

Lumen Technologies, Inc. NYSE:LUMN

FQ3 2025 Earnings Call Transcripts

Thursday, October 30, 2025 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2025-			-FQ4 2025-	-FY 2025-	-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.27)	(0.20)	NM	(0.22)	(0.57)	NA
Revenue (mm)	3039.87	3087.00	▲ 1.55	3021.89	12382.02	NA

Currency: USD

Consensus as of Oct-31-2025 8:19 AM GMT

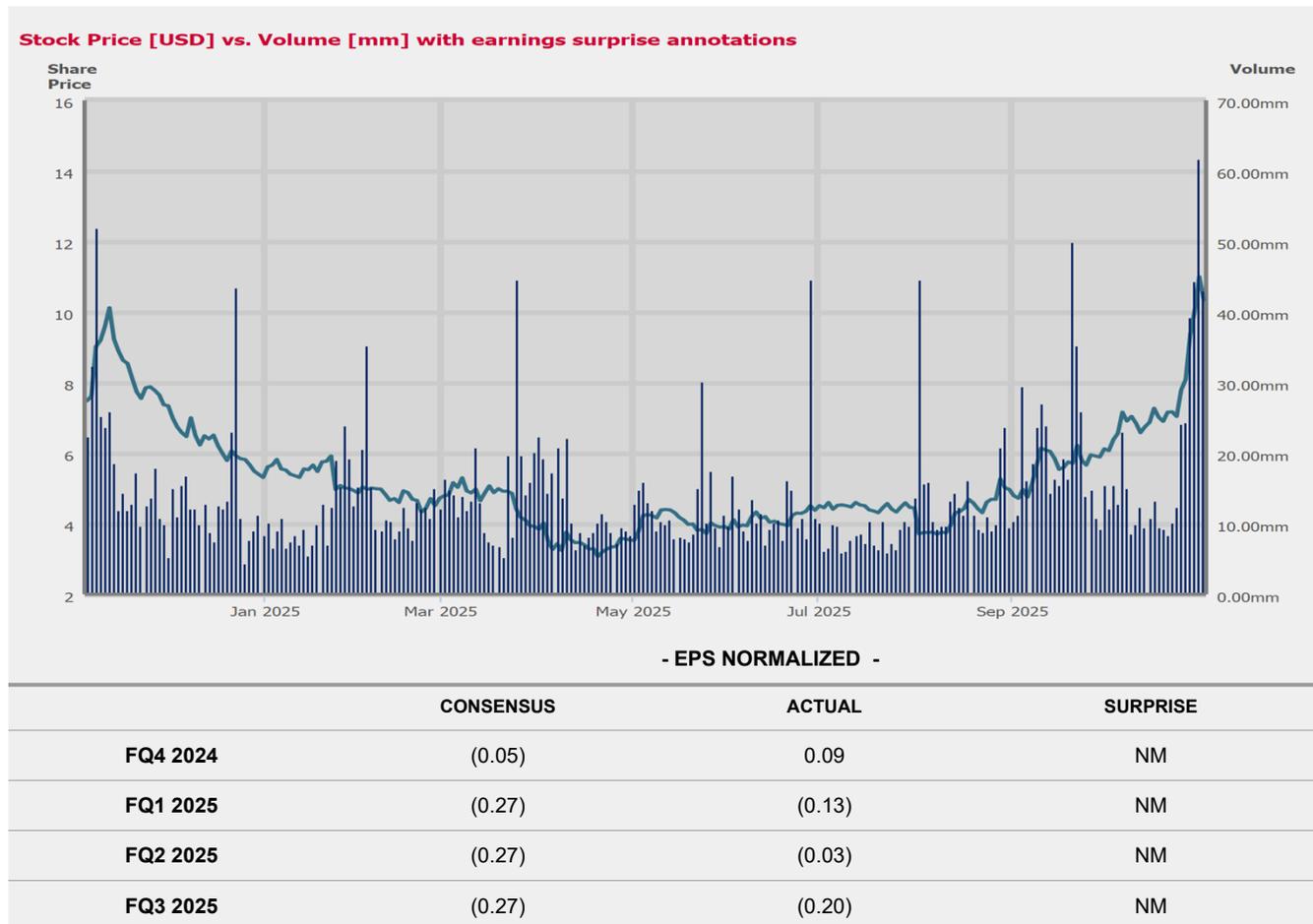


Table of Contents

Call Participants	3
Presentation	4
Question and Answer	9

Call Participants

EXECUTIVES

Christopher David Stansbury
Executive VP & CFO

James Dennis Breen
*Senior Vice President of Investor
Relation*

Kathleen E. Johnson
President, CEO & Director

ANALYSTS

Eric Thomas Luebchow
*Wells Fargo Securities, LLC, Research
Division*

Frank Garrett Louthan
*Raymond James & Associates, Inc.,
Research Division*

Gregory Bradford Williams
TD Cowen, Research Division

Jonathan Atkin
*RBC Capital Markets, Research
Division*

Michael Ian Rollins
Citigroup Inc., Research Division

Michael J. Funk
BofA Securities, Research Division

Nicholas Ralph Del Deo
MoffettNathanson LLC

Sebastiano Carmine Petti
*JPMorgan Chase & Co, Research
Division*

Presentation

Operator

Greetings, and welcome to Lumen Technologies Third Quarter 2025 Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded, Thursday, October 30, 2025.

I would now like to turn the conference over to Jim Breen, Senior Vice President, Investor Relations. Please go ahead.

James Dennis Breen

Senior Vice President of Investor Relation

Good afternoon, everyone, and thank you for joining Lumen Technologies on today's call. On the call today are Kate Johnson, President and Chief Executive Officer; and Chris Stansbury, Executive Vice President and Chief Financial Officer.

Before we begin, this conference call may include forward-looking statements subject to certain risks and uncertainties. All forward-looking statements should be considered in conjunction with the cautionary statements and the risk factors in our SEC filings. We will be referring to certain non-GAAP financial measures reconciled to the most comparable GAAP measures, which can be found in our earnings press release. In addition, certain metrics discussed today exclude costs for special items as detailed in our earnings materials, which can be found on the Investor Relations section of the Lumen website.

