

COMPANY PROFILE

CenturyLink, Inc.

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COMPANY OVERVIEW

CenturyLink, Inc. (CenturyLink or "the company") is a communications and information technology (IT) services company. The company offers network and data systems management, big data analytics, managed security services, hosting, cloud, and IT consulting services. CenturyLink primarily operates in the US where it is headquartered in Monroe, Louisiana.

The company reported revenues of (US Dollars) US\$17,470 million for the fiscal year ended December 2016 (FY2016), a decrease of 2.4% over FY2015. In FY2016, the company's operating margin was 13.3%, compared to an operating margin of 14.6% in FY2015. In FY2016, the company recorded a net margin of 3.6%, compared to a net margin of 4.9% in FY2015.

KEY FACTS

Head Office	CenturyLink, Inc. 100 Centurylink Drive Monroe Louisiana Monroe Louisiana USA
Phone	1 318 3889000
Fax	
Web Address	www.centurylink.com
Revenue / turnover (USD Mn)	17,470.0
Financial Year End	December
Employees	40,000
New York Stock Exchange Ticker	CTL

SWOT ANALYSIS

CenturyLink, Inc. (CenturyLink or "the company") is a communications and information technology (IT) services company. Focus on strategic revenues enabled CenturyLink offset the decline in legacy revenues, and enhance its cash position. Broad array of communication services offered by the company mitigates its business risk and helps in generating incremental revenues. However, intense competition may continue to put pricing pressure on the company thereby reducing its margins and market share.

<p>Strength</p> <p>Wide Portfolio of Services Extensive Network Infrastructure Growing Contribution of Strategic Services Revenues</p>	<p>Weakness</p> <p>Dependence on the US Market Substantial Debt Could Limit Growth</p>
<p>Opportunity</p> <p>Positive Outlook for Cloud Computing Market Strong Growth in the IPTV Market</p>	<p>Threat</p> <p>Competitive Pressure Stringent Regulatory Environment Decline in Traditional Telephony Services</p>

Strength

Wide Portfolio of Services

CenturyLink provides a broad range of integrated communications services to the residential, business, governmental and wholesale customers. The company's key products and services include strategic services, legacy services, data integration and others. CenturyLink's strategic services include broadband services, multi-protocol label switching (MPLS), managed hosting, Ethernet, video services, voice over internet protocol (VoIP), and managed services. CenturyLink's legacy services represent traditional voice, data and network services, which include local, long-distance, private line, and switched access services. The company offers local calling services which include a number of calling features and other services, such as call forwarding, caller identification, conference calling, voice mail, selective call ringing and call waiting. It also offers domestic and international long-distance services, toll-free services, integrated services digital network (ISDN) services, wide area network (WAN) services, and switched access services. In addition, it offers inside wire installation, maintenance services, service activation and reactivation services.

The company's data integration services involve the sale of telecommunications equipment located on customers' premises and related professional services. These services include network management, installation and maintenance of data equipment and the building of proprietary fiber-optic broadband networks for governmental and business customers. CenturyLink also provides other services that include leasing and subleasing of space in its office buildings, warehouses and other properties. The wide portfolio of services enables the company to bundle together several products and services. For example,

the company offers integrated and unlimited local and long-distance services. The customers can also bundle two or more services such as broadband, video (including DIRECTV (now part of AT&T) through strategic partnership), voice and Verizon Wireless (through strategic partnership) services. The broad array of communication services offered by the company mitigates its business risk and helps in generating incremental revenues.

Extensive Network Infrastructure

CenturyLink has an extensive network infrastructure. The company's products and services are provided using telecommunications network, which consists of voice and data switches, copper cables, fiber-optic cables and other equipment. In FY2016, CenturyLink maintained over one million miles of copper plant and approximately 265,000 miles of domestic fiber-optic plant. During the year, the company had 11.1 million access lines in 37 states, and served approximately 5.9 million broadband subscribers. The company was the third largest wireline telecommunications company in the US, based on total access lines.

