

Lumen Technologies Financial Update

June 2021

Overview

In the first quarter of 2021, Lumen Technologies (f/k/a CenturyLink) continued its trend of slightly declining revenues (down 3.8% in the first quarter compared to the first quarter of 2020) with slightly increasing operating profit margins (up .8% to 43.1%) over the past year.

Over the past year, Lumen's Business and Mass Market's segment both experienced declines of 3.8%. On the Enterprise and Wholesale side (71% of the company revenue), Lumen is still struggling against other long standing competitors. On the Mass Markets side (29% of the company revenue), Lumen still sees revenue declines in POTS (down 10% over the last year) and steady growth in fiber broadband revenue (up 1.2% over the last year). In 2020, Lumen built fiber to 400,000 households, for a total of 2.5 million fiber enabled households in the network (about 10% of its footprint) and 715,000 total fiber subscribers.

Lumen is pairing down its debt from the Level 3 acquisition at a steady pace. Lumen's ratio of net debt to its earnings over the last year now stands at 3.6x, or 4.3x after accounting for unfunded postretirement obligations and the CAF II federal subsidies that are about to evaporate. That's a hefty amount of debt for a company with revenue declining at a 4% rate per year, especially after accounting for its high dividend and its investments into the network. Still, Lumen is targeting a 2.75x to 3.25x debt to earnings ratio and Jeff Storey is optimistic that the company will hit its target.

Sale of the Consumer Business

There have long been rumors that Lumen was considering the sale of its consumer business in order to pay down debt and achieve the same high stock prices as Level 3 had in the years before its acquisition. An activist investor, Southeastern Asset Management, leaned on the company to conduct a strategic review of the business and consider options to shed the division. The results of the review were never made publicly available. Jeff Storey merely said that they will run the Mass Markets division "better"

While there are many scenarios that Lumen could pursue to achieve the same goal as Southeastern Asset Management, there are several factors that make such a sale difficult. It would need to find a willing buyer, at a reasonable price, and be able to separate the assets from its integrated network. The Mass Markets segment still provides positive cash flow and, where it builds fiber to the home, still sees consistent growth in revenue. Separating these assets in a manner that is profitable to Lumen is a difficult endeavor. It remains an open question whether Lumen will still try to separate some of its consumer assets in the future, but there is still a lot of potential for the company to expand and improve its mass markets fiber network.