

Lumen Technologies, Inc. NYSE:LUMN

Company Conference Presentation

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Table of Contents

Call Participants	3
Presentation	4
Question and Answer	5

Call Participants

EXECUTIVES

Christopher David Stansbury
Executive VP & CFO

ANALYSTS

Gregory Bradford Williams
TD Cowen, Research Division

Presentation

Gregory Bradford Williams

TD Cowen, Research Division

Good afternoon. Welcome to our 11th Annual TD Cowen Communications Infrastructure Service Conference. My name is Greg Williams. I cover cable, wireless, telco and fiber here at TD Cowen. I'm joined in this session with Chris Stansbury, CFO of Lumen Technologies. So Chris, thanks for joining us.

Christopher David Stansbury

Executive VP & CFO

Yes, good to be here.

Question and Answer

Gregory Bradford Williams
TD Cowen, Research Division

The first question I want to start with is your stock was down after earnings quite a bit on what seemed like there's a couple of reasons here and there, but not maybe 17% down. I was curious to hear your thoughts on that stock impact and what you need to do in terms of sort of execution to make it work.

Christopher David Stansbury
Executive VP & CFO

Yes. So in terms of what happened that day, obviously, it was a down market, a fairly down market that day. We're kind of in between, I would say, phases in terms of investor sentiment. So we're clearly making huge strides on capital structure on the underlying performance of the business, and that's being recognized. But at the same time, we still have high leverage, right? Our leverage is at 4.9x. When the deal with AT&T closes, it will fall below 4. So there's a lot of buy-side investors that have been building their case for Lumen, but they can't invest until leverage falls below 4.

And so when you have that and you also look at the makeup of the existing investor base, there's a lot of passive funds, again, computer trading. So the market starts to go south, high leverage. It just starts to feed itself. What do we need to do? Look, we need to continue to do what we're doing around the capital structure and business performance.

The business will inflect on EBITDA next year, and it will inflect on revenue by 29% for total Lumen, 28% for the business segment, and we're going to see what we can do to accelerate that. But I think as the rate of decline in the enterprise business continues to improve, I think investors will -- their fears will alleviate. And we should see a significant improvement in that rate of decline next year.

Gregory Bradford Williams
TD Cowen, Research Division

Sure. And I want to talk about balance sheet repair and liability management. But before I do, just maybe talk on EBITDA. You easily beat EBITDA estimates in the second quarter, especially if you look at the RDOF payments or giveback, but you -- it looks like you'd handily beat the EBITDA guidance or the high end at 3.4, and that left a lot to be desired because I think third quarter is going to have some seasonality to it. And then you're going to -- just have your OpEx costs in the second half. You specifically mentioned on the call, cloud onboarding OpEx is one and then just PCF ramping costs. So I was hoping you can elaborate on these spending items that would prevent the guide raise.

Christopher David Stansbury
Executive VP & CFO

Sure. So the cloud is like a lot of companies, right, we're moving a lot of our workloads to public cloud. And that transition really accelerates in the second half. So we're moving from kind of a CapEx environment to an OpEx environment. And on PCF, we're on time, on budget, feeling great about what we're doing there. But again, those builds continue to scale, and there is an OpEx component to that. So those are the two things that really drove us to say, we'll still be within the guidance range but towards the higher end versus going beyond that.

Gregory Bradford Williams
TD Cowen, Research Division

Got it. And then cost savings as well. You're accelerating the run rate from \$250 million to \$350 million this year on an overall savings of \$1 billion. Kate mentioned on the call, quicker implementation, modernization and simplifying or simplification of initiatives. Can you elaborate on these efforts? And would this not increase the overall \$1 billion marker?

Christopher David Stansbury
Executive VP & CFO

I think it's too early to say whether we'll go beyond the \$1 billion. The reality is there's been a lot of hard work done inside. We feel really good about the pace, but candidly, the easy stuff, right, is what's been identified first. The next phases really rely on investment

to help us get to those savings. And there's not a lot we can do to accelerate that. And so from a timing standpoint, I still think we're looking at kind of end of '27 for the \$1 billion, and we've got to give it a little more time to see if we go beyond that.

