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CenturyLink, Inc. NYSE:CTL

FQ3 2017 Earnings Call Transcripts

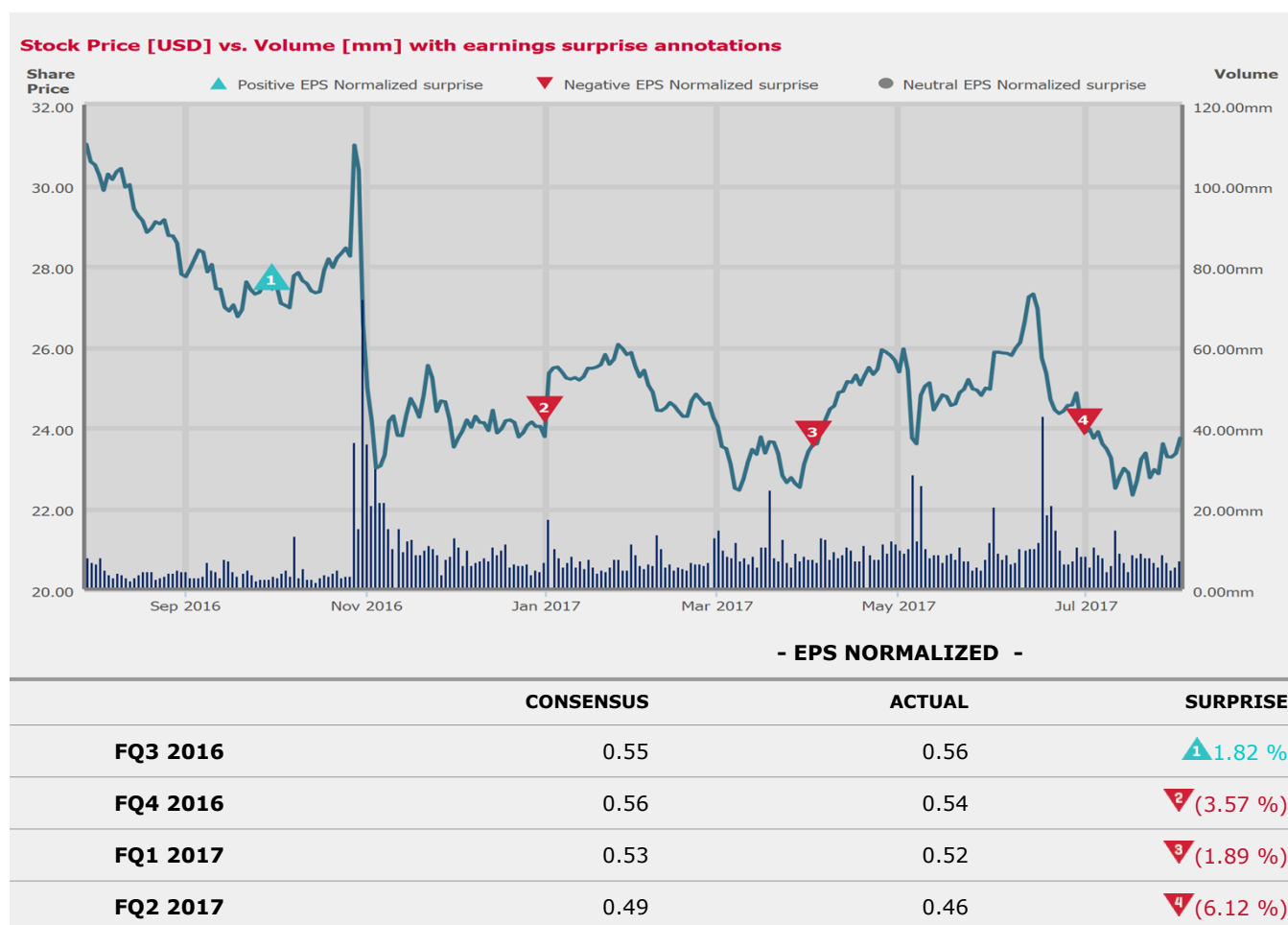
Wednesday, November 08, 2017 10:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2017-			-FQ4 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.45	0.42	▼ (6.67 %)	0.49	1.94	1.85
Revenue (mm)	4057.29	4034.00	▼ (0.57 %)	4051.91	16411.09	15976.06

Currency: USD

Consensus as of Nov-07-2017 6:10 AM GMT



Call Participants

EXECUTIVES

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CEO, President & Director

R. Stewart Ewing
Executive Officer

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Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the CenturyLink's Third Quarter 2017 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded Wednesday, November 8, 2017.