With that, I'll turn the call over to Kate.

Kathleen E. Johnson

President, CEO & Director

Thanks, Jim, and thanks, everybody, for joining the call. We had a very productive third quarter at Lumen. First, we reported strong financial results with revenue, EBITDA and free cash flow all coming in ahead of Street consensus. And we're executing well on the essential operational components of our business transformation, including things like a successful phase 1 implementation of our new ERP system, delivering more than \$250 million in run rate cost takeout through the end of Q3, on track for \$350 million this year, continuing our balance sheet cleanup with an additional \$2.4 billion debt refinancing and subsequent term loan repricing, and by making really good progress on our consumer fiber-to-the-home sale to AT&T, now targeted to close in early 2026.

But the real headline for this earnings call is the progress we're making to pivot this company back to growth -- revenue growth. We signed an additional \$1-plus billion in private connectivity fabric deals since our last update, bringing the total PCF deal value to over \$10 billion. We continue to scale the adoption of NaaS, reaching more than 1,500 enterprise customers since the launch of this platform. We launched our latest NaaS innovation, Internet on-demand or IOD off-net, giving us nearly 100x greater market reach to accelerate digital service sales and revenue growth. We're rapidly building a connected ecosystem with dozens of early adopter tech partners who see how Lumen's digital platform can accelerate their time to value with joint customers.

And while we still carry the weight of declining legacy telecom revenue, our growing revenue base now comprises 50% of North American enterprise revenue, up from 35.5% just 3 years ago. We're proud of the significant progress our team has made this quarter, and we believe our investment thesis and strategy are showing tangible results, and those results are being recognized in both the credit and equity markets. The advent of AI has created an urgent need for structural change in network architecture, and Lumen is uniquely positioned to take advantage of the moment.

So I want to share some quick thoughts on how we see the market to provide context for the rest of my remarks. AI workloads are pushing data center footprint to grow 10x by 2030, and public cloud spend is expected to eclipse \$1 trillion in that very same period. Meanwhile, CIOs are on the hook to deliver insight at the speed of thought while efficiently managing explosive data growth across complex hybrid and multi-cloud environments.

But traditional network architectures, they were built for simpler times, and they just won't cut it anymore. They're not big enough or fast enough or intelligent enough or secure enough. Simply put, traditional networks led precious GPU investments sit idle, and Lumen is changing all of that, as Dave Ward, our Chief Technology and Product Officer, explained in his recent white paper. He advocates for a fundamental reset in networking to support the new era of Cloud 2.0 and identifies 5 essential networking capabilities required to thrive: extreme bandwidth and low latency, data center interconnect, expansion into AI corridors, distributed cloud on-ramps and programmable API first networks. These requirements are the underpinning of Lumen's 3-part strategy, including the physical layer, the digital layer and the connected ecosystem.

And today, I'll translate that into Lumen's evolving business model with some exciting updates starting with building the backbone for the AI economy. Now as I mentioned upfront, we closed another \$1 billion-plus in PCF deals, bringing our total to over \$10 billion with a healthy pipeline of deals remaining. Based on our current build schedule, the \$10 billion of business in hand plus the existing O&M run rate business for PCF, we expect will yield a recurring revenue stream ranging between \$400 million and \$500 million by the time we exit 2028.

I'll add 2 important footnotes regarding this business. First, none of the remaining deals in the pipeline have been contemplated in this revenue guidance. They are purely upside. Second, we remain deeply disciplined in our approach by only inking deals that are value accretive to Lumen shareholders even if this means stepping away from an opportunity. And the teams are doing a great job building that backbone. As of the end of September, we had completed more than 3,200 miles of over pulls on 27 different routes, approximately 130% of our in-year '25 target with a full quarter left to go for the year. But building the backbone for the AI economy, it's not just about over pulls for our hyperscaler and neocloud friends. It also requires massive upgrades to our physical network to support Cloud 2.0 needs of enterprise customers.

And for this, we're investing in 3 major fabric infrastructure projects, including rapid routes, data center expansion and metro expansion. Market by market, we're upgrading capacity, increasing data center interconnects and improving service delivery experience and time frames to help our customers address the urgent needs of AI and multi-cloud architecture. These investments are how Lumen is creating a ubiquitous, high-capacity networking fabric that enables our customers to connect everywhere that matters quickly, securely and effortlessly.

Okay. Moving on to our digital platform update. We've created Lumen connectivity fabric and NaaS to address the need for programmable API first networks in the world of Cloud 2.0, and I think our growth metrics confirm the market need for what we're offering. The number of active customers in the third quarter grew by 32% since last quarter, and the number of NaaS fabric ports deployed grew by 30% and the number of services sold by 36% in that same period. Across all 3 KPIs, we're showing strong growth. Now I share these metrics with you each quarter because they're central to our new business model, which is different than traditional telecom.

I'll share more about that now, so we can all ground ourselves in a common understanding of how Lumen will pivot to revenue growth. At the center of our new PxQ business model is the fabric port. One digital port that delivers many services. And when we say Q, we mean total active ports or the number of net new ports in service. When we say P, we mean average selling price. Average selling price of each service purchase through Lumen connect and deployed on the port. And in early 2026, we're going to extend this model with the launch of Project Berkeley, a pre-provisioned cross-carrier fabric port that lights up first and third-party services on and off-net, AI ready from day 1.

Simply put, Berkeley enables intelligent and universal access no matter who owns the pipes. Customers will be able to install the port and light up standard kits of services, including IoD or Internet on Demand, Lumen Defender, voice, VPN on Demand, and a range of cloud on-ramps. Soon through our connected ecosystem work, they'll also be able to light up third-party services. The commercial motions to drive digital growth are simple and repeatable by both our direct sales force and our partner channels.

