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Genesis White

Good morning everyone and thank you for joining Windstream's second quarter 2024 earnings conference call.

Joining me on the call today are:

- Paul Sunu, our CEO, and
- Drew Smith, our CFO and Treasurer

To accompany today's call, we have posted the presentation slides and supplemental schedule on our various investor websites. If you do not have access to these websites, please reach out to me at Genesis dot White at windstream dot com.

Our financial statements, prepared in accordance with U.S. GAAP, will be available by mid-August to our lenders and investors, in compliance with the terms of the Credit Agreement, Indenture, and Amended and Restated LLC Agreement.

During the second quarter of 2024, we adjusted certain expense assignments between Kinetic, Enterprise and shared services. Prior period segment information, as previously reported in the first quarter 2024 investor supplement, has been revised to reflect these updates.

Today's discussion includes statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties and the disclosure to our forward-looking statements will be contained in our financial statements. Let me now turn it over to Paul Sunu.

Paul Sunu

Good morning and thank you for joining us.

Today, we are pleased to share with you our second quarter results, which showed solid financial and operational performance across our business and demonstrated progress towards our 2024 priorities, as shown on Slide 4.

As you know, our focus for 2024 is Quality. As we continue to execute on our 2024 strategic objectives, we want to underline these efforts by doing our best and doing things right the first time, every time. And we are seeing improvements in our operations and delivering better service, including a 10% year-to-date reduction in our overall consumer broadband disconnects, as well as improving trends on care and repair intervals across the business.

We are focused on providing an outstanding service experience to our customers and the communities we serve. This is exemplified by our recovery and restoration initiatives around the unusually high level of tornados this quarter which tore through a number of servicing areas in Iowa, Nebraska and Oklahoma as well as the extensive wildfire in New Mexico. Whether helping to clear impacted areas, repairing damaged fiber or providing meals, our teams demonstrated the very essence of our commitment to service quality and community.

Let's turn to Slide 5, which provides an overview of our second quarter financial and operational highlights. For the quarter, we delivered adjusted EBITDAR of $362 million, which was up 4% for the full year.

Within Kinetic, our consumer revenues declined approximately 2% year-over-year. These results include the impact of the funding step-down from the ACP, or Affordable Connectivity Program, that began this quarter. We ended the second quarter with over 95,000 customers who were previously enrolled and receiving the ACP benefits. While this is a public policy decision, the abrupt discontinuation of this program does create a heavy burden on those that need it the most. We continue to hope that Congress will address the need to continue this support mechanism. In the meantime, as previously reported, we are continuing for the time being a $30 monthly credit to this cohort. As a reminder, this impact is included in our 2024 guidance that was provided in February.

Turning to slide 6, we extended our fiber coverage by constructing over 94,000 consumer premises so far this year, bringing us to approximately 1.6 million total consumer premises passed. And this represents 36% coverage of our Kinetic footprint as outlined on slide 7. While we are making steady progress on our RDOF and PPP builds, the pace of construction slowed in the second quarter, driven in large part by the shift in resources toward restoration initiatives arising from the higher storm- and fire-related activity mentioned earlier, as well as delays in permitting. We are working through the permitting challenges, which are being shared by many in the industry, and taking our learnings to help improve execution on our remaining builds.

In addition, our internal construction team continues to make productivity gains and sharpens their execution skills through terrains in rural areas that we anticipate will be very similar to BEAD builds. The experience and expertise gained, along with our quality-focused approach, gives us assurance that we can reliably meet our build commitments under these programs as well as those under BEAD. And so, we look forward to the opportunity to continue our pursuit of connecting the unserved and underserved with our fiber.

Now let's look at our fiber broadband subscribers, as seen on Slide 8. We ended the quarter with 418,000 subscribers on our fiber network, representing a 26.9% penetration rate, an improvement of 30 basis points sequentially.

Additionally, you can see the performance from our Fiber Fast Start initiative on Slide 9, as our latest cohorts are showing impressive penetration results. Furthermore, we launched our Fiber Forward initiative during the second quarter, which leverages the tactics and learning from Fiber Fast Start to reinvigorate our older cohorts. With the benefit to customer additions from these two programs, as well as the churn improvements from our quality initiatives, we see opportunities ahead to further propel our fiber penetration.