CenturyLink operates approximately 74% of its total access lines in portions of Colorado, Arizona, Washington, Minnesota, Florida, North Carolina, Oregon, Iowa, Utah, New Mexico, Missouri, and Idaho. It also provides local services in portions of Nevada, Wisconsin, Ohio, Virginia, Texas, Nebraska, Pennsylvania, Alabama, Montana, Indiana, Arkansas, Wyoming, Tennessee, New Jersey, South Dakota, North Dakota, Kansas, South Carolina, Louisiana, Michigan, Illinois, Georgia, Mississippi, Oklahoma, and California. Furthermore, CenturyLink operates 58 data centers throughout North America, Europe, and Asia. CenturyLink's extensive network infrastructure allows it to provide a range of services across the US, thus boosting revenues.

Growing Contribution of Strategic Services Revenues

CenturyLink has a strong focus on expanding its strategic revenues base to reduce dependency on legacy products. The strategic revenues are the new and high growth revenue streams pursued by the company. The strategic services accounted for 46.1% of the total revenues in FY2016. The company's strategic service revenues increased from \$7,303 million in FY2014 to \$8,050 million in FY2016, representing a compound annual growth rate (CAGR) of 5% during the period. The increase in the strategic service revenues was driven by increasing demand for MPLS, Ethernet, and facilities-based video, and IT services. CenturyLink through the exposure to the strategic services is exposed to high growth markets. The focus on strategic revenues enabled CenturyLink offset the decline in colocation and hosting services, and enhance its cash position. Increased contribution of the strategic services to the overall revenues enhances the company's growth prospects.

Weakness

Dependence on the US Market

CenturyLink is highly dependent on the US market for majority of its revenues. Substantially all of its long-lived assets are located in the US and substantially all of its revenues are from customers located in the US. Overdependence on one single geographic region makes it susceptible to changes associated with

the economic and political situation of the country. Concentrated operations could also make CenturyLink uncompetitive against rivals who have globally diversified operations.

Substantial Debt Could Limit Growth

CenturyLink has substantial debt obligations which may impact its liquidity. The company had a long term debt of \$18,185 million in FY2016. As a result of its high debt, the company had to bare an interest expense of \$1,318 million in FY2016, which significantly impacted its bottom line. High debt limits the company's ability to raise further capital to fund its growth. Additionally, the company also high debt servicing obligations making its cash flows highly vulnerable further impacting its ability to fund growth internally. The company's high debt and the interest expenses negatively impacted the bottom line of the company and would also have an adverse effect on the investor's confidence.

Opportunity

Positive Outlook for Cloud Computing Market

The worldwide demand for cloud computing services is expected to grow significantly in the coming years. Cloud computing is a computing infrastructure model, which enables delivery of software-as-a-service (SaaS). Appeal to cloud computing has been increasing as it enables companies to reduce their expenses related to upfront royalty or licensing payments, investment in hardware infrastructure and other operating expenses. According to MarketLine, the global cloud computing industry is expected to generate total revenues of \$89.3 billion in 2016, representing a CAGR of 34.2% between 2012 and 2016. Furthermore, the performance of the industry is forecast to accelerate, with an anticipated CAGR of 35.6% for the 2016-21 periods, which is expected to drive the industry to a value of \$409.6 billion by the end of 2021.

The company is significantly expanding its presence to tap into the growing cloud computing domain. For instance, the company launched Infrastructure-as-a-Service (IaaS) offering known as CenturyLink Government Cloud to its hybrid IT services portfolio in 2016. This offering brings together public, private and hybrid cloud offerings, enabling agencies to migrate and extend their data center workloads to the cloud. Further in 2016, the company acquired ElasticBox, a multi-cloud application management service, combining ElasticBox platform with the global network, hosting and delivery capabilities of CenturyLink. Similarly, in 2017, CenturyLink introduced CenturyLink Cloud Application Manager, an orchestration platform designed for deployment of enterprise workloads, managed services and third-party cloud resources. This enables companies to manage applications and workloads across hybrid hosting environments in customer private clouds, colocation centers, and public cloud environments.