First, they land customers on new port with a mix of starter services and then they expand by attaching more services on installed ports creating a PxQ flywheel of sorts. And at an Investor Day next quarter, we'll share more about what we're learning as this new digital marketplace takes shape. Here's what we know. Growth will come through selling more ports and upselling more first- and third-party services. And that's why I'm so excited to share the next 2 announcements with you.

On October 20, we launched IoD off-net, expanding our addressable market by close to 100x and that's just in the United States. Since Lumen NaaS became generally available in January of 2024, the #1 piece of customer feedback has always been, hey, bring Lumen NaaS off to market, and here we are. It's early days, but the feedback so far has been very positive with great customers like Xcel Energy, noting how Lumen's off-net NaaS will help them achieve important business outcomes such as more resilient operations and more intelligent services.

Now the second announcement is about the Lumen Connected ecosystem, a major driver of commercial expansion for both ports and services. Last week, we announced a strategic partnership with Palantir where we not only agreed to buy services from each other, but we committed to bring those capabilities to joint customers. I want to call your attention to an article from The Street entitled "Palantir just signed a deal that could shift the AI power balance". The piece does a really nice job explaining how Lumen's network has become critical infrastructure in the AI race. The purpose of the connected ecosystem is to help more technology companies like Palantir gain competitive advantage by leveraging our platform and allowing Lumen to gain commercial reach.

We're excited to report that we're working with dozens of other companies that not only understand the power of our new business model, but they also understand that our AI-ready network enhances the delivery of their solutions. Just some of the marquee tech companies we're working with include, of course, Microsoft, Google and AWS, the big hyperscalers, but also data center companies like Digital Realty and QTS, AI platform companies like Palantir and Meter, data cloud services companies like Databricks and Snowflake, security companies like Palo Alto, Zscaler, F5 and Netskope, and backup and recovery and data protection services companies like Rubrik, Commvault and Cohesity and so many more.

Together, Lumen Connectivity Fabric and Lumen Connected Ecosystem offer a meaningful source of revenue growth. Our early read on growth from all of our digital capabilities includes NaaS, Edge Solutions, Security and the Connected Ecosystem is somewhere between \$500 million and \$600 million of incremental revenue run rate exiting 2028. And while it's hard to accurately forecast revenue, when you're creating a new market, we do feel good about these numbers, and we'll continue to be super transparent about all of our assumptions and learnings as we go.

To bring our revenue story home, PCF should yield between \$400 million and \$500 million of incremental revenue exiting '28. Lumen Digital should yield between \$500 million and \$600 million of incremental revenue in the same period. That's \$900 million to \$1.1 billion of incremental revenue exiting 2028, and that's the path for Lumen's business segment to achieve revenue growth. We're changing the game in networking by building the fastest open platform mesh network connected to everywhere that matters while delivering a digital on-demand experience so enterprises can quickly, securely and effortlessly move their data. It's what our customers need and it's what our investors deserve.

Chris, over to you.

Christopher David Stansbury
Executive VP & CFO

Thanks, Kate. Lumen delivered another quarter of solid execution. We reported strong third quarter financials, implemented phase 1 of our new ERP system and continue to improve the balance sheet. Financially, revenue, adjusted EBITDA and free cash flow results were better than expected. Our total business grow revenue was up 7.7% year-over-year and our total business revenue was only down 3.2% year-over-year, well ahead of the competition. The launch of phase 1 of the ERP system quote-to-cash is a significant milestone for Lumen as we continue to transform the company by simplifying systems to support our future growth. When phase 2 is completed next year, we will be on a unified ledger and will continue to sunset old systems and drive additional efficiencies across the organization.

We continue to strengthen our balance sheet with multiple capital markets transactions during the quarter. In August, we successfully priced \$2 billion of 7% first lien notes due 2034 at Level 3, which enabled us to extend maturities by approximately 4 years and delivered \$48 million in annual interest expense savings. We followed in September with pricing a \$425 million add-on to the 7% notes to redeem all the remaining 2030 Level 3 first lien maturities and repriced our \$2.4 billion term loan, reducing the rate by 100 basis points.

Lastly, in September, we used cash to redeem both the \$238 million of 7.25% quest notes and \$350 million of 10% Level 3 second lien notes. The third quarter debt refinancing term loan repricing and debt reduction actions further reduces annual interest expense by approximately \$135 million. Year-to-date, we reduced annual interest expense by approximately \$235 million through proactive balance sheet management.

Looking forward on a pro forma basis and considering the early 2026 expected closing of the announced \$5.75 billion sale of our fiber-to-the-home business the proceeds will allow for the paydown of approximately \$4.8 billion in Lumen super priority debt. This action is expected to further increase Lumen's annual interest expense savings up to approximately \$535 million. We will continue to work toward improving our debt profile ahead of the anticipated close of the AT&T transaction in early '26 as we continue to seek opportunities to further delever, extend maturities, simplify the capital structure and reduce our cost of capital.

Upon closing the AT&T transaction, we expect to have approximately \$13 billion in debt, reducing our overall leverage before 4x adjusted EBITDA. And with that, I could not be more proud of the team's hard work to deliver such impressive results as well as the opportunities that a new financial profile unlocks for Lumen's future. I'm really pleased to say debt is no longer a headwind for Lumen. The balance sheet is quickly becoming a point of strength for us.

So let's move to the discussion of financial results for the third quarter. Total reported revenue declined 4.2% to \$3.087 billion. Business segment revenue declined 3.2% to \$2.456 billion. Mass Market segment revenue declined 7.7% to \$631 million. Adjusted EBITDA was \$787 million with a 25.5% margin and free cash flow was \$1.7 billion. Within North America enterprise channels, excluding wholesale, international and other, revenue declined by approximately 1%. North American enterprise grow revenue

increased 10.5% year-over-year, driven by continued strength in dark fiber and IP. We saw expected and typical declines in Nurture and Harvest. Overall, including wholesale, North America business revenue declined 2.8%.

As previously communicated, Grow will become a larger percent of our North America enterprise revenue base over time. We're pleased to share that Grow now represents half, I'll say that again, half of our North America enterprise revenue. This was driven by our core network Grow products with non-PCF driving the largest portion of the increase. The emerging growth of digital has yet to materially impact our revenue performance.