But in terms of the types of things that we're doing, it's a lot of AI use. In finance, we're obviously putting in a new ERP. We're working heavily with Palantir to help sit across a lot of old legacy systems to drive insights and better efficiencies between now and then. So again, feel super good about the program. It's the most rigorous cost-out exercise I've ever been part of, and we'll see where it takes us.

Gregory Bradford Williams
TD Cowen, Research Division

And another cost that I don't think is in guidance is the -- or the plan is the copper decommissioning?

Christopher David Stansbury
Executive VP & CFO

Correct.

Gregory Bradford Williams
TD Cowen, Research Division

And so that can be a huge additional upside as we think about AT&T noted something like \$6 billion of OpEx tied in some way to copper plant, not necessarily their savings, but a huge infrastructure there. And so we understand that could be large. I mean, Lumen has a ton of central offices as well. So, is there any way you can sort of size that?

Christopher David Stansbury
Executive VP & CFO

Yes. And there are some savings in there. But in terms of the bigger footprint, it's not. We've got about 1,700 wire centers. And if you think about the fiber-to-the-home sale to AT&T, that impacts a little over 400 of those. So we still have 1,300 wire centers that are really in very remote areas. And the decision point around what to do with those operations is driven by the EBITDA rundown. And so these are areas where it's very unlikely that fiber will ever be built by anyone.

Copper is still a viable and valid point of service for customers. And so we're expecting the EBITDA to remain economic for 7 to 10 years. Now market-by-market, wire center by wire center, when we get to a point where it's no longer economic to maintain those networks, we can convert customers to another service.

So for example, we've developed a box that literally the tech can go plug into the side of the house in about 15 minutes. The customer would be converted from a hardwired copper connection to the next best available service, whether that's fixed wireless from any of the providers could be satellite. That obviously is aided by a deregulation, a relaxation of things like [core]. And so that's helping. So there's multiple pathways that we have to maintaining service with very nice EBITDA margins for a long period of time. And when we get to the point where it's no longer economic, we'll turn off the circuits, we'll mine the copper, et cetera.

Gregory Bradford Williams
TD Cowen, Research Division

Got it. So it's still opportunity but because you're serving 1,300 of these remote offices and they're going to be around 7 to 10 years. For you, the EBITDA benefit is still there to sort of..

Christopher David Stansbury
Executive VP & CFO

Exactly. Yes.

Gregory Bradford Williams
TD Cowen, Research Division

Okay. You mentioned the 2026 inflection. I don't think you're going to be giving us guidance today. But just speaking generally about the setup, you still got the legacy headwinds, the second half '25 stuff, the cloud onboarding, PCF seems more onetime in nature. And with these elevated costs, so it looks like a good 2026 EBITDA setup. Is there anything else to consider?

Christopher David Stansbury

Executive VP & CFO

Yes. So what I would say is, obviously, the costs that come in at the end of the year are -- they become part of the run rate. We said earlier this year when we gave guidance for '25, we gave prelim guidance for '26, and we said \$3.5 billion of EBITDA. You've obviously got to subtract out of that, the impact of the sale of the consumer fiber business. So for 2026, \$200 million, \$250 million kind of a range. But when you normalize this year and next year for that sale, you do see inflection. Is it big inflection? No.

But I think we're at the point where -- and it's hard to call right now because the business is performing well. We're -- in the next few quarters, we will be at the bottom point for EBITDA. So our lowest absolute EBITDA in any given quarter will take place in the next 2 to 3 quarters, and we grow from there. So we feel very confident in that EBITDA inflection. And then obviously, '27 and beyond as the modernization and simplification savings build and as the revenue really improves, the rate of decline, I think, materially improves over the next couple of years, the EBITDA just continues to grow.

Gregory Bradford Williams

TD Cowen, Research Division

Got it. I want to talk about a few other things on the quarter before moving on. One is your Enterprise Nurture numbers, they were down 18% year-over-year. In your 10-Q and on the call, you noted the pressures from traditional VPN and Ethernet. And it seems like when I was looking at my model, enterprise and mid-market really -- could you provide color on the declines and what and where is this happening? Is this technology replacement? And are you catching these losses in other products and maybe cadence going forward?