Strategic revenues within our Enterprise and Wholesale markets had a solid performance. Within Enterprise, we continue our focus on Strategic and Advanced IP portfolios, which now represent 89% of our total Enterprise Market service revenues on an annualized basis, excluding end-user surcharges.

Overall, I am very pleased with the progress we made during the quarter and the operational momentum we are building through our quality initiatives.

And finally, before we get to our financial results, let me address the progress on our planned merger with Uniti. On Monday, the initial Form S-4 Registration Statement, which contains pertinent information on the merger, was filed with the SEC and is publicly available. The Registration Statement has not yet become effective and is subject to SEC review. In addition, we have received five state approvals and have thirteen state approvals in process. We continue to defer to Uniti management on specifics of the transaction and the closing process, but from our perspective, this combination makes a lot of sense as it will bring the leased network assets back with our operations and creates the opportunity to unlock additional value from our Kinetic operations while eliminating certain complexity of the lease arrangement with Uniti. The merger is expected to close in the second half of 2025, subject to customary closing conditions, including receipt of regulatory and Uniti shareholder approvals. In the meantime, we remain focused on executing on our initiatives and running our day-to-day business, while providing support to Uniti where needed to close the transaction.

With that, let me now turn the call over to Drew to hit some of the highlights on the financial results.

Drew Smith

Thank you, Paul, and good morning everyone. Turning to Slide 10, we show our second quarter financial results.

During the quarter, Windstream generated:

- Total revenues of $926 million, and
- Adjusted EBITDAR of $362 million, up almost 1% year-over-year, which translates into a consolidated margin of 39.1% during the quarter, an improvement of 280 basis points over last year's levels. Additionally, the current quarter results include funding step-downs from the ACP program, as mentioned earlier. Excluding this, adjusted EBITDAR grew approximately 2% year-over-year.

Moving to our market-level business revenue trends:

Kinetic revenues delivered solid results. For the quarter:

- Service revenue was $529 million, which was down 1.4% year-over-year, with consumer service revenue down 2.3% year-over-year, driven mostly by the ACP funding step-downs. In addition, we saw strong growth in our next-generation subscriber base, however this growth was offset by declines in our legacy-DSL subscribers
- Kinetic consumer broadband ARPU of $89.13 was up 2% year-over-year, but down slightly sequentially due to impacts from the ACP wind-down

- Next-Generation broadband subscribers grew by 17,200 during the quarter. This was offset by a loss of 27,200 DSL customers, resulting in a net decrease in total broadband units of 10,000 for the quarter.

Within Enterprise:

- Service revenue was $287 million, down 15.1%, as legacy-TDM revenues continue to see ongoing declines as expected.
- Notably, approximately 89% of Enterprise Market service revenues, excluding end-user surcharges, came from our Strategic and Advanced IP portfolios. These combined revenues were down 1% for the year.
- TDM and Other revenue declined approximately 56% year-over-year as we continue to execute our TDM exit strategy and transition customers to our strategic and advanced products, which produce a higher margin for the business

Within Wholesale:

- Service revenue was $100 million, down 5% year-over-year, driven by declines in legacy revenues as well as lower non-recurring revenue. Strategic revenues had a solid performance during the quarter highlighted by high demand being seen from telecom, cable and content customers.

Turning to expenses:

- Total cash expenses during the second quarter fell by $67 million, or approximately 11%, year-over-year, as our quality and unification efforts across the company continue to deliver solid results.

On slide 11, I wanted to provide our regular update on our interconnection expense reduction activities. Our total interconnection and network facility expenses fell by 16% on a year-over-year basis during the second quarter. We reduced these total expenses on a recurring annualized basis by over $125 million year-over-year. Notably, we still have $645 million of total interconnection expenses, of which $279 million are legacy TDM-related including network facilities expense. These expenses fell by 26% year-over-year. In particular, the Enterprise access and service delivery teams have fully exited over 350 collocations associated with our TDM migration plans year-to-date.

Transitioning to slide 12, Windstream has a strong balance sheet with no current debt maturities until 2027. As of June 30th, we ended with $462 million in total liquidity and a net debt to adjusted EBITDA ratio of 2.19x.