As Kate mentioned, when we first reported this metric, in early 2022, Grow revenue represented approximately 35% of our North American enterprise portfolio. So to those who are stuck to their thesis that our legacy portfolio will prevent our return to growth, or that our growth is over relying on PCF, the facts show that thesis is increasingly incorrect and frankly, irrelevant over time.

Wholesale revenue declined approximately 7.6% year-over-year, in line with our expectations. International and other revenue declined 13% or \$12 million, driven primarily by managed services, VPN and voice declines.

Now moving on to mass markets. Our fiber broadband revenue increased 18.4% year-over-year and represents over 49% of mass markets broadband revenue. During the quarter, Lumen added approximately 122,000 fiber-enabled homes, bringing our total to approximately \$4.5 million as of September 30. We also added 39,000 Quantum Fiber customers, bringing fiber subs to approximately 1.2 million. Fiber ARPU was \$64. At the end of the third quarter, our penetration of legacy copper broadband was approximately 7% and our Quantum Fiber penetration stood at approximately 26%.

Now turning to adjusted EBITDA. For the third quarter of 2025, adjusted EBITDA, excluding special items, was \$787 million compared to approximately \$900 million in the year ago quarter. For the third quarter of 2025, our margin was 25.5%. Adjusted EBITDA margins were disproportionately impacted by anticipated declines in public sector Harvest revenue in the third quarter. Special items impacting adjusted EBITDA totaled \$216 million. This includes severance, transaction and separation costs and our modernization and simplification initiatives.

Lastly, capital expenditures were approximately \$1 billion. Free cash flow, excluding special items, was over \$1.7 billion. As a reminder, we expect free cash flow to be lumpy quarter-to-quarter as we move through the large PCF builds.

I'll now talk about our outlook for the remainder of '25. As we saw in the third quarter, we expect fourth quarter revenue to be negatively impacted by additional declines in public sector Harvest revenue as that revenue returns to more normalized levels, similar to the third quarter of 2024. On a year-over-year basis, I would remind everyone that we had a positive onetime revenue item in the Grow bucket in the fourth quarter of 2024.

With respect to 2025 adjusted EBITDA, we reiterate that we expect to come in near the high end of our \$3.2 billion to \$3.4 billion guidance range despite the previously announced \$46 million RDOF giveback in the second quarter. We expect increased costs associated with our utilization of cloud services to continue in the fourth quarter as well as a negative impact on EBITDA from the above-mentioned public sector Harvest normalization.

As a reminder, our adjusted EBITDA guidance assumes organic revenue declines similar to 2024 and excludes roughly \$300 million in transformation costs to support our multiyear commitment to reduce expenses by \$1 billion. We remain confident that we will achieve adjusted EBITDA stability over the next few quarters and see an inflection to growth in 2026 driven mainly by continued M&A savings as well as improving revenue declines.

We maintain our 2025 guidance for CapEx spending at \$4.1 billion to \$4.3 billion. As we previously communicated, we expect to be at the low end of that range, mainly because of build timing and increased efficiency from our team, offset by some strategic investments for growth. As we said, we expect our overall capital intensity to fall over time. Our 2025 cash interest guidance remains at \$1.2 billion to \$1.3 billion. We continue to expect to be at the low end of the range because of the improvements we've made to our debt profile.

Finally, we're reiterating our full year free cash flow guidance of \$1.2 billion to \$1.4 billion, mainly because of lower-than-anticipated CapEx spending, better adjusted EBITDA performance, lower interest expense and the expected \$400 million tax refund. I would note, our free cash flow outlook reflects our expectation of receiving the \$400 million refund from recent legislation in 2025. While the IRS has accepted our request for the refund, the receipt of this cash could be delayed by a prolonged shutdown of the U.S. government.

Now as I wrap up, I want to emphasize that as we disrupt the market for legacy enterprise telecom offerings with next-generation Cloud 2.0 connectivity digital solutions, we'll change the way we measure and provide insights into our business. The future is about

digital scalability and growth, and this requires a different way of thinking, a different way of modeling. As we transform Lumen, we simply won't fit the models of yesterday's telecom. For those of you open to changing your models to track our journey, we appreciate your thoughtfulness and we'll provide as much guidance as we claim, including a deeper dive look at our upcoming Investor Day in February.

Kate talked about \$500 million to \$600 million in digital revenue exiting 2028. Digital includes NaaS, cloud on-ramp security as well as revenue from ecosystem partnerships. We see multiple paths to achieving those digital revenue goals over the next 3 years. We're still testing assumptions. But what we do know is we're seeing great adoption for NaaS as well as immediate interest from industry-leading tech companies as we build our ecosystem partnerships. More than half our North American enterprise revenue is coming from growing products today. And while we're still gauging the timing of the revenue on our new digital products and enterprise buying habits, the early trends we're seeing gives us increased confidence in our return to business revenue growth in 2028.

As we learn more, we'll be transparent as we introduce concepts to investors that will be highly correlated to our strategy and distinctly differentiated in the market relative to the backdrop of traditional telecom, but we believe will make sense as our business evolves over time. While there are a lot of moving parts over the next 12 to 18 months, we believe our transformation and innovation will lead to new revenue streams to satisfy the needs of customers in today's Cloud 2.0 environment. Our cost structure optimization and increasing digital revenue helped improve margins and free cash flow, reduce our capital intensity, lower our leverage and borrowing costs and ultimately provide the financial flexibility to invest in Lumen's future growth.

We're pleased with our performance this quarter as we make great strides across all 3 layers of the business: physical, digital and ecosystem. We're also pleased with the reaction from the credit and equity markets as our trading multiple is beginning to reflect the impact of our significant balance sheet improvements or improving revenue mix away from legacy to growing products and the early proof points for our digital growth engine. We're excited by what the future holds, especially given the financial impact of our digital future and that they're not materially reflected in our results today. We look forward to providing more updates along our journey. And I'll now hand it back to the operator for Q&A.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Mike Rollins with Citi.

