

**3Q19 Earnings Presentation Script**  
**November 7, 2019**

**Chris King**

Good morning everyone and thank you for joining Windstream's third quarter 2019 earnings conference call.

Joining me on the call today are:

- Tony Thomas, our CEO, and
- Bob Gunderman, our CFO and Treasurer

To accompany today's call, we have posted the presentation slides, earnings release and supplemental schedule on our Investor Relations website.

Today's discussion includes statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties. A discussion of factors that may affect future results is contained in Windstream's filings with the SEC, which are available on our website. Let me now turn it over to Tony Thomas.

## **Tony Thomas**

Thanks, Chris. Good morning everyone and thank you for joining us today.

Before I begin discussing Windstream's operational performance, I wanted to briefly provide an update on our restructuring process. Windstream remains focused on securing a result that maximizes value for all of the company's stakeholders. As part of this process, Windstream continues to work to modify our arrangement with Uniti. As discussed on last quarter's call, to increase the likelihood of an optimal result, Windstream is pursuing both litigation against and negotiations with Uniti. We are hopeful this process will lead to a mutually satisfactory agreement between Windstream, Uniti, and our other key stakeholders. Absent an acceptable negotiated resolution, Windstream is prepared to pursue its litigation claims to conclusion. The trial is currently scheduled to begin in the first week of March.

Pursuant to a confidentiality agreement associated with the ongoing mediation, we are unable to provide any additional information regarding the discussions with Uniti at this time.

Setting aside the Uniti-related matters, in the third quarter, we once again delivered broadband customer growth in our Kinetic business unit and grew sales of our Enterprise strategic products. I am proud of the continued focus of our team and appreciate the support of all of our stakeholders as we work through the reorganization process.

Turning to our operations, our team remains laser-focused on serving our customers and achieving our priorities for the year.

Beginning on slide 4, we delivered \$423 million in adjusted OIBDAR in the quarter. Our consolidated adjusted OIBDAR margin of 33.3% has increased 20 basis points year-over-year, as our cash expenses fell by 8.2% year-over-year, continuing our focus of taking costs out of the business.

For the sixth consecutive quarter and now twenty consecutive months through October 2019, we recorded consumer broadband growth, adding approximately 5,700 subscribers during the quarter, up from 1,900 net adds a quarter ago. Year-to-date through September, we have added approximately 19,000 broadband subscribers, a 126% increase year-over-year.

In the Enterprise business unit, we continued to see strong growth in our strategic products. We remain the largest SD-WAN service provider in the country in terms of customers and locations served and our strategic revenues grew by 41% in the quarter.

On slide 5, I wanted to take a minute to review our 2019 operational priorities which we discussed on our fourth quarter call in February, and our progress towards them. First, we set the goal of consistent customer excellence. Our customer satisfaction survey results, as well as our continued success on gaining consumer broadband market share illustrate the

progress we are seeing. Second, we have a priority to be a software development powerhouse. Our Gartner Magic Quadrant award for OfficeSuite, as well as numerous other awards and accolades for our UCaaS and SD-WAN products demonstrate our progress here. In addition, the marketplace is recognizing our software abilities, as our strategic revenues continue to grow impressively, helping to offset continued weakness in our core and legacy Enterprise revenues. Lastly, we set a fourth priority of aggressive cost management, and once again, with an 8.2% decline in cash costs year-over-year, we continue to deliver on that necessary goal in today's telecom landscape.

Turning to slide 6, our Kinetic segment continues to rapidly expand its broadband capabilities. We have more than doubled the availability of 100 Mbps speeds across our footprint over the past several months. Today, 41% of our households can receive 100 Mbps or greater speeds. In 2015, not a single household could. 70% of our households have access to speeds of 25 Mbps or greater, which represents a 9-percentage point improvement since the beginning of the year, and over 2 million homes, which represents half of our ILEC footprint, have access to speeds of 50 Mbps or greater. Our Kinetic capital expenditure program continues to be focused on these speed upgrade capabilities across our ILEC footprint.

Slide 7 highlights some of the results of these network improvements, which contributed to approximately 5,700 new subscriber additions in the third quarter, representing the sixth consecutive quarter of consumer broadband growth. This strength across our consumer broadband metrics shows that our network investments are paying off. Project Excel,

which was completed in the first half of 2017, along with targeted initiatives that are ongoing, are extending faster broadband speeds across our ILEC footprint, and our customers are responding. We expect to add approximately 25,000 broadband subscribers during 2019, reflecting our continued momentum in the marketplace.

