Windstream reports fourth-quarter, full-year 2018 results

Grew broadband customer base for third consecutive quarter
Achieved continued growth in SD-WAN and Enterprise strategic sales
Generated $2 billion in Adjusted OIBDAR for the year

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LITTLE ROCK, Ark. – Windstream Holdings, Inc., a leading provider of advanced network communications and technology solutions, today reported fourth-quarter and full-year 2018 results.

Windstream grew its Kinetic broadband customer base for the third consecutive quarter, adding 6,000 new subscribers in the fourth quarter. The company added 14,400 new broadband customers for the year, which is a significant improvement from a loss of 45,000 customers in 2017.

"Overall, we had a strong, transformational year in 2018. We continue to benefit from investments in our network infrastructure that enable us to deliver faster internet speeds to more customers. We have delivered 12 consecutive months of broadband subscriber growth through February of this year, and we expect that growth to continue throughout the year," said Tony Thomas, president and chief executive officer of Windstream.

Windstream's Enterprise segment continued to see strong growth in strategic products and services, which represent approximately $180 million in annualized revenues and are growing at approximately 70 percent year-over-year. Windstream is the largest SD-WAN service provider in the country, with more than 1,800 customers in over 15,000 locations nationwide and growing.

Windstream generated $1.97 billion in Adjusted OIBDAR for the year, a decline of two percent year-over-year and a significant improvement from a decline of 5.5 percent for the year prior.

"As we enter 2019, we will continue to focus on improving our sales productivity, reducing churn across all of our business units, improving the customer experience and maintaining our laser-focus on aggressive cost management and operational efficiencies. We are confident we will emerge from the financial restructuring process as a healthier and even stronger company than we are today, and we are excited about the opportunities that lie ahead of us," Thomas said.

Results under GAAP

For the fourth quarter, total revenues and sales were $1.39 billion and total service revenues were $1.38 billion compared to $1.50 billion and $1.48 billion respectively year-over-year. The company reported operating income of $64 million in the quarter compared to an operating loss of $1.79 billion in the same period a year ago. The company reported a net loss of $549 million or a loss of $12.92 per share in the quarter compared to a net loss of $1.84 billion or a loss of $51.28 per share a year ago.

For 2018, total revenues and sales were $5.71 billion and total service revenues were $5.64 billion compared to $5.85 billion and $5.76 billion respectively year-over-year. The company reported operating income of $297 million in 2018 compared to an operating loss of $1.60 billion in 2017. The company reported a net loss of $723 million or a loss of $17.72 per share in 2018 compared to a net loss of $2.12 billion or a loss of $62.66 per share in 2017.

Note: During the fourth quarter of 2017, the company recorded a $1.84 billion non-cash goodwill impairment charge related to its ILEC Consumer & Small Business and Wholesale segments.

ILEC Consumer and Small Business service revenues were $455 million in the fourth quarter, a 4 percent decline year-over-year, and $1.85 billion, a decline of 5 percent from 2017. Contribution margin was $268 million or 58 percent in the fourth quarter and $1.09 billion or 58 percent for the year.

Enterprise service revenues were $704 million in the fourth quarter, a decrease of 7 percent year-over-year, and $2.88 billion for the year, essentially flat from 2017. Contribution margin was $160 million or approximately 23 percent in the fourth quarter and $628 million or 21 percent for the year.

Wholesale service revenues were $175 million in the fourth quarter, a decrease of 7 percent year-over-year, and $722 million for the year, a decline of 4 percent from 2017. Contribution margin was $123 million or 70 percent in the fourth quarter and $507 million or 70 percent for the year.

CLEC Consumer service revenues, which primarily consists of EarthLink's consumer Internet business, were $43 million in the fourth quarter, a decline of 17 percent year-over-year, and $181 million for the year, an increase of 3 percent from 2017. Contribution margin was $23 million or 55 percent in the fourth quarter and $102 million or 56 percent for the year.

Note: On Dec. 31, 2018, Windstream completed the sale of substantially all of the CLEC Consumer business. The consumer operations sold consisted solely of the former EarthLink consumer business that Windstream acquired in February 2017.

Adjusted Results of Operations

Adjusted total revenues and sales were $1.39 billion in the fourth quarter, a decline of 7 percent from the same period a year ago, and $5.71 billion for the year, a decline of 5 percent from 2017.

Adjusted service revenues were $1.38 billion in the fourth quarter, a decrease of 7 percent year-over-year, and $5.64 billion for the year, a decline of 5 percent from 2017.

Adjusted OIBDAR was $472 million in the fourth quarter, a decrease of 9 percent year-over-year, and $1.97 billion for the year, a decline of less than 2 percent from 2017.