Christopher David Stansbury

Executive VP & CFO

Yes. So we do have catch products, right, for VPN, for Ethernet for IP, and it's basically all on demand through our Network-as-a-Service offering. And obviously, its availability continues to grow in the market. So are we catching all of it? No, we're not. Really what we're seeing is, I think, industry trends, right? Customers are nearing the end of VPN and Ethernet licenses, and they're looking for the next generation of service. The reason that we're so encouraged and confident though in the revenue inflection is, if you look at the makeup of enterprise revenue, and we've been reporting on this now for a little over 3 years, we have Grow, Nurture and Harvest.

That Grow bucket, which is growing high single-digit rates is almost 50% of what we sell now. So even as we see kind of double-digit decline rates in Nurture and Harvest, we had a bit of an anomaly in Harvest this quarter, it's on a smaller and smaller base every quarter. So just the math, if you math it out, you get to that point of revenue inflection even without considering innovation really starting to take hold.

Gregory Bradford Williams

TD Cowen, Research Division

Right, just the mix shift and algebra, yes.

Christopher David Stansbury

Executive VP & CFO

And candidly, that's why we gave the visibility because when we initially did this, I think that Grow bucket was about 1/3, right, 3 years ago, and it's really starting to accelerate.

Gregory Bradford Williams

TD Cowen, Research Division

And on the flip side, it was surprising to see your Harvest bucket up. That's a great way of harvesting. And you're being paid to keep legacy services running longer. So maybe can you elaborate here. It seems peculiar under the DOGE regime, and you think about this jet in the public sector, they're spending more on Harvest products. Maybe you can elaborate there? And when does it actually normalize next quarter or next few quarters?

Christopher David Stansbury

Executive VP & CFO

It's tough to call. We think it will start to normalize in the second half. What is it? It's in the public sector space. You obviously see the strong results in public sector, in part aided by this. This relates to the whole TDM conversation that's out there. And so, there is no question that those circuits need to be turned off that the government agencies using those circuits need to migrate to next-generation

technologies. There's a lot of appetite for that. We're involved in those conversations. But in the interim, right, we're keeping circuits alive because it's really the only form of communication. And so that's what impacted that bucket this quarter. We expected things to get turned off that didn't get turned off yet. And it's really at the customer's pace that, that will be determined. But we would think that would start to moderate in the second half.

Gregory Bradford Williams
TD Cowen, Research Division

Yes, some of the government agencies still have [indiscernible] technology.

Christopher David Stansbury
Executive VP & CFO

Yes. No, it really is crazy. And I would say that in Washington, there's appetite on both sides of the aisle to deal with what are real infrastructure problems. I mean there's obviously a lot of discussion around the FAA today, and those issues are real. And so we'll see where that goes, but there's a lot of conversations around how we modernize infrastructure like that.

Gregory Bradford Williams
TD Cowen, Research Division

Right. And last one on the specific quarter before we talk about the -- for the fun stuff like PCF but the mid-markets. That segment continues to struggle. It's down 11%. Help us with that source of weakness? Is this also technology migration or competition? And what can you do to mitigate those loss?

Christopher David Stansbury
Executive VP & CFO

So mid-markets exposure to the Nurture and Harvest buckets is much, much larger, than, say, large enterprise or the other segments. So that's really what's driving that. Where we're seeing a lot of NaaS adoption is actually in the mid-market space. So the point there is continuing to bring those digital services to those customers and eventually, they will get there. But it's really what you're seeing in that Nurture and Harvest bucket and Harvest in mid-markets was not a great quarter, right, because they didn't have the tailwinds that public sector had. That's really what's impacting that.

Gregory Bradford Williams
TD Cowen, Research Division

Got it. And then moving on to the PCF business. You mentioned the company added nearly \$500 million in PCF contracts during the quarter. You also noted they look similar in terms of what the products look like to the \$8.5 billion in wins, the existing conduit, the high margin, the lower risk, if you will. And then you said the remaining funnels, a combination of existing routes and new routes. Just my question is, at this point, with everything going on, why don't you just continue to go up for the existing routes and target those because, I would think that, that's more of a lease-up opportunity, higher margin, lower CapEx.