Michael Ian Rollins
Citigroup Inc., Research Division

Two topics, if I could. So first, on the PCF deals. How does this new \$1 billion of bookings compare to the last set of deals or tranches where I think previously, you guided to an unlevered free cash flow margin of like 30% to 31%. Just curious if the margins from these are different from that. And if you can give us an update on how much pipeline is still out there for aluminum to pursue for these types of deals?

And then secondly, you mentioned a few times the Grow revenue being above 50% of the NAM business revenue. And the Grow revenue grew over 10% year-over-year in the quarter. So can you unpack a little bit more of what's driving that Grow revenue? And is double-digit growth in this Grow bucket a new sustainable level for Lumen to achieve?

Kathleen E. Johnson
President, CEO & Director

Mike, it's Kate. I'll take the first one and let Chris handle the second one. On the PCF deals, the \$1 billion plus, it was more than one deal and the composition of that portfolio of bookings is equivalent in margins to the prior tranches. And I think you can see us kind of approach this business with a very disciplined approach, as I referenced in my prepared remarks. We're only going to do the business that's deeply accretive, and we're in a kind of a -- we're going to remain focused on that.

Regarding the pipeline, it's a lot of different hyperscalers and neocloud providers. We're not going to commit to a number anymore. I think we're going to exceed probably our expectations as we said last year, only because this is not going to be an overnight sensation. This is turning out to be a fairly protracted phase of what we see as a 3-phase process hyperscalers and neoclouds connecting their data centers for training and for provisioning of services to their customers. And then the enterprise phase of it, where enterprises start consuming those models through inferencing and they need massive upgrades and to address all the needs of Cloud 2.0.

And then there's that third section, which is referenced in the Cloud 2.0 remarks that I made, which is basically AI corridors emerging, and you've got AI talking to AI. So it's a huge amount of data traffic and requires a massive expansion. We're still figuring out what the demand curve look like across all 3 of those cycles. But I think that gives you a sense for it.

Christopher David Stansbury
Executive VP & CFO

Yes. And in terms of the overall growth rate, PCF has started to triple in but I emphasized in my prepared remarks that it's actually not the majority of that growth. So we still see a strong mid- to high single-digit growth in things like dark fiber, IP waves, connectivities -- traditional type connectivity solutions that ultimately will convert to digital. So in the near term, PCF is certainly contributing, but it's not driving the total growth.

I also want to remind everybody that over time, PCF is actually not a growth engine because those deals are static. And once completed, they don't increase every year. So when we're talking about getting back to growth, we know that eventually, there's a headwind as those builds come to conclusion and level off. So PCF is a great way to monetize the assets that are in the ground and this tremendous network that we have the opportunity to run. But they really aren't something that we believe are a significant part of our long-term growth trajectory.

Operator

Your next question comes from the line of Sebastiano Petti with JPMorgan.

Sebastiano Carmine Petti
JPMorgan Chase & Co, Research Division

Chris, maybe you could just -- given the run rate that you've outlined for not only the PCF but for the digital revenue buckets, against the backdrop of some of the transition and transformation costs that you're kind of wearing for lack of a better term in '25, can you

maybe help us think through the piece parts or the puts and takes as we look out to the EBITDA bridge from 2025 through 2026? Obviously, the mass markets, that's kind of well understood. Maybe some of the other core or remaining part of this?

Christopher David Stansbury

Executive VP & CFO

Yes. So a few different things. As it relates to revenue, you will continue to see that, that Grow bucket becomes an increasing portion of our business over time. So business mix continues to improve, which means the rate of decline continues to improve. So that's obviously a tailwind.

The -- but the big driver, I mean, let's be really straight about it. Kate called it out, is the modernization and simplification efforts as we navigate our way through the inflection point of EBITDA. So a lot of modernization and simplification as we close out the year. We've said that we're going to be above what we initially guided for this year and then more to come next year. So those are really the 2 key drivers, reduced rate of decline on enterprise and the modernization and simplification benefits that impact EBITDA.

Sebastiano Carmine Petti

JPMorgan Chase & Co, Research Division

And if I could ask a quick follow-up, Chris, I think you said that the balance sheet is no longer a constraint, but a source of strength. I mean, is Lumen strategically compete as you think about trying to attack some of these growth areas that maybe legacy telcos are not necessarily having their purview?

Christopher David Stansbury

Executive VP & CFO

So I would say, number one, once we close the transaction with AT&T, that will bring us down to the high 3s, but we're not done yet. And there's a playbook to further reduce leverage over time. But the point is that when you look at the maturity chart and the curve that we've shared in the presentation, this is not the old Lumen. And this is a balance sheet and debt profile over time that allows us to do multiple things.

So what I wanted to be really clear about in today's reported remarks and it's exactly what I frankly shared at the Industry Analyst Day is it's time to stop talking about our balance sheet as a headwind because it's simply not true. It's time to start talking about our inflection back to growth.

Operator

Your next question comes from the line of Batya Levi with UBS. Please proceed with your question. And we will go to the next question. Your next question comes from the line of Frank Louthan with Raymond James.

Frank Garrett Louthan

Raymond James & Associates, Inc., Research Division

There were 3 announcements this week, you touched on some of them. There was the announcement with the -- you touch of the 10 million business locations in the Palantir and the QTS network. Can you give us an idea of sort of the revenue impact from those items and the timing and magnitude of when those will start to hit?

Kathleen E. Johnson

President, CEO & Director

Yes. I mean, all of them were a part of the connected ecosystem storyline, which if you think about it, has a couple of different tenants. So the first is continued connectivity with the hyperscalers. The second is connecting -- interconnect for all the data centers. That was the QTS deal. And the third being technology partners who are seeing value and integrating networking into the offerings that they bring to customers.

So we're starting the flywheel, Frank. It's really about a go-to-market partnership better together. I think networking has always been purchased separately. So you buy a cloud solution and then you go figure out if you have enough network. What we're doing is designing the network solution to support the specific cloud offerings of these companies and making them available in digital marketplaces to make it easy to buy and improve the velocity to value for the customer. And so you're going to see it over time in improved results of all the same things we're selling today. We're just harnessing the power of other people's sales forces to give network a seat at the table for the first time ever.