It is now my pleasure to turn the conference over to Tony Davis, Vice President of Investor Relations. Please go ahead, sir.

Tony Davis

Vice President of Investor Relations

Thank you, France, and good afternoon, everyone, and welcome to our call today to discuss CenturyLink and Level 3 Communications third quarter 2017 results released earlier this afternoon. The slide presentation we will be reviewing during the prepared remarks portion of today's call is available in the Investor Relations section of our corporate website at ir.centurylink.com. At the conclusion of our prepared remarks today, we will open the call for Q&A.

As you move to Slide 2, you'll find our safe harbor language. We will be making certain forward-looking statements today, particularly as they pertain to guidance for full year 2017 for stand-alone CenturyLink and Level 3 and other outlooks in our combined business. The Level 3 prior period results are presented on a pro forma basis adjusted to reflect changes made to customer assignments between the wholesale and enterprise channels at the beginning of 2017 due to mergers between certain customers and other changes. Unless otherwise noted, Level 3 revenue and sales comparisons to prior periods are provided on a year-over-year basis and a constant currency basis. Finally, certain Level 3 metrics discussed in the call today exclude acquisition-related expenses associated with the CenturyLink transaction. Those metrics our adjusted EBITDA, capital expenditures, free cash flow and net leverage, and we footnoted the details in our press release and earnings presentation. We also ask that you review our disclosure found on this slide as well as in our press release and in our SEC filings, which describe factors that could cause our actual results to differ materially from those projected by us in our forward-looking statements.

Now moving to Slide 3. We ask that you also note that our earnings release issued earlier this afternoon and the slide presentation and remarks made during this call contain certain non-GAAP financial measures. Reconciliation between these non-GAAP financial measures and the most comparable GAAP financial measures are available on our earnings release and on our website at ir.centurylink.com.

And now turning to Slide 4. Your host for today's call is Glen Post, CenturyLink's Chief Executive Officer. Joining Glen on today's call are Jeff Storey, CenturyLink's President and Chief Operating Officer; CenturyLink Executive Vice President, Stewart Ewing; and Sunit Patel, CenturyLink's Executive Vice President and Chief Financial Officer.

Our call today will be available for telephone replay through November 15, 2017, and the webcast replay of our call will be available through February 6, 2018. Anyone listening to a taped or webcast replay or reading a written transcript of this call should note that all information presented is current only as of November 8, 2017, and should be considered valid only as of this date regardless of the date heard or viewed.

And now as we move to Slide 5, I'll turn the call over to Glen Post. Glen?

Glen F. Post

CEO & Director

Thank you, Tony, and thank you for joining our call today. As many of you are aware, Stewart Ewing is retiring from CenturyLink after 34 years of service with the company, 28 of which he spent serving as our Chief Financial Officer. Today will be his final time participating in our earnings call and I would be remiss if I didn't take a moment to acknowledge and thank Stewart for his years of service and his dedication to

our company. Over the years, Stewart has not only been a colleague to me and others, but he's been a trusted and valued friend and we will miss him greatly. His passion for the company, his astute financial leadership over the years have been invaluable to our company. Stewart, thank you for your many, many contributions to our company. I know everyone joined has been wishing you the very best in the future as well.

I'm also pleased to welcome Jeff Storey and Sunit Patel to our call today and look forward to working closely with them and in the months ahead.

So moving to Slide 6. As you know, last week, we completed the acquisition of Level 3. It's been a year in the making and we are very excited about the opportunities before us. We really are building a new CenturyLink and bringing our companies together is a compelling, strategic combination for a number of reasons. First, we're even better able to serve our customers, win market share and drive profitable growth through our complementary networks and product portfolios. Also, we're able to offer customers a broader range of services and solutions to meet their needs and help them in their digital transformation journey. Third, replacing the customer first in all that we do. We have the opportunity to deliver great customer experience, which can be a differentiator over time. And finally, I believe this combination will provide great opportunities for our employees in the months and years ahead.

Continuing on to Slide 7. We believe this combination creates one of the world's most powerful networks. Together, we have a compelling set of assets, the scale to compete globally and the opportunity to drive significant operational efficiencies. But more on that capacity than ever before, a strong sales force and leading products, we are more confident than ever in our ability to gain market share in the months ahead.