Christopher David Stansbury
Executive VP & CFO

Look, the answer is we are. But we're going to go after both because, again, this is a customer-centric motion. The same customers that are buying those legacy routes for the conduits already in the ground are the same customers are saying, "Hey, we need help. We need city to city pairs where data centers are being built." And logically, we should be part of that conversation. I think the conversation though is shifting to a much healthier space. And we were very clear on the call, Kate made it very clear that enterprise telecom, those rules are gone, right?

So if you think about the conduit that we're monetizing today on existing routes, that's a conduit that was put in the ground 26 years ago and has sat empty since. And it's sat empty because of the pace of technological change in fiber optic cable. At the time those conduit bundles were put in the ground, the estimate for the number of strands -- fiber optic cable strand you get through any one conduit was 10. We're now pulling a lot of 864 count type fiber and in some cases, 1728. So the ability -- the expandability of the network is phenomenal, right? And we've given a lot of insight into how much more capacity remains. But we're not going to go do that on these new routes. We're not going to go do the build it and they will come, go borrow billions of dollars, try to get an anchor tenant and then go back and try to fill up the pipe, no.

Those days are over. What we will do is work with customers to say, "All right, how many customers want to get on this route?" Is there a way to do this more economically? We would obviously build capacity if we do that. But if it works great, if it doesn't work, we're not going to chase it.

Gregory Bradford Williams
TD Cowen, Research Division

Right. So you don't chase spec build, you'll need an anchor tenant in tow. And it doesn't seem like you have the capital for new builds, so you'd still rely heavily on upfront NRC fees from the hyperscalers?

Christopher David Stansbury
Executive VP & CFO

Yes, we're not going to go backwards on the balance sheet when we close the fiber-to-the-home sale to AT&T, our leverage will fall below 4, it will stay below 4.

Gregory Bradford Williams
TD Cowen, Research Division

Yes. And you mentioned the amount of capacity that some of these hyperscalers are building. I just spoke to a private fiber player yesterday and they're saying, hyperscalers ordering 200, 400 gig waves. It's the equivalent of 1 million T1 some years ago.

Christopher David Stansbury
Executive VP & CFO

Which is why really where we're going. I mean, again, we love the PCF deals, they're monetizing an unused asset. But where we're going with things like direct cloud on-ramps, it's really to support that AI economy. That's the exciting part of this journey.

Gregory Bradford Williams
TD Cowen, Research Division

And the AI economy, as I think about the learning phase here, we're moving into inference, last May, we spoke at our TMT Conference and you said the chatter starting up around inference. When does it move the needle for Lumen? I assume that, that opportunity for you would be far greater than the learning or training given the existing routes in major market areas and...

Christopher David Stansbury
Executive VP & CFO

It's -- we're starting to see it, right? It really starts to show up in things like wave sales. The point here is, though, as it relates to the totality of Lumen is, we still have a \$10 billion business, half of it in decline, half of it growing. That's why it takes a while to see this. I think the most notable thing at a macro level that investors will see is the rate of revenue decline materially start to improve from here forward. So we've been kind of mid-single-digit declines, which is well below that of competitors.

And I think that materially improves next year. But inference is a big deal, but the other piece of this is access to the cloud because it's not just AI, it's AI in a multi-cloud hybrid world. And today, if you were a network engineer and somebody dropped on your desk, multi-cloud and AI and said, draw the network that best supports this to maximize it, it would look nothing like what exists today.

What exists today is a mess, and we're cleaning it up. And things like direct cloud on-ramps where you don't have to do so many network hops to get to your data. You can come into our center and direct into any 1 of the 3 hyperscalers cloud environments. It benefits the hyperscalers because their time to revenue is faster, right, as customers onboard. It benefits the customer because it's a much faster, lower latency, lower cost connection, and it obviously benefits us. So we're going to continue down that path because I think our strong belief is that is what fundamentally changes enterprise telecom.

Gregory Bradford Williams
TD Cowen, Research Division

Bypassing the interconnect facilities [indiscernible].