Slide 8 outlines our customers' growing demand for our increasing broadband speed capabilities. As you can see, the percentage of our broadband subscriber base taking faster speed tiers continues to improve dramatically. As of September, 51% of our broadband subscriber base now enjoys speeds of 25 Mbps or faster--the first time we have crossed the 50% threshold, and up 400 basis points sequentially. As a reminder, this metric was approximately 10% at the beginning of 2017. Additionally, we have enabled 1Gig capability to over 100,000 commercial locations across our ILEC footprint.

Turning to slide 9, I wanted to touch on our progress related to our fixed wireless efforts. In mid-June, we were awarded 146 licenses in the 24 GHz and 28 GHz spectrum bands following auctions conducted by the FCC, which covers approximately 5 million households, including 2 million in our ILEC footprint and 3 million homes adjacent to our ILEC footprint. We spent \$26.6 million for the spectrum, which will be used to deliver speeds of up to 1 Gig per second. Importantly, the spectrum and associated electronics and equipment will be entirely and wholly owned by Windstream.

We are currently conducting fixed wireless trials in three different spectrum bands across our footprint, and I am pleased to report that all trials have met or exceeded our

expectations from both a throughput and cost perspective. We remain excited about this opportunity going forward.

On slide 10, I wanted to touch on a couple of exciting product launches from our Kinetic team during the quarter. Kinetic My-Fi is our premium in-home Wi-Fi product which includes a Mi-Fi extender, designed to fill coverage area gaps within the home, as well as a best in class gateway. A new Wi-Fi management application is part of our MyWin app, for Kinetic customers. The app includes information on network service status, connected device lists, signal strengths and much more. Notably, we currently have 4.8 ratings for the app in both the App Store as well as Google Play. We believe these products help contribute to a best-in-class customer experience for our Kinetic consumer customers.

In addition, in late October, we launched OfficeSuite for SMB customers in our Kinetic ILEC territory. Now, our Gartner Magic Quadrant award-winning UCaaS flagship product is available across our Kinetic footprint for small- and medium-size businesses as well as our Enterprise customers.

Turning back to our third quarter operational highlights, slide 11 shows our SD-WAN and strategic sales growth in our Enterprise segment. Today, Windstream is the largest SD-WAN service provider in the country, with 2,700 SD-WAN customers under contract representing over 22,000 locations. Our UCaaS leadership position, driven by our proprietary OfficeSuite product, remains strong as we have reached over 535,000 UCaaS seats installed at quarter-end.

Our strategic sales continue to accelerate, representing approximately 65% of our total Enterprise sales during the third quarter, and these strategic products and services now represent an annualized run-rate of \$290 million in revenues. These revenues are growing at approximately 41% year-over-year and are now 12% of our total Enterprise service revenues.

On slide 12, I wanted to take a minute to highlight several exciting new Enterprise product launches which occurred during the third quarter. Our OfficeSuite UCaaS product was upgraded to support businesses with up to 20,000 users and can now integrate seamlessly with Slack, Google Assistant and Microsoft Teams. In addition, it is now SOC2 and HIPAA compliant.

We also upgraded our Fortinet SD-WAN product to be PCI compliant and Windstream continues to be the only fully PCI compliant SD-WAN provider in the country. All of our network security services are now PCI DSS compliant. In addition, we also consolidated the last of our legacy Windstream, EarthLink and Broadview customer portals and added managed network security to our WE Connect Portal for our Enterprise customers.

I wanted to briefly discuss the Rural Digital Opportunity Fund, which has garnered the attention of many telecom investors in recent months. Slide 13 provides an overview of where we are in the RDOF process. Windstream currently receives federal CAF II model-based support in exchange for service and deployment obligations that run through the end

of 2020. Previously, the FCC stated it would offer transition funding and we are urging the Commission to offer a full year of additional support in 2021 to bridge the gap to the next funding program.