Frank Garrett Louthan

Raymond James & Associates, Inc., Research Division

And any color on sort of the magnitude and timing of the revenue from those? Or are these just sort of kind of lumped in with everything else in growth?

Christopher David Stansbury

Executive VP & CFO

Yes, I'll take that. Frank, it really gets back to my closing comments, which is we see multiple pathways to getting to our revenue objectives for digital. And the only thing that we're getting really good certainty around at this very early stage is tremendous NaaS adoption. But as Kate laid out in the PxQ map, it comes down to number of ports, number of services per port and price per service.

And so as we move through that journey, we'll definitely give investors a lot more visibility to that. And we'll certainly share our prevailing point of view at Investor Day. But no matter what we share, I guarantee, it's going to be different by the time we get to the other end. And so we'll constantly update the market, but the thing that gives me enormous confidence is when you got port services and price, you have multiple pathways to get to that outcome, and we feel really good about it.

Kathleen E. Johnson

President, CEO & Director

Yes. And just to clarify, Frank, the connected ecosystem is a part of the storyboard of how we have confidence in getting to \$500 million to \$600 million incremental revenue exiting '28. So that's really -- it's one and the same. It's not a separate revenue stream. It is acceleration of the existing digital capabilities in flight.

Operator

Your next question comes from the line of Greg Williams with TD Cowen.

Gregory Bradford Williams

TD Cowen, Research Division

Chris, the stock has been showing some outsized strength in the last call it, 3 weeks. I know it's been volatile recently. But if it sustains up here at these levels, I mean, does it make sense to equitize some of the company and sell some shares and further bolster the balance sheet? Does it change the capital allocation calculus at all?

And then second question, Kate, you did mention the 3 phases of AI. Are we in a prolonged training phase 1 right now? And what I mean is a couple of the hyperscalers and AI companies are pushing now more towards AGI models, like bigger, larger models here. And I'm curious if that prolongs phase 1 of this journey.

Kathleen E. Johnson

President, CEO & Director

I think it's a great question as to whether or not phase 1 is prolonged. I think it's definitely intensifying and the amount of capital being deployed is probably bigger than we even imagined last year.

So how long it takes? This isn't -- we're building critical infrastructure for the biggest technology shift in the history of mankind. So it's a multi-decade journey. I want to be clear that it's not linear. So phase 1 will overlap with phase 2. Phase 2 being as enterprises start to use all of these models, which is happening right now. I think that what -- it's really interesting to see the proliferation of neoclouds coming into the story to sort of offload a bit of the pressure on trying to find GPUs and commit to buying them.

So I think you're seeing the market change. And I don't know that anybody knows the answer or how long this is going to last. But right now, we're just focused on executing. And it's like -- obviously, we're delighted with the commitment of capital that our partners and customers are making to this incredible technology.

Christopher David Stansbury

Executive VP & CFO

Yes. And on the stock price, I mean, look, obviously, tech has had a good run of late, and I want to make sure I say that clearly as a backdrop. But look, if you really dissect what's been going on with Lumen's stock price, there was a significant discount put on our stock price because of a few things.

One, perceived risk on the balance sheet side, I mean, again, look at that debt maturity chart. And two, and quite frankly, some of your peers still hold this view that we could never return to growth because of the legacy backdrop. I think what the market now realizes -- and by the way, the credit markets realized this 6, 9 months ago is that neither of those things are true. The balance sheet is getting healthy really quickly and is no longer something to be discussed as a risk. And our portfolio of business today, before we really start to pull in the digital upside associated with transforming enterprise telecom is half of that portfolio is growing.

So when you look at the stock price today and normalize the balance sheet post close, which we said today and AT&T said on their call, we expect an early first quarter, you actually get to a multiple that's pretty reasonable and comparable to better performing peers in our space. So I think we're now finally at the point where we're being recognized for what we've done. And we're now more fairly valued than we have been for the last period of time. From here, we've got a lot of work to do, but we feel really good about the upside as we drive digital adoption.

On the equity rate side, look, we'll continue to look at everything. And I would never say no, but I also want to be really clear. Our equity holders have stuck with us. We've done a lot on the debt side. Our creditors are obviously very pleased with what the return has been on their investments as we see bond trading values come up. And now it's time to focus on our equity holders, and that's why we're so pleased to see what's happening in the market.

Operator

Your next question comes from the line of Eric Luebchow with Wells Fargo.

Eric Thomas Luebchow

Wells Fargo Securities, LLC, Research Division

Appreciate the kind of revenue color on the digital and NaaS ecosystems, \$500 million, \$600 million. Just curious if you could talk about some of the incremental work you have to do internally, investments you have to make to kind of be able to achieve that outcome, whether it's upgrading data centers, additional cross-connects, additional on or off-net locations. And whether that could show up in the OpEx or CapEx line to be able to reach that goal in a few years.

And then my second question would just be around disconnects of legacy services. It seems like those have been coming in a little better than expected. Just wanted to check if there's any kind of timing-related things to call out there that we should expect to roll off in the next few quarters? Or maybe you're just performing better than you previously anticipated?

Kathleen E. Johnson

President, CEO & Director

Yes, I'll take the first part, and I'll leave the disconnect timing question to Chris. So the investments required to build the digital platform are definitely significant. They're already contemplated in all of our plans. They're in the operating plan, and we've got a very strong pipeline of innovation. It's just beginning with IoD off-net. We've got Berkeley coming to market in the first quarter and more enhancements to the platform after that.

I think it's important to remember that we talk about cloudifying telecom, which really means driving cloud economics for us and our customers. That's about scaled revenue growth with reducing marginal cost of hardware required to deliver these services and -- which is very, very exciting. Additionally, the old way for Lumen to grow was really sort of fixed to a level of capital intensity that I think is changing over time. That capital intensity required to deliver the digital portfolio over time, reduces. And I think that's an important part of our story over the next couple of years.

