

4Q18 Earnings Presentation Script
March 15, 2019

Chris King

Good morning everyone and thank you for joining Windstream's fourth quarter 2018 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.

Please note that we have included historical pro forma financials in our investor supplement that exclude the impact of our CLEC consumer business in both 2017 and 2018. As a reminder, that business was sold on December 31, 2018.

Also, please note that the financial presentations have been adjusted to reflect approximately \$22 million in expense, representing the company's match in our 401(k) program, which was recently made in cash . This was due to our recent restructuring filing, as it has historically been a stock contribution, and was not anticipated in our guidance.

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. With that, let me 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 strong operational performance, I wanted to address our recent filing for a voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code. Following the recent ruling by Judge Jesse Furman, and after extensive analysis by our management team, external advisors, and our Board, Chapter 11 protection became a proactive and necessary step to address the financial impact of the ruling and the impact it would have on our customers, nationwide.

While we disagree with Judge Furman's decision, which we believe was detrimental to and against the expressed wishes of a large majority of our debtholders, the Company, in conjunction with its financial and legal advisors, have decided this path is in the best interests of all of the Company's stakeholders. We believe that Aurelius Capital Management engaged in predatory market manipulation to advance their own financial position and self-interests at the expense of many thousands of shareholders, noteholders, employees, customers, vendors and business partners. We believe Judge Furman's decision, which rewarded this type of behavior, was deeply flawed. Despite his ruling, Windstream firmly stands by its decision to defend itself in Court to protect the interests of our stakeholders.

The Chapter 11 process will ensure that Windstream has access to the capital and resources it needs to continue operating our business as usual, while we engage in constructive discussions with our creditors regarding a reorganization plan. Our first day motions were all approved by the Court, including access to \$400 million of a \$1 billion debtor-in-possession financing facility, which has been rated as investment grade by both Fitch and Moody's in part, due to our improving operational profile, as evidenced by our 2018 results.

Windstream ended the year on another strong note operationally, demonstrating the company's continued momentum in the marketplaces that we serve.

Beginning on slide 4, we delivered two billion in adjusted OIBDAR for the full-year of 2018, representing a decline of less than one percent, compared to a 5.5% decline in 2017. Our consolidated adjusted OIBDAR margin was 35.0%, up 150 basis points over 2017 levels due to modest improvements in revenue trends and aggressive cost reductions.

For the third consecutive quarter and now twelve consecutive months through February 2019, we recorded consumer broadband growth, adding over 14,000 subscribers during 2018. This represents a dramatic improvement from the loss of 45,000 broadband customers we experienced in 2017. This result was driven by both stronger sales and lower churn, as we continue to benefit from investments in our broadband network that enable us to deliver faster speeds to more customers.

In the Enterprise business unit, we continued to see strong growth in our strategic sales. We are the largest SD-WAN service provider in the country, and we ended 2018 with three consecutive quarters of strategic sales in excess of 50% of total enterprise sales.

Turning to slide 5, I wanted to highlight our key achievements against our 2018 priorities. First, we advanced our product and service capabilities. Our increased broadband speeds helped drive over 14,000 broadband subscriber additions during 2018 and our focus and investments in our SD-WAN product set have enabled us to remain the largest SD-WAN provider in the country today with over 1,800 customers at year-end.

We launched next-generation broadband deployment techniques in both our consumer and small business segment as well as our Enterprise unit. From our fixed wireless expansions to our capital-efficient deployments of faster broadband speeds across our ILEC footprint, Windstream is committed to being an industry-leader in developing and maintaining an efficient, world-class network.

These operational accomplishments have been achieved while driving significant costs out of the business, as our cash expenses fell by approximately 7% year-over-year.

Our revenue trends improved by 100 basis points over 2017, while our strategic revenues are over 7% of our total Enterprise service revenue as we continue to have a sharp focus on our SD-WAN and Unified Communications as a Service product sets.

Slide 6 highlights our 2018 financial guidance and results, in which we met or exceeded our guidance on every metric. Our revenue trend improved by 100 basis points, our adjusted OIBDAR came in towards the high-end of our guidance range, our adjusted capex came in just above the mid-point of our guidance range and our adjusted free cash flow came in \$10 million higher than our full-year guidance.

Turning to slide 7, our Kinetic Consumer and Small Business segment has undergone a rapid improvement. We have more than doubled our availability of 100 Mbps speeds across our footprint over the past year. Today, 34% of our households can receive 100 Mbps or greater speeds. In 2015, not a single household could. Today, 64% of our households have access to speeds of 25 Mbps or greater. In addition, we now have over 2 million homes in our ILEC footprint that qualify for 50 Mbps or greater speeds, representing approximately half of our ILEC footprint, up from 40% at year-end 2018.