As seen on slide 13, Windstream fully owns and operates substantial assets. Within our Kinetic markets, approximately 31% of our current fiber broadband consumers are on a network that is entirely owned and operated by Kinetic.

Our financial and operational guidance as seen on slide 14 remains unchanged, with the exception of Fiber Premises Constructed, which we now expect to be around 200,000 for the year to account for the delays we've seen in permitting for our RDOF and PPP builds that Paul mentioned earlier. This results in a shift of the remaining households, originally planned for this year, to early next year.

Now, I will turn the call back over to Paul for some closing comments.

Paul Sunu

Thank you, Drew.

In closing, Windstream delivered solid financial and operational results across our business during the second quarter. We continue to extend our fiber footprint within our Kinetic markets, and the strong penetration that we are seeing in our newest fiber cohorts demonstrates that our strategic marketing initiatives are on track. We want to be the premier company for service and quality; the go-to company for the most reliable, resilient, and responsive network; and through our quality initiative, provide our customers with an outstanding service experience.

With that, we can now open the call up for questions.

No Offer or Solicitation

This communication and the information contained in it are provided for information purposes only and are not intended to be and shall not constitute a solicitation of any vote or approval, or an offer to sell or solicitation of an offer to buy, or an invitation or recommendation to subscribe for, acquire or buy securities of Uniti Group Inc. ("Uniti"), Windstream Holdings II, LLC ("Windstream") or the proposed combined company ("New Uniti") or any other financial products or securities, in any place or jurisdiction, nor shall there be any offer, solicitation or sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offer of securities shall be made in the United States absent registration under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or pursuant to an exemption from, or in a transaction not subject to, such registration requirements.

Additional Information and Where to Find It

In connection with the contemplated merger (the "Merger"), New Uniti has filed a registration statement on Form S-4 with the SEC that contains a proxy statement/prospectus and other documents, which has not yet become effective. Once effective, the Uniti will mail the proxy statement/prospectus contained in the Form S-4 to its stockholders. This communication is not a substitute for any registration statement, proxy statement/prospectus or other documents that may be filed with the SEC in connection with the Merger.

THE PROXY STATEMENT/PROSPECTUS AND OTHER DOCUMENTS FILED WITH THE SEC IN CONNECTION WITH THE MERGER CONTAINS IMPORTANT INFORMATION ABOUT UNITI, WINDSTREAM, NEW UNITI, THE MERGER AND RELATED MATTERS. INVESTORS SHOULD READ THE PROXY STATEMENT/PROSPECTUS AND SUCH OTHER DOCUMENTS FILED WITH THE SEC CAREFULLY AND IN THEIR ENTIRETY, AS WELL AS ANY AMENDMENTS OR SUPPLEMENTS TO THE PROXY STATEMENT/PROSPECTUS AND SUCH DOCUMENTS, BEFORE THEY MAKE ANY DECISION WITH RESPECT TO THE MERGER. The proxy statement/prospectus, any amendments or supplements thereto and all other documents filed with the SEC in connection with the Merger will be available free of charge on the SEC's website (at www.sec.gov). Copies of documents filed with the SEC by Uniti will be made available free of charge on the Company's investor relations website (at https://investor.uniti.com/financial-information/sec-filings).

Participants in the Solicitation

Uniti, Windstream and their respective directors and certain of their executive officers and other employees may be deemed to be participants in the solicitation of proxies from Uniti's stockholders in connection with the Merger. Information about Uniti's directors and executive officers is set forth in the sections titled "Proposal No. 1 Election of Directors" and "Security Ownership of Certain Beneficial Owners and Management" included in Uniti's proxy statement for its 2024 annual meeting of stockholders, which was filed with the SEC on April 11, 2024 (and which is available at https://www.sec.gov/Archives/edgar/data/1620280/000110465924046100/0001104659-24-046100-index.htm), the section titled "Directors, Executive Officers and Corporate Governance" included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2023, which was filed with the SEC on February 29, 2024 (and which is available at https://www.sec.gov/ix?doc=/Archives/edgar/data/1620280/000162828024008054/unit-20231231.htm), and subsequent statements of beneficial ownership on file with the SEC and other filings made from time to time with the SEC. Additional information regarding the persons who may, under the rules of the SEC, be deemed participants in the solicitation of Uniti stockholders in connection with the Merger, including a description of their direct or indirect interests, by security holdings or otherwise, is set forth in the proxy statement/prospectus and other relevant materials filed by New Uniti with the SEC. These documents can be obtained free of charge from the sources indicated above.