Chris, do you want to take?

Christopher David Stansbury

Executive VP & CFO

Yes, on disconnects. It's really -- last quarter was an anomaly as we said around the public sector side and things that I would say, just returned to normal as we move into the fourth quarter. I think the bigger impact in the fourth quarter is what I mentioned in my remarks, which is, remember, we had a big onetime revenue enablement item and grow last year surrounding the state of California. So that's really the biggest thing that's out there.

Operator

Next question comes from the line of Nick Del Deo with MoffettNathanson.

Nicholas Ralph Del Deo
MoffettNathanson LLC

The first one, Kate, you touched on this in your prepared remarks, but I was hoping you could dig in a little bit more. Can you talk some about the specifics of how you're promoting NaaS to customers and educating out the product and how you're incenting the sales force to sell it versus other services? And kind of related to that, if the off-net opportunity is 100x larger than the on-net opportunity, how are you prioritizing each? How are you resourcing each?

Kathleen E. Johnson
President, CEO & Director

It's a great question and a hot topic for Lumen right now because we're going to relentlessly pursue our digital future. And that means allocating resources accordingly. And when NaaS was a bit nascent, we had to kind of do it as a hobby and now that it's becoming core and showing a very promising adoption curve, which will translate into a very promising revenue growth curve, we've got to dedicate more resource to it.

And for any company in transformation, Nick, you have to be ambidextrous. You have to take care of the old and you have to build the new at the same time. The trick is when do you move things, resources from the old to the new, and we're right in the process of doing that. And there are many examples that I could go through. But at the highest level, we are -- where there's a NaaS capability being offered to customers, we will demote the old-school analog version of that service and prioritize it in terms of engineering resources, marketing resource, sales resource and operations resource. And so you'll see the sales team being more and more incented to go after it and the rest of the company in support of that sales force.

I think your other question about the availability of 10 million buildings, we still need to target. We still need to get aggressive in terms of aligning our sales efforts with the massive metro upgrades that we're doing. So our customers can take advantage of everything we're doing at the same time, the on-ramps network as a service, the capital improvements, the rapid routes, all of that stuff as we improve the capacity and bandwidth and performance market by market.

And so -- it's also important to note that if you think about most large enterprises, they have a mix of buildings in any geography that are on and off-net. And so we have to be very cautious about how to present this to customers. Now we can ask our entire sales force to talk to every customer about purchasing NaaS and about what the benefits are over agile, digital native experience digitally is going to be fundamentally different and provide a better customer experience to these customers. It wasn't available in totality in the past. Now that it is, it will actually be easier for our sales force to approach customers because they don't have to pick and choose on-net and off-net. They can just do a total network refresh.

Nicholas Ralph Del Deo
MoffettNathanson LLC

Can I ask one clarification on the PCF front as well? A few minutes ago, you said that the margin on the PCF deals that you signed in this quarter was equivalent to what you previously outlined, the prior deals you signed rather. Last quarter, I thought you were suggesting that the funnel that you had, had some different attributes to it since they skewed more towards new builds rather than leveraging existing assets. Maybe could you just touch on that a little bit?

Kathleen E. Johnson
President, CEO & Director

Yes. I mean, basically, new build construction projects much more complex, and there's pressure for lower margin over those projects as opposed to overpull or lighting up existing dark fiber. And the composition of the portfolio is incredibly important to us. We're not going to do bad deals. And there's an enormous amount of pressure from some of our partners to go back to the old telco ways of 0 margin for the promise of traffic of the future, and we're not really doing that. We're looking for much more creative partnerships with these builds to say, if it's a new build, we will share costs if there's existing traffic there.

Chris, do you want to add anything to that?

Christopher David Stansbury
Executive VP & CFO

Yes. And so the \$1 billion looks like the deals that we've signed so far because it's primarily existing conduit where we're doing over pulls. So it's a similar economic profile.

Operator

Your next question comes from the line of Mike Funk with Bank of America.

Michael J. Funk

BofA Securities, Research Division

So I'm going to butt in your comment during the prepared remarks, I think you said that it does not fit the models of traditional telecom. So can you expand on that for me, if you could, please? Traditionally, telecom kind of being very commoditized from buying the same equipment, same service capabilities. So I guess how do you veer from that more traditional model? And what should you mean by the earlier statement?

Christopher David Stansbury

Executive VP & CFO

Yes. So first of all, let's start with the fact that nobody is doing what we're doing. What I would clarify though is when Kate talked about our digital future, there were key words in there, which is one port, many services. So traditional telecom was a battlefield of every single services requiring its own infrastructure layer, its own set of ports. And so you have multiple players in the ecosystem go chase VPN or Ethernet or whatever it was, and you'd end up with massive amounts of hardware in the system and then everybody says, the only tool we have to compete against each other with is price. That's not what we're doing.

What we're doing is we're monetizing what is the most modern, the most high capacity, the fastest network by adding a digital layer in an ecosystem layer, and those are services to, Kate's point, whether they come from us or they come from third parties that allow us on and off-net. Off-net is not a disadvantage anymore because of what we're bringing to market where we can actually, for the first time in enterprise telecom bring scale.

So you'll see declining capital intensity because every service will not require its own infrastructure layer. You'll see increasing margins because those services increasingly will be delivered digitally. The whole model is changing. It's the PxQ math that Kate went through. So Lumen is not your mama's telecom anymore. We will not look like and are proud to not look like our competitors in this space.

Kathleen E. Johnson

President, CEO & Director

And Michael, I would strongly encourage you to look at some of the slides that we prepared for today's presentation, specifically the essential Cloud 2.0 networking requirements. I challenge you to come up with another company that is doing the 5 things that we outlined on the page. We are massively expanding, bandwidth and reducing latency with our upgrades of rapid routes and data center interconnect and metro updates. We are connecting to everywhere that matters, especially with the data centers, which means we're bringing that higher level bandwidth and lower latency to all of those locations. We're expanding into AI corridors. We've connected with all of the hyperscalers for these on-ramps and we're delivering everything with a vision that is got to be programmable and it's got to be interconnectable through APIs.