Earlier this year, the FCC announced that a two-phase reverse auction, the RDOF, would likely commence in 2020 and succeed CAF-II in providing federal broadband support to predominately rural areas. This fund is expected to provide a total of \$20.4 billion over ten years. As part of the FCC's comment process, Windstream urged the Commission to do several things as part of the RDOF implementation. First, we urge the commission to wait and hold a single-phase option once the FCC's broadband maps are updated to reflect location-specific availability, which I will touch on more in a moment. Second, we seek to ensure that the RDOF funds are used to deploy terrestrial broadband services including fiber, which will enable 5G expansion and deliver other positive externalities in rural economies. Lastly, we look to guarantee adequate transitions from the current CAF-II support program to ensure that no rural consumers are left behind.

Turning to broadband mapping issues specifically, on slide 14 we discuss the significant challenges related to the current level of information that the FCC is working with. Current FCC maps assume that all locations within a given census block are served at the highest service tier available within that block. In other words, we believe many rural customers are being undercounted, overcounted or underserved, by the Commission's current broadband maps. Undercounted rural customers could create erroneous bidding assumptions by carriers, while overcounted consumers could be left without broadband. A

recent pilot program conducted by US Telecom concluded that close to half of rural locations in Virginia and Missouri may be either overcounted, undercounted, or underserved with minimal broadband speeds. If the RDOF rules are based on these current flawed maps, we believe serious issues will arise, resulting in hundreds of thousands of rural consumers being left behind because the FCC cannot address those locations without more accurate maps. The FCC is currently planning to address them once the maps are updated in RDOF Phase II, but with a likely vastly insufficient budget.

We are looking forward to both working with the Commission to maximize the economic value for the fund as it develops rules for this exciting new program as well as participating in the fund in the coming years.

Now I will turn the call over to Bob to discuss our financial results.

## **Bob Gunderman**

Thank you, Tony, and good morning everyone.

Turning to slide 15, we show our third quarter financial results.

During the quarter, Windstream generated:

- Total revenues of \$1.3 billion, and
- Adjusted OIBDAR of \$423 million, a \$27 million dollar sequential decline.

Consolidated margin of 33.3% during the quarter represents an increase of 20 basis points year-over-year, driven by our strong expense management initiatives.

Notably, our total cash costs improved by over \$75 million, or 8.2% year-over-year.

The Kinetic segment delivered solid results. For the quarter:

- Service revenue was \$506 million, down slightly sequentially; as consumer ARPUs fell by 73 cents, due in large part to more aggressive promotional pricing seen from some of our larger cable competitors during the quarter. Despite these pressures, Kinetic consumer Internet revenue was essentially flat year-over-year.
- Contribution margin was \$287 million, or approximately 55%, as margins were impacted by typical seasonally higher expenses, primarily related to increases in field operational costs due to the longer daylight hours. Approximately \$12 million in expenses in the quarter can be contributed to our typical 3Q seasonality. In addition, we recorded approximately \$7 million more sequentially in margin-neutral revenues in the quarter.

- Consumer broadband units increased by approximately 5,700 during the quarter, representing our sixth straight quarter of broadband subscriber growth.

In the Enterprise segment:

- Service revenue was \$650 million; and
- Contribution margin was \$126 million, down \$13 million sequentially, representing an approximate 19 percent margin, which was flat year-over-year.

In the Wholesale segment:

- Service revenue was \$86 million; and
- Contribution margin was \$66 million, or approximately 73 percent

On slide 16, I wanted to provide an update on our continued interconnection expense reduction results. Our total interconnection expenses fell by 20% on a year-over-year basis during the third quarter. We have now reduced interconnection expenses by an annualized run-rate of \$282 million over the past four quarters. Notably, we still have over \$1.1 billion of annualized interconnection expense, almost \$660 million of which is legacy TDM-related. These expenses comprise more than half of our total interconnection expenses and are falling by approximately 25% annually. Our access team remains keenly focused on reducing these expenses as quickly as possible, and we continue to believe that we will see greater than 10% annual reductions over the next several years.

Now, I will turn the call back over to Tony for a few closing comments.

## **Tony Thomas**

Thank you, Bob.

In summary, Windstream's operations continue to perform well. We continue to stand alone among major U.S. telecom service providers with twenty consecutive months of consumer broadband subscriber growth through October, as well as positive net adds for six consecutive quarters, coming on the back of strategic investments in our network. The transformation is also being seen in our Enterprise business which is focusing on strategic products such as SD-WAN and UCaaS to provide a better, more robust customer experience, and we continue to work to drive material costs out of the business.

Our Chapter 11 reorganization process continues, and we will emerge from our current restructuring a healthier and stronger company.

Thank you for joining us this morning – have a great day.