The robust outlook of the cloud computing market coupled with the increasing presence in the expanding cloud computing domain will provide steady revenue growth to CenturyLink.

Strong Growth in the IPTV Market

The demand for internet protocol television (IPTV) has been increasing over the years. According to industry estimates, the global IPTV market was valued at around \$35 billion in 2015 and is expected to

reach \$94 billion in 2021, growing at a CAGR of 18% for the 2016-21 periods.

CenturyLink is poised to benefit from the growing IPTV market through its Prism TV offerings. The company's Prism TV subscription increased by 14%, taking the total subscriber base to 325,000 customers at the end of FY2016. The strong growth in the IPTV market will increase the demand for company's Prism TV services and drive growth in the subscriber base and topline performance in the medium to long term.

Threat

Competitive Pressure

CenturyLink operates in rapidly evolving and highly competitive telecommunications market. The company's primary competitors include cable and satellite companies, wireless providers, technology companies, cloud companies, broadband providers, device providers, resellers, sales agents and facilities-based providers. Primary competitors of the company include AT&T and Verizon Communications. Some of these competitors offer a more comprehensive range of communications products and services and also have strong marketing, engineering, research, development, technical, financial, and other resources greater than CenturyLink. In addition, the telecommunications industry has experienced substantial consolidation over the last decade, resulting in competitors that are larger, with more financial and business resources, and broader service offerings.

Intense competition may continue to put pricing pressure on the company thereby reducing its margins and market share.

Stringent Regulatory Environment

The company operates in a highly regulated industry and is exposed to restrictions on manner of doing business and a variety of claims relating to such regulations. The company is subject to significant regulation by the Federal Communications Commission (FCC), which regulates interstate communications, and state utility commissions, which regulate intrastate communications. CenturyLink must maintain licenses with the FCC and with state utility commissions. Laws and regulations in many states restrict the manner in which a licensed entity can interact with affiliates, transfer assets, issue debt and engage in other business activities. In addition, many mergers and acquisitions require approval by the FCC and some state commissions.

Moreover, regulation continues to change rapidly, and the regulatory environment varies substantially from jurisdiction to jurisdiction. A substantial portion of the company's local voice services revenue remains subject to FCC and state utility commission pricing regulation, which periodically exposes CenturyLink to pricing or earnings disputes and could expose it to unanticipated price declines. Furthermore, in 2011, the FCC adopted the Connect America and Intercarrier Compensation Reform order (CAF order) intended to reform the existing regulatory regime to recognize ongoing shifts to new technologies, including VoIP, and gradually re-direct universal service funding to foster nationwide broadband coverage.

In addition, during the last few years FCC has initiated various other changes including various broadband and internet regulation initiatives including network neutrality regulations. Any of these recent or pending initiatives could adversely affect CenturyLink's operations and financial results. The impact of regulatory changes in the telecommunications industry may have an adverse impact on the company's results of operations.

Decline in Traditional Telephony Services

Traditional telephony services market in the US has declined in the past and the declining trend is expected to continue in the future. The fixed line telecom market includes voice telephony and other non-voice information transmission using fixed lines. According to MarketLine, the performance of the US fixed-line telecommunications market is forecast to decelerate, with an anticipated CAGR of 0.5% for the 2015-20 periods, which is expected to drive the market to a value of \$130.6 billion by the end of 2020. In the recent times, the company witnessed a decline in its traditional telephony services. The company's total access lines declined from 12.4 million in FY2014 to 11.1 million in FY2016, representing a compound annual rate of change (CARC) of 5% during FY2014-16 periods. As a result, the company witnessed a decline in its legacy service revenues primarily due to continuing loss of access lines, loss of long-distance revenues primarily due to the displacement of traditional wireline telephone services by other competitive products and services, including data and wireless communication services, and reductions in the volume of private line (including special access) services. Persistent decline in the market for these services may impact the overall topline growth.

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