Slide 8 highlights some of the results of our network improvements. A 26% improvement in gross adds year-over-year contributed to 6,000 new subscriber additions in the fourth quarter, with a total of 14,400 net subscriber additions for the full year—making Windstream the largest ILEC in the country to deliver broadband subscriber growth in 2018. In addition, we added broadband subscribers during the months of January and February, bringing it to twelve consecutive months of 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.

Slide 9 outlines our customer's 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 year-end, 41% of our broadband subscriber base now enjoys speeds of 25 Mbps or faster. We have more than tripled our subscriber base of those premium tiers in the past two years. We have enabled 1Gig capability to over 100,000 businesses across our ILEC footprint as well.

Slide 10 highlights our continued SD-WAN and strategic sales growth in our Enterprise segment. Today, Windstream is the largest SD-WAN service provider in the country, with more than 1,800 customers in over 15,000 locations. We install over 600 additional locations every single month and that number continues to grow.

Our strategic sales continue to accelerate, and these strategic products and services now represent an annualized run-rate of \$180 million in revenues and are growing at approximately 70% year-over-year.

Looking forward, slide 11 lays out our top operational priorities for 2019, which includes driving consistent customer service excellence across the company. Windstream is hyper-focused on the customer experience and we aim for every customer interaction to be superb. We are rapidly evolving into a software development powerhouse. From our

single-pane of glass Enterprise user experience, to our SD-WAN portal to our best-of-breed UCaaS product, OfficeSuite, we endeavor to be a dynamic provider of world-class software, as well as network products and services. We continue to drive our strategic revenues in our Enterprise business. Our Enterprise team remains focused on rapidly growing these revenues, which include our SD-WAN, UCaaS, OfficeSuite and Wave products and services. And, our continued strong focus on aggressive cost management throughout the business—on both operational and capital expenses, will be another key component of our strategy.

In summary, our network and software differentiation and customer-centric approach is delivering strong operational and financial improvements across the board, and I am very pleased with the traction we are seeing following our years of investment in the business.

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 12, we show our fourth quarter and full-year 2018 financial results.

During the quarter, Windstream generated:

- Service revenues of approximately \$1.4 billion, and
- Adjusted OIBDAR of \$494 million, resulting in \$2.0 billion of adjusted OIBDAR for 2018. Consolidated margin of 35.4% during the quarter represents an increase of 60 basis points year-over-year, driven by our strong expense management initiatives. Notably, our total cash costs improved by over \$77 million, or 7.9% year-over-year. Please note these results are adjusted for \$22 million for the 401(k) cash contribution.

The ILEC Consumer and SMB segment delivered solid results. For the quarter:

- Service revenue was \$455 million, down slightly sequentially;
- Contribution margin was \$268 million, up sequentially, representing an approximate 58 percent margin and a 100-basis point year-over-year improvement;
- Consumer broadband units increased by approximately 6,000 during the quarter. Notably, this contributed to a year-over-year improvement of 17,000 subscriber additions in the fourth quarter.

In the Enterprise segment, which also includes our out-of-region small and medium business revenue:

- Service revenue was \$704 million; and
- Contribution margin was \$160 million or approximately 23 percent, an increase of 130 bps year-over-year. Contribution margin dollars in this segment grew by \$35 million year-over-year in 2018, or 6.0%.

Our focus on reducing network access costs and migrating more of our sales to on-net and strategic products is driving tangible margin improvements with most of these costs residing in our Enterprise segment. The fourth quarter interconnection results were negatively impacted by certain carrier settlements during the period, which will lower our interconnection costs going forward, but did depress our Enterprise margins in the quarter.

In the Wholesale segment:

- Service revenue was \$176 million; and
- Contribution margin was \$123 million or approximately 70 percent.

Our CLEC Consumer segment, which will no longer be reported separately going forward as it primarily consisted of EarthLink's former consumer business, generated:

- Service revenue of \$43 million; and
- Contribution margin of \$23 million, or approximately 55%.

Our integration and synergy achievement plans remain on track for both Broadview and EarthLink. We ended 2018 on a run-rate to achieve \$145 million in opex and capex synergies.

Lastly, turning to slide 13, I wanted to highlight our two recent asset sales during the month of December. First, we sold certain fiber assets in Minnesota for \$49.5 million. These assets consisted of mostly dark fiber and carried minimal revenue and OIBDA. Next, we sold our former EarthLink CLEC Consumer business for \$330 million. This business was expected to generate approximately \$80 million in 2019 OIBDAR for the company. Thus, the two transactions, which total \$380 million in proceeds, were sold for just under 5.0x OIBDAR.

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 had a strong, transformational year in 2018. We are the only large ILEC provider in the country to have grown broadband subscribers during the year, coming on the back of large investments in our telecom infrastructure. 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, as well as to drive material costs out of the business. None of these accomplishments would be possible without the dedicated work of the entire Windstream team, and I thank them for their continued strong efforts.

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. Windstream will emerge from our current restructuring a healthier and even stronger company. More than ever, we are excited about the opportunities that lie ahead.

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