Note: Fourth-quarter and full-year 2018 Adjusted OIBDAR includes a $22 million cash expense contribution to the company's 401(k) program. The cash contribution is a result of the company's voluntary filing for restructuring and was not anticipated in the company's financial guidance since the company's matching contribution historically was made in common stock. Excluding the contribution, Adjusted OIBDAR was $494 million in the fourth quarter, a decline of 5 percent year-over-year, and $1.997 billion for the year, a decline of less than 1 percent from 2017.

ILEC Consumer and Small Business service revenues were $455 million in the fourth quarter, a 4 percent decline year-over-year, and $1.85 billion for the year, a decline of 5 percent from 2017. Contribution margin was $268 million or 58 percent in the fourth quarter and $1.09 billion or 58 percent for 2018.

Enterprise service revenues were $704 million in the fourth quarter, a decrease of 7 percent year-over-year, and $2.88 billion for the year, a decrease of 3 percent from 2017. Contribution margin was $160 million or approximately 23 percent in the fourth quarter and $628 million or 21 percent for 2018.

Wholesale service revenues were $176 million in the fourth quarter, a decrease of 8 percent year-over-year, and $722 million for the year, a decline of 7 percent from 2017. Contribution margin was $123 million or 70 percent in the fourth quarter and $507 million or 70 percent for 2018.

CLEC Consumer service revenues were $43 million in the fourth quarter, a decline of 17 percent year-over-year, and $181 million for the year, a decrease of 12 percent from 2017. Contribution margin was $23 million or 55 percent in the fourth quarter and $102 million or 56 percent for 2018.

Adjusted capital expenditures were $207 million in the fourth quarter compared to $172 million in the same period a year ago and $783 million for 2018 compared to $839 million for 2017.

The company generated $133 million in adjusted free cash flow for 2018.

Note: Excluding the $22 million cash contribution to the company's 401(k) program, adjusted free cash flow was $155 million for 2018.

Adjusted results of operations are based on the combined historical financial information of Windstream and EarthLink for all periods presented. The adjusted results assume the merger was completed on Jan. 1, 2017. Operating results for Broadview, MASS Communications and ATC are included beginning on July 28, 2017; March 27, 2018; and Aug. 31, 2018, respectively the dates of acquisitions. A reconciliation of adjusted results to the comparable GAAP measures is included in the financial information presented below. Additional supplemental quarterly financial information is available on the company's website at investor.windstream.com.

Management Call and Webcast

Management will provide pre-recorded remarks on the company's results at 7:30 a.m. CDT on March 15. The remarks will be available via webcast on the company's investor relations website at investor.windstream.com. Financial, statistical and other information related to the remarks also will be posted on the site. Management will not be hosting a Q&A.

About Windstream

Windstream Holdings, Inc., a FORTUNE 500 company, is a leading provider of advanced network communications and technology solutions. Windstream provides data networking, core transport, security, unified communications and managed services to mid-market, enterprise and wholesale customers across the U.S. The company also offers broadband, entertainment and security services for consumers and small and medium-sized businesses primarily in rural areas in 18 states. Services are delivered over multiple network platforms including a nationwide IP network, our proprietary cloud core architecture and on a local and long-haul fiber network spanning approximately 150,000 miles. Additional information is available at windstream.com or windstreamenterprise.com. Please visit our newsroom at news.windstream.com or follow us on Twitter at @Windstream or @WindstreamBiz.

Adjusted OIBDA is operating income before depreciation and amortization, excluding goodwill impairment, pension expense, share-based compensation expense, restructuring charges, merger, integration and certain other costs.

Adjusted OIBDAR is Adjusted OIBDA before the annual cash rent payment due under the master lease agreement with Uniti Group, Inc.

Adjusted free cash flow is defined as Adjusted OIBDA, less adjusted capital expenditures, cash taxes and cash interest on long-term debt.

Adjusted capital expenditures include applicable amounts for EarthLink for periods prior to the merger date of February 27, 2017 and exclude post-merger integration capital expenditures for Broadview and EarthLink and amounts related to Project Excel, a capital program funded entirely using a portion of the proceeds from the sale of the data center business completed in December 2015.

Cautionary Statement Regarding Forward Looking Statements

Windstream claims the protection of the safe-harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for this press release. This release contains various forward-looking statements which represent our expectations or beliefs concerning future events, including, without limitation, our future performance, our ability to comply with the covenant in the agreements governing our indebtedness and the availability of capital and terms thereof. Statements expressing expectations and projections with respect to future matters are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We caution that these forward-looking statements involve a number of risks and uncertainties and are subject to many variables which could impact our future performance. These statements are made on the basis of management's views, estimates, projections, beliefs, and assumptions, as of the time the statements are made, regarding future events and results. There can be no assurance, however, that management's expectations will necessarily come to pass. Actual future events and our results may differ materially from those expressed in these forward-looking statements as a result of a number of important factors.

