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," "will," 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 regarding the extent to which COVID-19 health and economic disruptions will continue to impact our business, operations, cash flows and corporate initiatives; 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 of possible security breaches, service outages, system failures, 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 legislative, regulatory or judicial proceedings relating to content liability standards, intercarrier compensation, universal service, broadband deployment, data protection, privacy and net neutrality; our ability to effectively retain and hire key personnel and to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages; 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; the impact of any future material acquisitions or divestitures that we may engage in; 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; 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 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 securityholders, key business partners, suppliers, vendors, landlords and financial institutions; our ability to meet evolving environmental, social and governance expectations and benchmarks; our ability to collect our receivables from, or continue to do business with, financially-troubled customers, including, but not limited to, 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, pension, healthcare or other laws or regulations, in governmental support programs, or in general government funding levels, including those arising from pending proposals to increase federal income tax rates; 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, rioting, societal unrest, or other natural or man-made disasters or disturbances; 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 referenced from time to time in our filings with the U.S. Securities and Exchange Commission. 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 circumstan

<https://news.lumen.com/q4-2020-results>