Windstream reports first-quarter 2019 results

Delivered strongest quarterly broadband growth since 2011
Continued strong growth in Enterprise strategic sales
Company examining all options regarding Uniti master lease agreement

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

Windstream grew its Kinetic broadband customer base for the fourth consecutive quarter, adding 11,400 new subscribers, representing the strongest quarterly broadband growth since 2011.

Enterprise strategic sales continued to accelerate, representing more than 55 percent of total Enterprise sales during the first quarter. Sales of strategic products and services, including SD-WAN, UCaaS and OfficeSuiteUC®, now represent an annualized run-rate of $250 million in revenue and are growing at 44 percent year-over-year.

"Windstream began the year with another solid quarter, demonstrating the company's continued momentum in the marketplaces we serve," said Tony Thomas, president and chief executive officer of Windstream.

"We stand alone among major U.S. telecom service providers with 14 consecutive months of consumer broadband subscriber growth through April, as well as our strongest quarterly broadband growth since 2011. We were pleased to deliver sequential revenue and ARPU growth in our consumer business as a result," Thomas said. "We also continued to see strong customer adoption of our Enterprise strategic products and services and remain the largest SD-WAN service provider in the country."

Results under GAAP

Total revenues and sales were $1.32 billion, a decrease of 9 percent from the same period a year ago, and total service revenues were $1.30 billion, a decrease of 9 percent year-over-year. GAAP revenue comparisons are impacted by the sale of the Consumer CLEC business completed on Dec. 31, 2018.

The company reported an operating loss of $2.4 billion compared to $69 million of operating income in the same period a year ago. The company reported a net loss of $2.3 billion, or a loss of $54.26 per share, compared to a net loss of $121 million, or a loss of $3.25 per share, a year ago.

Note: GAAP results include a $2.3 billion non-cash goodwill impairment charge in the first quarter related to Windstream's Consumer & Small Business, Enterprise and Wholesale segments primarily attributable to the effects of the adoption of ASC 842, the new lease accounting standard of the Financial Accounting Standards Board (FASB) and the filing of the Chapter 11 reorganization cases.

Consumer & Small Business service revenues were $454 million, a decrease of 4 percent from the same period a year ago, and segment income was $272 million compared to $282 million year-over-year.

Enterprise service revenues were $680 million, a 7 percent decrease from the same period a year ago, and segment income was $153 million compared to $146 million year-over-year.

Wholesale service revenues were $169 million, an 8 percent decrease from the same period a year ago, and segment income was $114 million compared to $128 million year-over-year.

Adjusted Results of Operations

Adjusted total revenues and sales were $1.32 billion compared to $1.41 billion in the same period a year ago. Adjusted total service revenues were $1.30 billion compared to $1.39 billion year-over-year.

Adjusted OIBDAR was $447 million compared to $462 million in the same period a year ago, a decline of 3 percent year-over-year.

Adjusted capital expenditures were $193 million compared to $208 million in the same period a year ago.

Note: Adjusted OIBDAR is Adjusted OIBDA before the annual cash rent payment due under the master lease agreement with Uniti. Adjusted OIBDA is operating *income (loss) before depreciation and amortization and goodwill impairment, excluding rent expense under the master lease agreement with Uniti, pension expense, share-based compensation expense, restructuring charges, merger, integration and certain other costs. Adjusted capital expenditures excludes post-merger integration capital expenditures for Broadview Network Holdings, Inc. and EarthLink Holdings Corp. Adjusted OIBDAR and Adjusted OIBDA also exclude the operating results of the sold Consumer CLEC business.*

Chapter 11 Reorganization Update

On Feb. 25, 2019, Windstream Holdings and all of its subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. The company intends to use the court-supervised process to address obligations accelerated as a result of an adverse litigation decision issued on Feb. 15, 2019, by Judge Jesse Furman in the U.S. District Court of the Southern District of New York.

The company received court approval in April to access $1 billion in recently arranged financing. Fitch and Moody's, two leading credit rating agencies, have assigned investment grade ratings to the financing transaction. This new financing combined with cash generated by the company's ongoing operations will be available to ensure the company continues operating as usual while it works with creditors to negotiate a mutually agreeable resolution.

The company is evaluating all options as part of the Chapter 11 reorganization process regarding the master lease with Uniti Group, Inc., including renegotiation, recharacterization and rejection of the agreement.

"We believe the lease payment under the master lease is significantly above market. In fact, given the prescriptive valuation process outlined in the lease, we estimate payment could be reduced by 80 percent or more if the lease were to be renewed in 2030 because of the significant decline in the value of copper facilities, which comprised 54 percent of the initial value of the lease in 2015," Thomas said.

"Overall we are pleased with the progress of the Chapter 11 reorganization process. Windstream intends to move through the court-supervised process as quickly and efficiently as possible and will emerge a healthier and stronger company," Thomas said.

2019 Financial Plan

Windstream expects the 2019 Adjusted OIBDAR decline to improve versus the 5 percent decline in 2018 on a pro-forma basis. The improvement will be driven largely by an approximate 100 basis-point increase in its consolidated Adjusted OIBDAR margin, driven by strong improvement of more than 8 percent in cash expenses.

The company expects consumer broadband growth of approximately 30,000 subscribers. The company also expects Kinetic consumer revenue trends to improve year-over-year, driven by improved broadband ARPU and subscriber trends.

The company expects to drive growth in Enterprise strategic revenues by approximately 30 percent in 2019, as SD-WAN and UCaaS sales continue to accelerate. Enterprise contribution margin dollars are expected to increase by approximately 2 percent year-over-year.

Management Webcast

Management has provided pre-recorded remarks on the company's results via webcast on the company's investor relations website at investor.windstream.com. Financial, statistical and other information related to the remarks also are posted on the site.

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.

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, including completion of 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 obtain Bankruptcy Court approval with respect to our motions filed in our Chapter 11 Cases from time to time;

- 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 to 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 and the effective date of any confirmed plan;

- 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, including the stock trading on the OTC Pink Sheets as maintained by the OTC Market Group, Inc.;

- 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 of Part 1, 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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