Christopher David Stansbury
Executive VP & CFO

Exactly. So Kate shared a chart and I encourage people to look at it in second quarter earnings that basically was a picture of the network, and there's three layers. There's a physical layer, which is what this industry has been talking about for decades. And guess what? That's not a formula for success. That's a commodity that's heavy infrastructure investment and everybody selling on price.

Then there's the digital layer, which is what we're investing in, no one else is, to consume that network on demand. And so historically, one service required its own set of ports and that was heavy infrastructure and slow to deploy. Next generation, it's one port many services, acquired digitally, fewer truckloads, instant on.

The third layer is the ecosystem layer. This is where other people start selling our network for us because it makes their product better. It's tech companies like security companies, real-time backup, the hyperscalers, where we can provide a better service for their end customer for their products riding on our network that's going to start to pull through. That's where we're going. So the physical layer is critical. It's table stakes. It's foundational. But we're not just going to play down there. It's these value-added layers that the market is screaming for. And we're the only ones investing in that space. So it's pretty exciting.

Gregory Bradford Williams
TD Cowen, Research Division

And before I talk about monetizing up the stack, you are now connected to the big 3, as you said, before it was Google, but now it's Amazon and Microsoft. Is there going to be additional CapEx needed to connect to these cloud providers?

Christopher David Stansbury
Executive VP & CFO

Not beyond what's in the run rate.

Gregory Bradford Williams
TD Cowen, Research Division

And how is that? I might feel like you're going to be connecting to like new routes going to new...

Christopher David Stansbury
Executive VP & CFO

No. Think of it this way. So we've been investing all along, particularly as we're pulling fiber for others, we're upgrading our own. So we've been building the capabilities of both the intra and intercity routes. That's really about having on-ramps in strategic locations in our facilities around the U.S. And so there's investment in our facilities but then it's investment in things like APIs with the hyperscalers, and that's, again, part of our run rate business today. So...

Gregory Bradford Williams
TD Cowen, Research Division

Got it. Going from the connectivity to the cloud, maybe we talk about the edge. It's been a conversation that's been nebulous or perhaps disappointing in years past. But could AI finally have that -- be that use case for the edge. And that would put Lumen in a great position because in the past, when we were talking about the edge, Lumen is saying, how they're milliseconds away from customers.

Christopher David Stansbury
Executive VP & CFO

Yes. It's -- so I think this is a good cultural example that candidly, we're going to get lucky on, right? Lumen historically, Level 3 has been a place of incredible invention. But it's always been inside out. It's always been an engineering-driven solution rather than a customer-driven solution. So things like streaming capabilities, right? A lot of that invention took place inside Lumen. And then competitors passed us by because we were waiting for the world to show up at our door. The same thing happened with edge. It was visionary. It's needed.

We cover 96% of U.S. businesses. I think it's within 5 milliseconds. But in a world where you can add direct cloud on-ramps and by the way, really large enterprise doesn't put all of their workload in one cloud, right? It's in multiple clouds. And so the ability to pull data down in real time to the edge, manipulate that data the way you want in our edge environment and then push it back is incredibly powerful, particularly when you can do that digitally and consume it on demand. So I think that edge capability is something that we will monetize. And again, sometimes it's better to be lucky than good, and we'll take it.

Gregory Bradford Williams
TD Cowen, Research Division

Sure. And I want to talk about the NaaS product and LCF. On your earnings call, you mentioned some exciting statistics around NaaS products like customers that purchased LCF ports were up 35% quarter-over-quarter, and total ports deployed up 31% and active services up 20%. Interesting KPIs, but how do we look at that and translate that into dollars, revenue opportunity and the revenue inflection? Is it ARPU per port or something like that?

Christopher David Stansbury
Executive VP & CFO

Yes. So ultimately, we need to provide that to you. And candidly, we're still understanding it ourselves, right? Because the question is how many ports will a customer consume? How many services per port will a customer consume? And then how much ARPU per port per service per customer. And then you can do the P times Q math right, finally, for enterprise at that service level. That's where we need to get. Our whole focus right now is on driving adoption. It's actually not on revenue because we know the revenue is an outcome.