We look at the stats -- let's look at the stats. Today, CenturyLink has approximately 450,000 route miles of fiber globally. We have over 100,000 fiber-enabled on-net buildings globally. We serve customers in more than 60 countries, and we serve nearly 5.8 million homes with broadband and passed more than 1.6 million addressable units with fiber-to-the-prem. We believe we are uniquely positioned relative to others in the industry, both larger and smaller companies. We're also better positioned to improve operational efficiency and drive profitable growth through expanded on-net capabilities, automation and simplification. The increased scale of our business further strengthens our ability to take advantage of changing technological and competitive landscapes. As we've said before, our success in the future depends greatly on excellent execution, and we believe we are well positioned to accomplish this in the months ahead.

The operating expense and capital synergies along with the cash tax savings from the accelerated recognition of the net operating loss carryforwards enhance our adjusted free cash flow generation and lower our dividend payout ratio. We realize that dividend is an attractive part of our shareholder return, and we're confident we can continue to pay the dividend while investing in growth and in our network and as we delever our balance sheet.

Turning now to Slide 8. Since the acquisition last week, integration is well underway and on track with our expectations. We expect to have our sales team fully integrated in the first quarter of 2018. Also, work is underway to complete our migration to a single ERP system, which is expected to occur in the second quarter of 2018. Additional system and process changes will be ongoing, and we anticipate the majority of integration activities to be completed within approximately 3 years. We remain confident in our ability to achieve nearly \$1 billion in foreign run rate operating capital cash synergies which, along with our focus on driving profitable revenue growth, should result in meaningful adjusted EBITDA growth over time.

Before Stewart reviews CenturyLink's standalone third quarter 2017 results, I want to provide a few high-level remarks about the quarter. CenturyLink's results for the quarter were below our expectations due primarily to lower-than-anticipated growth in enterprise revenues. For the third quarter, we came in at approximately \$65 million below our internal expectations for enterprise revenue primarily due to a miss of about \$35 million in customer prem equipment revenue which, as you know, is typically low margin revenue with minimal impact to EBITDA. We also generated about \$20 million less growth in high-bandwidth data services than anticipated, approximately 2/3 of which was driven by contract renewals, pricing pressure with the remainder due to lower sales and installs than anticipated. And we had about

\$10 million of lower legacy revenues, primarily lower LLD and private line. However, we still delivered solid performance in high-bandwidth services revenue during the quarter with year-over-year growth of 3%. Really, over 5% growth on a normalized basis. Also, our MPLS revenue increased nearly 5% over the year ago period, which was above the market growth rate.

With that, I'll turn the call over to Stewart to discuss the results of the third quarter in more detail. Stewart?

R. Stewart Ewing

Executive Officer

Thank you, Glen. Over the next few minutes, I'll review CenturyLink's third quarter results. Please note that I'll be reviewing some of these results, excluding special items as outlined in our earnings release and associated financial statements.

Turning to Slide 10. As a reminder, the sale of our data centers and colocation business on May 1 resulted in approximately \$150 million of decline in total and core revenues compared to the year ago period. Third quarter operating revenue on a consolidated basis was approximately \$4 billion, a decline of 4.7% adjusting for the colo sale. Core revenue defined as strategic revenue plus legacy revenue was \$3.6 billion for the third quarter, a decline of 4.5% adjusted for the colo sale. Our operating expenses for the third quarter decreased to over \$240 million year-over-year primarily due to a decline in depreciation expense and other expense reductions related to the sold colocation business along with lower salaries and wages expense related to the headcount reduction in fourth quarter 2016. \$125 million of the \$240 million decline in expenses is related to the sale of the colocation business.

Our operating income was \$487 million for third quarter 2017. We generated adjusted EBITDA of approximately \$1.4 billion for the third quarter and achieved an adjusted EBITDA margin of 34.6%. Adjusted free cash flow, defined as adjusted EBITDA less cash paid for taxes, interest and capital expenditures, along with the cash impact of pension and OPEB cost and the ongoing impact of the accounting treatment related to the colo sale, stock-based compensation and other income was \$109 million for the quarter. As a reminder, this included the impact of a \$100 million pension contribution that we made during the third quarter.