This is a complete modernization of old telco. What's remarkable is that new architecture that we're building, not only gives better performance, more secure, higher bandwidth, higher performing, lower latency, all those things, intelligence. It also reduces cost because it takes the intermediaries out. And that's incredibly important when we're starting to talk about commoditization. Things get commoditized because there was a utility mindset and there is no innovation. This company is completely innovating and delivering a fundamental reset in networking in support of AI and making massive capital investments in support of that, and we're already seeing the uptake. So it's very, very different.

Christopher David Stansbury

Executive VP & CFO

The only add that I would make is that when you look at PCF, that physical layer, the reason we're at \$10 billion of business, and you're not hearing much from others isn't because they want to walk past \$10 billion. It's because they can't do it. So if you were to normalize the underlying physical layer, it would be years and billions and billions of dollars until a competitor could close that gap. That's before we talk about the digital and ecosystems layer where we're making this consumable on demand by the customer. And so that's the differentiation. And that's why you continue to see our profile looks so different to our competitors.

Michael J. Funk

BofA Securities, Research Division

And one more if I could, really quickly. I appreciate all that insight, and I'll definitely review the decks again for those facts. So you've given us some landmarks for the revenue and revenue growth, and I apologize if I missed it from the analyst, event you hosted or today. But what is the cash EBITDA CAGR look like over that same time period? You referenced in the call that the market is not giving you credit for growth rate relative to peers. It'd be helpful to have a thought on that to be able to better frame the valuation on cash EBITDA growth.

Christopher David Stansbury

Executive VP & CFO

Yes. So I'll say 2 things. First, we're going to give you all of that at Investor Day. Second, in preparation for Investor Day, as we look at, again, only the PCF deals that are signed to date, nothing new, and there is more there. And we look at the capital investment to do the things that we're talking about. We have ample cash flow -- free cash flow over the next 5 years to the point where even post the AT&T close, we will continue to delever. So this is a business that will continue to generate free cash flow because capital intensity falls because margins go up and because ultimately, revenue inflects. So we'll give you more at Investor Day.

Operator

Your next question comes from the line of Jonathan Atkin with RBC Capital Markets.

Jonathan Atkin

RBC Capital Markets, Research Division

Wondered if you could comment a little bit about off-net NaaS capabilities and any -- maybe just repeat or go to more detail on kind of what lies ahead around that capability and demand for off-net NaaS. Yes, that would be my question.

Kathleen E. Johnson

President, CEO & Director

Yes, sure. So the exciting part about off-net NaaS is -- we feel off-net today in existing capabilities, right? It depends on who owns the endpoint. So if one of the other carriers had the endpoint into a building, but the customer wants to do a network with Lumen, we would have a wholesale relationship for that endpoint. The really cool thing about IoD off-net is that we now can offer on-demand Internet services to customers no matter who has the endpoint of the building. So if Verizon or AT&T or anybody else has fiber into the building, that customer can still run Lumen NaaS, and that's a great thing.

But what's more, and this is something that we reviewed at Analyst Day in September, we're going to bring a lot more detail when we launch Project Berkeley is we have a fabric port that allows us to make any pipe smart. We turn anybody's pipe into an intelligent and secure Internet connection. And what it does is, it really accelerates our commercial expansion capabilities.

What's more is that fabric port, Berkeley specifically, has a Swiss Army knife. So it's a cross-carrier mesh, if you will, that enables fixed wireless, satellite, fiber copper, 5G, whatever service you have can all go into that port, which is really cool because it's kind of like a control point for the Internet. And what that means is not only can we expand, but we can provide more services to our customers over time as they want to manage cross carrier.

Finally, the connected ecosystem, part of our story is exciting because our partners want to provide services on our network out of the gate. So just imagine the vision, and this is vision, we still have to get all the pieces together. But imagine that customer says, I want to have a Lumen network, we drop ship a Berkeley device, if you can plug it in Ethernet cable, you can make that device work. It shows a digital twin back in Lumen Connect, the mother ship, the cloud, so that we can remotely provision, we can remotely manage and service it under a single pane of glass.

But what's really neat -- and this is what I tried to tease out on the prepared remarks, is that customer can say, okay, I have a new building, I'm going to buy a Berkeley device and to put it in place, and I'm going to get some Internet on demand. I'm going to throw some voice on there. Maybe some Lumen Defender. I want to connect to 2 of the cloud directly without going through carrier-neutral facilities. And I want some of the security service from my favorite security provider. Click, click, click, and they can build that service remotely. It's a very forward-leaning vision, and we're bringing it to market in 2026.

Jonathan Atkin

RBC Capital Markets, Research Division

Is there any external investment, tuck-in M&A or whatnot that makes sense either in regard to this direction? Or is there anything else around the broader business?

Kathleen E. Johnson
President, CEO & Director

I'm sorry. Did you ask if there are any tuck-in?

Jonathan Atkin
RBC Capital Markets, Research Division

Does [indiscernible] accelerate, does it make sense to do M&A to maybe accelerate capacity that you have going?

Kathleen E. Johnson
President, CEO & Director

I really love questions about M&A. It really shows how different things are. Thank you so much for the question. Of course, we look at everything, constantly, the best use of capital. Is it to invest something new, is it to pay down debt, is it buyback equity, or is it to go buy something to tuck in? We're looking at all of it, and we'll bring it to you as soon as we have any changes in our current trajectory.

Operator

At this time, there are no further questions. I will turn the call back over to your host, Kate, for closing remarks.

Kathleen E. Johnson
President, CEO & Director

Thanks so much, operator, and thanks to everybody for the remarkable time and attention that you spent and the great questions. We're so excited to share our progress and our journey ahead, and we couldn't be happier with what's going on at Lumen. A special shout out to the thousands of Lumenaries working so hard every day to make this progress reality. I'm so proud of you. And love working with all of you. See you in the field. All right. Thanks, guys.

Operator

That does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your line. Have a great day, everyone.

Copyright © 2025 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

© 2025 S&P Global Market Intelligence.