And think about it much like when the early days of Amazon, right? Jeff Bezos didn't spend time talking about what his revenue target was. It was about customer adoption and the more scale that they drove the revenue would ultimately come. That's how we're looking at this. And by the way, that's exactly how the hyperscalers looked at it when they shifted from kind of on-prem licenses to the cloud for compute and storage. So we're super excited about how that adoption curve is really starting to accelerate because that is a key indicator ultimately that what we're offering to customers is needed. And ultimately, that revenue will scale. But stay tuned, we'll have more at our Investor Day.

Gregory Bradford Williams
TD Cowen, Research Division

Got to bring them in, show them your unparalleled NaaS platform, and they're never going to leave it, and then...

Christopher David Stansbury
Executive VP & CFO

And they just keep offering services that they can.

Gregory Bradford Williams
TD Cowen, Research Division

And then revenue should takes care of itself?

Christopher David Stansbury
Executive VP & CFO

Yes.

Gregory Bradford Williams
TD Cowen, Research Division

And you noted greater than 30 customers on the platform in that Lumen Control Center. Can you just provide sort of the finance folks in the room, real-world examples for these 30 customers who they are, what they're doing, how they're using the NaaS services in the Lumen Control Center?

Christopher David Stansbury
Executive VP & CFO

We haven't given a lot out on logos. There is some on the web page, but really, it's across industries. I mean, as Kate said, there's one large investment bank. Sorry, it's not you. So FOMO, you guys should get on board, but are using those capabilities. But it really is an interesting journey because a lot of customers had given up on Lumen. Our customer experience was hideous, again, legacy telecom, right? It's not about driving revenue, it's about cutting costs, it's about consolidating. And as they see what we're doing, they're like, wait a minute, what happened to Lumen, right? What happened to telecom because it's fundamentally changing their ability to quickly fix network gaps and address their demand issues. So more to come on that as well.

Gregory Bradford Williams

TD Cowen, Research Division

There's probably another more to come answer, but how about margins on these products, if you're pricing them a little cheaper, but the OpEx could be -- I mean, are you paying licenses as well?

Christopher David Stansbury
Executive VP & CFO

Yes. No. I mean the reality is, over time, this should be margin expansion for Lumen because again, the services are consumed digitally. You go online, you go to our control center, you say I want this, this and this, and within 5 minutes, you're consuming those services. It's very much like consuming computing cloud through the hyperscalers. No truck rolls, et cetera. So that's how we see it playing out. The capital intensity ultimately will be lower also, less success-based capital because, again, it's not 1 port per service or 2, if you will, one at each end. It's 1 port many services.

And so we think there's real scalability there. And part of the Lumen story, again, as we start to improve the revenue trajectory is you're going to naturally see our margins improve as the PCF starts to roll in. You're also going to see our capital intensity fall dramatically with the sale of the consumer business and as the PCF deals come to a close. So all of those things ultimately drive, we think, what is really accretive valuation.

Gregory Bradford Williams
TD Cowen, Research Division

And who's the competition in this NaaS and LCF space?

Christopher David Stansbury
Executive VP & CFO

It's -- so there are companies, there are two. There's Megaport and PacketFabric that offering NaaS service, but it's limited to how deep they can go into the network because they don't own the network.

Gregory Bradford Williams
TD Cowen, Research Division

Yes. That was my next question, is your competitive advantage is your breadth in the network?

Christopher David Stansbury
Executive VP & CFO

It's a fundamental difference because we can drive NaaS consumption at every layer of the network. So our ability to bring services and products to the customer at all of those layers is unparalleled, and it's infinitely scalable. Whereas for the third-party providers, it's more challenging because as they grow, they got to buy more network from others, and they can only go so deep. Some of our larger competitors are offering NaaS really as a managed service, so it's humans, but it's not an on-demand, or frankly, a very scalable.

Gregory Bradford Williams
TD Cowen, Research Division

Right. And one of those competitors you mentioned, they got sort of their hand slapped by the interconnect facilities guys. They call the parasitic tethering and they charge a ton now on them. I'm wondering if you -- how's your relationship with the other interconnect facilities?