Forward-Looking Statements

This communication contains forward-looking statements, including within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can often be identified by terms such as “may,” “will,” “appears,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential,” or “continue,” or the negative of these words or other similar terms or expressions that concern expectations, strategy, plans, or intentions. However, the absence of these words or similar terms does not mean that a statement is not forward-looking. All forward-looking statements are based on information and estimates available to Uniti and Windstream at the time of this communication and are not guarantees of future performance.

Examples of forward-looking statements in this communication (made at the date of this communication unless otherwise indicated) include, among others, statements regarding the Merger and the future performance of New Uniti (together with Windstream and Uniti, the “Merged Group”), the perceived and potential synergies and other benefits of the Merger, and expectations around the financial impact of the Merger on the Merged Group’s financials. In addition, this communication contains statements concerning the intentions, beliefs and expectations, plans, strategies and objectives of the directors and management of Uniti and Windstream for Uniti and Windstream, respectively, and the Merged Group, the anticipated timing for and outcome and effects of the Merger (including expected benefits to shareholders of Uniti), expectations for the ongoing development and growth potential of the Merged Group and the future operation of Uniti, Windstream and the Merged Group.

These statements involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any results, levels of activity, performance or achievements expressed or implied by any forward-looking statement and may include statements regarding the expected timing and structure of the Merger; the ability of the parties to complete the Merger considering the various closing conditions; the expected benefits of the Merger, such as improved operations, enhanced revenues and cash flow, synergies, growth potential, market profile, business plans, expanded portfolio and financial strength; the competitive ability and position of New Uniti following completion of the Merger; and anticipated growth strategies and anticipated trends in Uniti’s, Windstream’s and, following the expected completion of the Merger, New Uniti’s business.

In addition, other factors related to the Merger that contribute to the uncertain nature of the forward-looking statements and that could cause actual results and financial condition to differ materially from those expressed or implied include, but are not limited to: the satisfaction of the conditions precedent to the consummation of the Merger, including, without limitation, the receipt of shareholder and regulatory approvals on the terms desired or anticipated; unanticipated difficulties or expenditures relating to the Merger, including, without limitation, difficulties that result in the failure to realize expected synergies, efficiencies and cost savings from the Merger within the expected time period (if at all); potential difficulties in Uniti’s and Windstream’s ability to retain employees as a result of the announcement and pendency of the Merger; risks relating to the value of New Uniti’s securities to be issued in the Merger; disruptions of Uniti’s and Windstream’s current plans, operations and relationships with customers caused by the announcement and pendency of the Merger; legal proceedings that may be instituted against Uniti or Windstream following announcement of the Merger; funding requirements; regulatory restrictions (including changes in regulatory restrictions or regulatory policy) and risks associated with general economic conditions.

Additional factors that could cause actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements are detailed in the filings with the SEC, including Uniti’s annual report on Form 10-K, periodic quarterly reports on Form 10-Q, periodic current reports on Form 8-K and other documents filed with the SEC.

There can be no assurance that the Merger will be implemented or that plans of the respective directors and management of Uniti and Windstream for the Merged Group will proceed as currently expected or will ultimately be successful. Investors are strongly cautioned not to place undue reliance on forward-looking statements, including in respect of the financial or operating outlook for Uniti, Windstream or the Merged Group (including the realization of any expected synergies).

Except as required by applicable law, Windstream does not assume any obligation to, and expressly disclaims any duty to, provide any additional or updated information or to update any forward-looking statements, whether as a result of new information, future events or results, or otherwise. Nothing in this communication will, under any circumstances (including by reason of this communication remaining available and not being superseded or replaced by any other presentation or publication with respect to Uniti, Windstream or the Merged Group, or the subject matter of this communication), create an implication that there has been no change in the affairs of Uniti or Windstream since the date of this communication.