Diluted earnings per share for the third quarter was \$0.17, a decrease from \$0.48 in the year ago period. Adjusted diluted EPS for the quarter was \$0.42.

Now moving to Slide 11 and CenturyLink's Enterprise segment. In the third quarter, the Enterprise segment generated \$2.17 billion in operating revenues, a decrease of 5.4% from the year ago period, excluding the impact of the Colocation Sale. Third quarter enterprise strategic revenues were \$949 million. Excluding the revenue of -- impact of the Colocation Sale and the second quarter wholesale contracted price reduction, Enterprise's strategic revenues grew more than 4% compared to third quarter a year ago.

Our legacy revenues for the segment declined 9.4% from third quarter 2016 due primarily to a continuing decline in voice and low-bandwidth data services. Total Enterprise segment expenses declined \$133 million or 9.3% from second quarter 2016 primarily due to the reduction of approximately \$90 million in expenses related to the sold Colocation business in addition to other operating expense reductions.

Now turning to Slide 12 in our Consumer segment. This segment generated approximately \$1.39 billion in total operating revenues, a decrease of 5.8% from third quarter 2016. Consumer strategic revenues declined 1.9% year-over-year to \$774 million due primarily to the restructuring of a satellite video contract in the first quarter of 2017 and the impact of lower broadband units. Legacy revenues for the Consumer segment declined 10.2% from third quarter a year ago primarily due to access line declines. Our operating expenses declined \$22 million or 3.4% from the year ago period due to lower employee-related expenses.

Lastly, I'd like to review CenturyLink's standalone outlook for full year 2017. As was indicated during the second quarter earnings call, we anticipate coming in below our full year revenue and adjusted diluted EPS guidance provided in February of this year adjusted for the Colocation Sale. Additionally, we now expect full year adjusted EBITDA to be approximately \$100 million below the range primarily due to lower than

anticipated strategic revenue growth and lower data integration margins in the last half of the year. We expect free cash flow to be approximately \$250 million below the range due to the lower EBITDA and higher capital expenditures of approximately \$150 million, which we expect to drive future margin.

Now I'll turn the call over to Jeff to provide an overview of the Level 3 results.

Jeffrey K. Storey
CEO, President & Director

Thank you, Stewart. Good afternoon, everyone, and thank you for joining us. I'll start off by saying that I'm thrilled to be talking to you today as the Chief Operating Officer of CenturyLink. I'm very excited about what we can do together now that we are one company. With the close of the acquisition last week, we've begun executing on our integration plans. And even with only 7 days since the close, we've achieved several milestones. For example, we've interconnected the CenturyLink and Level 3 networks and are now beginning efforts to integrate them as a single unified network. We've enabled our sales teams to quote the combined company footprint as on-net and have given them full access to the customer information for the accounts they support. We've defined the management organization, we've set out budget targets for 2018 and we have the business units developing their own detailed budgets and strategic plans for 2018.

We have an aggressive but achievable integration plan for the year or 2 ahead and I have high confidence in our ability to hit the synergy targets we've discussed previously. I view this as a 3-step process. Interconnection is the first step and ensures we can easily and efficiently pass and trade traffic between all of our networks. Integration, the second step, is about being able to go-to-market as a single company and in a seamless way. There's a lot of work to do, but we have an excellent integration plan in place. And lastly, transformation. It's not enough to incrementally improve on what CenturyLink and Level 3 were doing. We must transform the business to make it easier for our employees to do their jobs, to meet the evolving needs of our customers and to drive profitable growth. As most of you know, the objective, I think, is the most important for driving shareholder value, is increasing free cash flow per share. Over the coming year, you will hear me talk more about our own transformation efforts and our initiatives to support our customers in their own digital transformation. All of these efforts are aimed at delivering profitable revenue and growth in free cash flow per share.