Christopher David Stansbury
Executive VP & CFO

The reality is that as we move into this new world, it's going to be a hybrid world, just like compute and storage. Again, we're not inventing something that hasn't been deployed elsewhere. And so years ago, when the hyperscalers started to offer that compute and storage, there was a lot of people that said it will never work. And there's a lot of people that said, "Oh, my God, it's going to destroy everything else because everything is going to the cloud." No, no, you end up with a hybrid environment. We think that's exactly how the network is going to play out. So there's going to be some stuff that is direct into cloud through our facilities, but there's still going to be an awful lot that's supported by those interconnect companies. So I think the pie continues to get big. The slices maybe get a little more dispersed, but I think there's growth for everybody.

Gregory Bradford Williams

TD Cowen, Research Division

Got it. And you alluded to CapEx a few times, and I want to talk more specifically on it. The PCF deals in terms of CapEx, it's going to be lumpy, but you're selling the ILEC to AT&T, that's a \$1 billion of CapEx that goes away. So as that goes away, can you help us with the capital intensity of a steady-state business. So all the hyperscaler stuff maybe already built or we can put that aside. And then we see the fiber business, the fiber-to-the-home business got away. In the old days, I think like mid- to high teens CapEx rates for...

Christopher David Stansbury
Executive VP & CFO

I think that's where we're going. I mean, again, round numbers, \$4 billion in CapEx this year, \$1 billion for consumer, \$1 billion for PCF. Consumer goes away, the PCF builds come to conclusion, we're at \$2 billion. And that puts us right in that ballpark. Now the question is how far beyond that can we go as more and more of these fabric ports, we call them, the NaaS enabled ports that allow you to put multiple services on one port. As that ecosystem inside of our network grows, then arguably, the capital intensity would fall again, that's harder to quantify at this point. But again, just math, we get back to that kind of mid-teens with the sale of the consumer business and when PCF comes to a close.

Gregory Bradford Williams
TD Cowen, Research Division

Sure. And maybe we can move on to the balance sheet.

Christopher David Stansbury
Executive VP & CFO

Yes. I'm excited to talk about the balance sheet.

Gregory Bradford Williams
TD Cowen, Research Division

Yes, liquidity, you're CFO. In roughly 2 years from now, the company's revolving facilities and Term Loan A come due with some Term Loan Bs coming in the following year. You pointed to the success of the capital markets. Will you need to prove revenue and EBITDA inflection to amend and extend those credit facilities, you think? What's the game plan?

Christopher David Stansbury
Executive VP & CFO

So first of all, that obviously helps. But is that a concern? Is that a requirement? Not at all. I mean if you look at what we've been able to do in the market over the last few months, right? It's significant. We've -- post the TSA agreement with creditors we had about \$13.5 billion of debt in '29 and '30. That's been reduced by \$7 billion through the refinancing of the term loans and then also the two bond deals. And so that's been pushed well into the future at much lower coupon rate. And so the creditors are absolutely seeing the turnaround in the business before the equity markets do. And I think they've got great confidence in that.

The other point, though, is that when you look at the balance sheet post the sale of the consumer business, not only do we significantly delever, we're going to wipe out \$4.8 billion of highly restrictive super priority debt. But what's left is basically about \$3 billion, a little over \$3 billion of debt that's non-Level 3. So we're clearly on a path to consolidating the debt structures to more of a Level 3 centric world, which makes it simpler for all of our creditors to understand. It makes it a lot less scary for equity investors because the balance sheet is becoming increasingly easy to understand. And candidly, the balance sheet was a point of significant weakness. It is starting to show signs of becoming a point of competitive strength, and we intend to use it, so.

Gregory Bradford Williams
TD Cowen, Research Division

And when you pay down debt with the ILEC sale and following the successful restructuring of debt you did early last year, is there a risk of contention from debt investors challenging which pieces of debt are repaid. I think we saw that in the LATAM sale in 2023, and spark the TSA and the debt restructuring. So there will be a fight down there?

Christopher David Stansbury
Executive VP & CFO

I would say -- I mean, there is always a risk, I mean people can do whatever they want to do. But the reality is, in this case, I think that risk is extremely low because it's spelled out per the TSA that 50.1% of any proceeds have to go to pay down the super priority debt.

