Windstream reports first-quarter results

Grew ILEC consumer revenue by $1 million sequentially
Expanded enterprise contribution margin by 110 bps year-over-year
Maintained steady margins across business units
Affirmed financial guidance for 2017

Release date: May 4, 2017

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

"Windstream's focused operational strategy and targeted network investments continue to drive improvements to our business and create value for our shareholders. Additionally, our recent strategic transactions with EarthLink and Broadview Networks will expand our capabilities to provide cutting edge technology solutions to customers," said Tony Thomas, president and chief executive officer at Windstream.

"Our first-quarter results were in line with our expectations, and we are making solid progress on achieving our 2017 goals. The integration with EarthLink is off to an excellent start and our synergy plans remain on track. We saw improved ILEC consumer revenue and broadband trends during the quarter. Enterprise contribution margin also grew year-over-year. We expect Adjusted OIBDAR and margin trends to improve through 2017 as a result of continued access expense management and synergies ramping throughout the year," Thomas said.

Results under GAAP

Total revenues and sales were $1.37 billion and total service revenues were $1.34 billion in the first quarter, essentially the same respectively year-over-year. Operating income was $46 million compared to $158 million in the same period a year ago. The company reported a net loss of $111 million, or a loss of 89 cents per share, compared to a loss of $232 million, or a loss of $2.52 cents per share, a year ago.

ILEC consumer and small business service revenues were $391 million, a decrease of 1.5 percent from the same period a year ago, and contribution margin was $222 million compared to $228 million year-over-year.

Wholesale service revenues were $158 million, a decrease of 3.5 percent year-over-year, and contribution margin was $108 million compared to $118 million in the same period a year ago.

Enterprise service revenues were $516 million, a 5 percent increase from the same period a year ago, and contribution margin was $83 million compared to $71 million year-over-year.

CLEC consumer and small business service revenue was $140 million, a 9 percent increase year-over-year, and contribution margin was $49 million compared to $41 million in the same period a year ago.

Note: 2016 results exclude EarthLink operations. 2017 results include EarthLink operations from Feb. 27, 2017 to March 31, 2017.

Adjusted Results of Operations

Adjusted revenues and sales were $1.52 billion and adjusted service revenues were $1.49 billion compared to $1.63 billion and $1.60 billion respectively year-over-year.

Adjusted OIBDAR was $498 million, a decrease of 9 percent for the same period a year ago.

Adjusted capital expenditures were $231 million in the quarter, a decline of 7 percent year-over-year.

ILEC consumer and small business service revenues were $391 million, a decrease of 1.5 percent from the same period a year ago, and contribution margin was $222 million or 57 percent for the quarter. ILEC consumer service revenues were $311 million, an increase of $1 million sequentially. ILEC consumer average revenue per household increased for the ninth quarter in a row, up almost 2 percent sequentially and 7 percent year-over-year.

Wholesale service revenues were $178 million, a decrease of 9 percent year-over-year, and contribution margin was $114 million or 64 percent for the quarter.

Enterprise service revenues were $578 million, a decrease of 3 percent from the same period a year ago, and contribution margin was $89 million or 15 percent for the quarter.

CLEC consumer and small business service revenues were $198 million, a decrease of 18 percent year-over-year, and contribution margin was $77 million, or 38 percent.

Note: Adjusted results of operations are based on the combined historical financial information of Windstream and EarthLink and assumes the merger was completed on Jan. 1, 2016. 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 Web site at www.windstream.com/investors.

Quarterly Dividend

On May 2, 2017, the board of directors declared a quarterly dividend of 15 cents per share payable July 17, 2017, to stockholders of record as of June 30, 2017.

Financial Outlook for 2017

Windstream affirmed its previously provided guidance for adjusted service revenue, adjusted OIBDAR and adjusted capital expenditures. The company also continues to expect to generate approximately $200 million in adjusted free cash flow this year.

About Windstream

Windstream Holdings, Inc. (NASDAQ: WIN), a FORTUNE 500 company, is a leading provider of advanced network communications and technology solutions for consumers, businesses, enterprise organizations and wholesale customers across the U.S. Windstream offers bundled services, including broadband, security solutions, voice and digital TV to consumers. The company also provides data, cloud solutions, unified communications and managed services to small business and enterprise clients. The company supplies core transport solutions on a local and long-haul fiber network spanning approximately 147,000 miles. Additional information is available at windstream.com. Please visit our newsroom at news.windstream.com or follow us on Twitter at @Windstream.

Adjusted OIBDA is operating income before depreciation and amortization, excluding merger, integration and other costs related to strategic transactions, restructuring charges, pension costs and share-based compensation.

Adjusted OIBDAR is Adjusted OIBDA before the annual cash rent payment due under the master lease agreement with Uniti Group, Inc., formerly Communications Sales & Leasing (CS&L).

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

Windstream claims the protection of the safe-harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are typically identified by words or phrases such as “will,” “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “target,” “forecast” and other words and terms of similar meaning. Forward-looking statements are subject to risks and uncertainties that could cause actual future events and results to differ materially from those expressed in the forward-looking statements.

Forward-looking statements include, but are not limited to, 2017 guidance for service revenue, adjusted OIBDAR and adjusted capital expenditures, along with statements regarding adjusted free cash flow, cash interest and cash taxes; directional outlook for our business units in 2017; statements regarding the benefits of the merger with EarthLink Holdings Corp., and the proposed merger with Broadview Network Holdings, Inc., including future financial and operating results, benefits to adjusted OIBDAR and OIBDA and free cash flow, projected synergies in operating and capital expenditures and the timing of achieving the synergies, reduction in net leverage, dividend practice of the pro forma company, and improvement in our ability to compete; additional statements regarding expectations regarding revenue trends, sales opportunities and improving margins in the business units; expanding our capabilities to utilize next generation technology in our products and services; network cost optimization; stability and growth in adjusted OIBDAR; the availability of higher Internet speeds, partly enabled by Project Excel; our ability to continue to improve our debt profile and reduce interest costs; along with statements regarding plans, objectives, expectations and intentions and other statements that are not historical facts. These statements, along with other forward-looking statements regarding Windstream's overall business outlook, are based on estimates, projections, beliefs, and assumptions that Windstream believes is reasonable but are not guarantees of future events, performance or results.

Factors that could cause actual results to differ materially from those contemplated in our forward-looking statements include, among others:

- the cost savings and expected synergies from the merger with EarthLink and the proposed merger with Broadview may not be fully realized or may take longer to realize than expected;

- the integration of Windstream and EarthLink and the proposed integration with Broadview may not be successful, may cause disruption in relationships with customers, vendors and suppliers and may divert attention of management and key personnel;

- changes to our current dividend practice which is subject to our capital allocation policy and may be changed at any time at the discretion of our board of directors;

- the potential impact of the Federal Communications Commission's comprehensive business data services reforms that 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;

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

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

- our election to accept state-wide 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;

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

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

- 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;

- 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;

- 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;

- the availability and cost of financing in the corporate debt markets;

- the potential for adverse changes in the ratings given to our debt securities by nationally accredited ratings organizations;

- 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 non-compliance by us with regulations or statutes applicable to government programs under which we receive material amounts of end user revenue and government subsidies, or non-compliance 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;

- continued loss of consumer households served and consumer high-speed Internet customers;

- 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

- those additional factors under “Risk Factors” in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2016, and in subsequent filings with the Securities and Exchange Commission at www.sec.gov.

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 by Windstream with the Securities and Exchange Commission at www.sec.gov.

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