I thought I'd take a minute to talk about what the new CenturyLink is and what it is not. Our goal is to become the world's best enterprise networking company, recognizing that our wholesale and consumer customers are essential to provide us the scale and scope and capabilities we need. But today, we routinely compete and win against the largest telecom providers in the world for the business from the most demanding enterprises. Sometimes, we are compared to much smaller RLECs. While we have rule service territories and think we do a great job for those customers, we are also the local phone companies in cities like Denver, Phoenix, Seattle, Minneapolis and many other large urban markets. We have a great Consumer business that's very important to us, but we are not a primarily consumer-focused company. Approximately 25% of our revenue comes from consumers. 75% of our revenue comes directly from enterprises or through the wholesale customers we support. Some may think of us as a North America only company. And while we have an incredible network in North America, we are a global facilities-based provider with substantial networks in EMEA, Latin America and subsea, and we serve customers in more than 60 countries. The reality is that the new CenturyLink is a leading telecommunications company in the global marketplace with excellent competitive capabilities. We have organized our team around our customers and are focused on profitable revenue, operational excellence to reduce cost and drive a great customer experience and increasing free cash flow per share. Soon we'll provide more insight on this in a moment, but I want to get my perspective on the CenturyLink dividend.

I've had the chance to speak with the Board of Directors, Glen and Sunit about it and we all agree we are firmly committed to the dividend. As I look at our financial plans over the next few years, I'm confident about our ability to meet the dividend obligation and believe it is an important component of our equity story.

Turning to Level 3's third quarter 2017 results. We saw revenue growth in almost every area we measure: total revenue, core network service revenue or CNS, and enterprise CNS revenue. With our disciplined

approach to managing the business, we also saw continued margin expansion and growth in adjusted EBITDA and free cash flow generation. Even though we've seeing a dampening effect due to the length of time it has taken to complete this transaction, our products and services resonate with our customers. Since a low point in the fourth quarter of last year, we've seen sequential improvement in enterprise CNS sales in each and every quarter. And as our service delivery team installs the pending orders, we expect better sequential revenue performance in the fourth quarter.

As we integrate this new company, we are focused on delivering value to our customers, improving the customer experience, competing aggressively to gain market share and managing our business with financial discipline. Having spent the last year with Glen and the management teams from CenturyLink and Level 3, I can tell you we are all excited about the transformation efforts underway. We are confident in our ability to deliver the synergies we've announced. We have aligned our focus around driving free cash flow per share growth and support the dividend. And I intend to push hard to increase our intensity, agility and speed in managing the business.

In summary, we are well positioned as one of the largest enterprise communications providers in the world. The scope and scale sets us apart from where CenturyLink or Level 3 have been before. Together, we are a global enterprise-focused company and a strong competitor against the largest communications companies in the world.

With that, I'll turn it over to Sunit to provide an overview of the Level 3 detailed financial results. Sunit?

Sunit S. Patel

Executive VP & CFO

Thank you, Jeff, and good evening, everyone. I'll start with a few financial highlights from Level 3's third quarter, which can be found on Slide 14.

We grew adjusted EBITDA to \$752 million in the quarter with adjusted EBITDA margin expanding to 36.5%. Our free cash flow was \$379 million, and we reaffirmed our full year 2017 outlook for adjusted EBITDA and free cash flow.

Let's now turn to revenue results on Slide 15. For the third quarter, total revenue grew 1.1%. CNS revenue grew 1.5% and enterprise CNS revenue, excluding U.K. government, grew 3.3%. Total wholesale CNS revenue declined 2.8% compared to a 6.0% decline last quarter.

Shifting to our regional results for the third quarter. North America CNS revenue grew 1.5%, and enterprise DNS revenue grew 2.8%. In EMEA, CNS revenue grew 0.5%, and enterprise CNS revenue excluding U.K. government grew 5.7%. In Latin America, CNS revenue grew 2.9% and enterprise DNS revenue grew 5.7%. Excluding the \$4 million benefit from the Olympics we saw in the third quarter last year, enterprise CNS revenue grew 8.1%.

From an individual product perspective, we saw CDN growth of 15%. Dark fiber grew 7.9% and managed security grew 7.6%.

Since the fourth quarter of 2016, sequential enterprise sales performance has improved each quarter and our sales funnel remains healthy. Overall, from a revenue perspective, we remain focused on improving the performance of our Enterprise business across all of our regions. As Tony noted at the start of the call, the following metrics exclude CenturyLink acquisition-related expenses.

Turning now to Slide 16. Adjusted EBITDA was \$752 million for the fourth quarter of 2017, which includes the typical increases in seasonal utility costs we mentioned last quarter. Adjusted EBITDA margin was 36.5% in the third quarter of 2017. This compares to 35.2% in the third quarter of 2016. Capital expenditures for the third quarter of 2017 was \$318 million. Year-to-date, capital expenditures was 16% of total revenue. For the full year, our outlook remains unchanged at 16% of total revenue.