There's mechanisms that we could use around CapEx investment and everything else, but those are also time bound. So the point is, at that point, why keep the super priority debt. It's -- this is a, in effect, a Lumen asset sale. So why not wipe out Lumen debt, which is the most contentious debt that is on the balance sheet. When that's done, there's about \$1.4 billion of Lumen debt left. And so we're quickly getting to a point where it's just not an issue anymore.

Gregory Bradford Williams
TD Cowen, Research Division

Great. And when you sell the AT&T -- or if you sell the ILEC to AT&T? What are the next steps after the sale? And are there earn-out provisions before you hand over the keys?

Christopher David Stansbury
Executive VP & CFO

No, there are certain requirements in terms of how much fiber we're building into the ground, we're well within those tolerances and we're going to stay very focused on that. In terms of next steps, it's obviously regulatory approval, and it's the federal piece, but it's also a couple of states that we need approval from and we're confident about that. I mean, again, this is truly one of those rare win-wins where we win, obviously, in terms of valuation and getting out of what is a very long-term payback for us. But the consumer wins, AT&T wins because their ability to take this footprint beyond what we would have because of their marketing cloud, because of the ability to bundle with a wireless solution, lower churn, all the things, the regulatory approval process is not a concern. It's just moving through.

Gregory Bradford Williams
TD Cowen, Research Division

Yes, I think the markets are proving that convergence is good. It's better for the consumer -- discounts...

Christopher David Stansbury
Executive VP & CFO

Yes, totally.

Gregory Bradford Williams
TD Cowen, Research Division

And they've already approved other deals sort of setting the precedent.

Christopher David Stansbury
Executive VP & CFO

Yes. So we're still working on things like what's the right cutover for IT systems? Because remember, AT&T is building a new entity to do these builds. It's not just pushing things into AT&T systems. So there's a lot of work that has to get done on both sides. The teams are working really well together.

Gregory Bradford Williams
TD Cowen, Research Division

Will it be a flash cut? Or is it going to be system by system?

Christopher David Stansbury
Executive VP & CFO

I think it's probably the former. It's just -- we're pushing as hard as we can to do that as fast as we can.

Gregory Bradford Williams
TD Cowen, Research Division

Got it. And you talked about the external opportunities of AI. It's pretty clear. But I was just wondering about internally. Just an update on what you're seeing inside your company? What are any exciting things to call out at Lumen and how AI is helping?

Christopher David Stansbury
Executive VP & CFO

There's a lot of AI usage inside of the company now, think about things like code development. I talked a lot about Palantir helping us where we still have a lot of legacy systems that will take years to consolidate, but their ability to sit on top of that in a very agnostic way and pull the right data elements out to show us customer disputes, right. That an individual would spend hours, if not days on, is now taking 15 minutes, right? So there's a lot more we can do. We've actually under me, put in place what we call a Chief Diffusion Officer and their entire role is to be the antagonist inside of the company on where we should be using AI and pushing us, so you're going to see a lot more from us in that regard, but there's a tremendous opportunity there.

Gregory Bradford Williams
TD Cowen, Research Division

And just last question as we run out of time is just you're having Investor Day in February. I know we're a long ways away. But I think by then, it's a nice time because you start to see EBITDA and revenue inflection, maybe some of the PCF materialize. So maybe provide a sneak peek on what to expect or like what outlook metrics and any details you can provide?

Christopher David Stansbury
Executive VP & CFO

Yes. So we've got a bit of time between now and then the whole point is to lay out the 5-year vision with the metrics that we're going to hold ourselves accountable to that the market should hold us accountable to. We've not been shy over the last 3 years, right, is to say that we will be transparent.

And I think we've done a good job of that and built a lot of credibility in the process. So this will be a continuation of that, but really focusing not on the past and all the things that we've done to kind of get the business back on track, it's really about where we're going. It's that vision and the pathway to getting there and we go from there.

Gregory Bradford Williams
TD Cowen, Research Division

Great. Well, with that, we're about out of time. Thank you for your time.

Christopher David Stansbury
Executive VP & CFO

Awesome. Thanks.

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