A wide range of factors could cause actual results to differ materially from those contemplated in our forward- looking statements, including, but not limited to:

- risks and uncertainties relating to the Chapter 11 Cases;
- our ability to pursue our business strategies during the pendency of the Chapter 11 Cases;
- our ability to generate sufficient cash to fund our operations during the pendency of the Chapter 11 Cases;
- our ability to propose and implement a business plan;
- the diversion of management's attention as a result of the Chapter 11 Cases;
- increased levels of employee attrition as a result of the Chapter 11 Cases;
- our ability to continue as a going concern;
- volatility of our financial results as a result of the Chapter 11 Cases;
- the conditions to which our debtor-in-possession financing is subject and the risk that these conditions may not be satisfied for various reasons, including for reasons outside of our control;

- our ability to obtain confirmation of a Chapter 11 plan of reorganization;
- the impact of a protracted restructuring on our business;
- the impact of any challenge by creditors or other parties to previously completed transactions;
- risks associated with third-party motions in the Chapter 11 Cases;
- the potential adverse effects of the Chapter 11 Cases on our liquidity or results of operations and increased legal and other professional costs necessary to execute our reorganization;
- trading price and volatility of our common stock;
- our substantial debt could adversely affect our cash flow and impair our ability to raise additional capital on favorable terms;
- the cost savings and expected synergies from the mergers with EarthLink and Broadview may not be fully realized or may take longer to realize than expected;
- the integration of Windstream and EarthLink and Broadview may not be successful, may cause disruption in relationships with customers, vendors and suppliers and may divert attention of management and key personnel;
- the potential for incumbent carriers to impose monetary penalties for failure to meet specific volume and term commitments under their special access pricing and tariff plans, which Windstream uses to lease last-mile connections to serve its retail business data service customers, without FCC action;
- the impact of the FCC's comprehensive business data services reforms that were confirmed by an appellate court, which may result in greater capital investments and customer and revenue churn because of possible price increases by our ILEC suppliers for certain services we use to serve customer locations where we do not have facilities;

- the impact of new, emerging or competing technologies and our ability to utilize these technologies to provide services to our customers;

- unanticipated increases or other changes in our future cash requirements, whether caused by unanticipated increases in capital expenditures, increases in pension funding requirements, or otherwise;

- for certain operations where we utilize facilities owned by other carriers, adverse effects on the availability, quality of service, price of facilities and services provided by other carriers on which our services depend;

- our election to accept statewide offers under the FCC's Connect America Fund, Phase II, and the impact of such election on our future receipt of federal universal service funds and capital expenditures, and any return of support received pursuant to the program or future versions of the program implemented by the FCC;

- our ability to make rent payments under the master lease to Uniti, which may be affected by results of operations, changes in our cash requirements, cash tax payment obligations, or overall financial position;

- adverse changes in economic conditions in the markets served by us;

- the extent, timing and overall effects of competition in the communications business;

- unfavorable rulings by state public service commissions in current and further proceedings regarding universal service funds, inter-carrier compensation or other matters that could reduce revenues or increase expenses;

- material changes in the communications industry that could adversely affect vendor relationships with equipment and network suppliers and customer relationships with wholesale customers;

- earnings on pension plan investments significantly below our expected long term rate of return for plan assets or a significant change in the discount rate or other actuarial assumptions;

- unfavorable results of litigation or intellectual property infringement claims asserted against us;

- the risks associated with noncompliance by us with regulations or statutes applicable to government programs under which we receive material amounts of end-user revenue and government subsidies, or noncompliance by us, our partners, or our subcontractors with any terms of our government contracts;

- the effects of federal and state legislation, and rules and regulations, and changes thereto, governing the communications industry;

- loss of consumer households served;

- the impact of equipment failure, natural disasters or terrorist acts;

- the effects of work stoppages by our employees or employees of other communications companies on whom we rely for service; and

- other risks and uncertainties referenced from time to time in Windstream's Annual Report on Form 10-K, including those additional factors under "Risk Factors" in Item 1A, and in other filings of ours with the SEC at www.sec.gov or not currently known to us or that we do not currently deem to be material.

In addition to these factors, actual future performance, outcomes and results may differ materially because of more general factors including, among others, general industry and market conditions and growth rates, economic conditions, and governmental and public policy changes.

Windstream undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing review of factors that could cause Windstream's actual results to differ materially from those contemplated in the forward-looking statements should be considered in connection with information regarding risks and uncertainties that may affect Windstream's future results included in other filings with the Securities and Exchange Commission at www.sec.gov.

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