The company generated free cash flow of \$379 million in the third quarter, which compares to \$281 million from the year ago quarter. In the third quarter of 2017, Level 3 generated net income of \$157 million and basic earnings per share of \$0.43.

I'll now cover Level 3's business outlook for 2017. As I highlighted earlier, we are reaffirming our 2017 financial outlook for full year adjusted EBITDA of \$2.94 billion to \$3 billion, and free cash flow of \$1.1 billion to \$1.16 billion.

I wanted to take a moment and discuss our thoughts on both the fourth quarter and future reporting for the new CenturyLink. Our consolidated fourth quarter results will include 2 months of Level 3 results and 3 months of CenturyLink's results that will include the effects of purchase price accounting for Level 3 and the elimination of intercompany revenue and expenses between Level 3 and CenturyLink. We'll supplement this reporting with summary results of Level 3 and CenturyLink for the fourth quarter. We will also provide pro forma fourth quarter results for the combined business, assuming the merger was completed at the beginning of the fourth quarter. Those results will include the effects of purchase price accounting and elimination of intercompany revenue and expenses. Acquisition-related expenses will be separately identified since this cost would be significant in the fourth quarter, given the closing of the transaction on November 1.

Regarding guidance. Going forward, we plan to provide only annual guidance. Effective at fourth quarter of 2017 reporting, we will no longer provide quarter forward guidance. In general, we'll focus on bottom line performance metrics such as adjusted EBITDA and free cash flow.

As a reminder, our target leverage range is 3 to 4x. But for the combined company, our trailing 12-month net debt to adjusted EBITDA ratio at the end of the third quarter was 4.2x on a pro forma basis, excluding acquisition-related expenses. We are confident we'll be able to drive down our leverage ratio every year.

I'd now like to take a moment and touch on the dividend. We are very confident and committed to maintaining the current dividend. Our confidence comes from our view of the business and our ability to expand margins and drive sustained growth in both adjusted EBITDA and free cash flow over the next few years.

In summary, we are focused on achieving a successful integration and achieving the synergies we've outlined.

With that, I'll turn the call over to our operator for Q&A.

Question and Answer

Operator

[Operator Instructions] Our first question will be from the line of Philip Cusick from JPMorgan.

Philip A. Cusick

JP Morgan Chase & Co, Research Division

Two, if I can. First, particularly for Jeff and Sunit, I appreciate the commentary already but I wanted to follow-up on the company's dividend. Do you think you can constantly delever the business and invest in the company to the necessary level while still paying out all that cash? And what would have to happen for you to change that view? And then for Glen, can you dig more into the consumer broadband business? Where are we on rolling out the new plans and speeds? And how should we look at that going forward?

Sunit S. Patel

Executive VP & CFO

I'll take the first part of the question. So Phil, yes, I think we had plenty of time over the last year to study the trends in the business, our plans for integration, synergy realization. And as Jeff mentioned, we've already finalized the budgets and targets for next year. And as we look at that and what we think we can execute, we are very comfortable and confident with the comments that I made, that you've heard Glen make and Jeff make around the dividend. And so to your point about what would happen that will not make us comfortable, there's nothing we see today that doesn't give us the confidence. So I think we try to be realistic about our assessments and our remarks reflect that.

Jeffrey K. Storey

CEO, President & Director

And one quick add-on to that. So this is Jeff. It also includes just continuing to invest and growing our business. We don't think that we have to massively cut capital expenditures or do anything unnatural. We think we can grow this business. We think we can capture the synergies. We think we can continue to invest in it and support the dividend.

Sunit S. Patel

Executive VP & CFO

Yes. And to be clear, I think we're looking at spending capital at about the same level as the percent of revenue as we have them. So we don't see any scenario where we have to hold back on investment. That's consistent with what we have been doing. I also think that we can get better returns on the investment, given the scale and the combined reach of the network that we have. We're in more -- we are closer to more customers as a combined company from a physical reach perspective than we were as a standalone company.

Glen F. Post

CEO & Director

First of all, on the consumer broadband piece, we're focused -- as we've talked about, we're focused on attracting higher lifetime value customers with higher average revenue per customer, or ARPU, through our Price for Life offers. We've been very successful with that, and although we lost around 100,000 units, our revenues were flat. And with that, we also reduced our cost because we haven't -- we have higher margins with those higher revenue customers. So we end up with better cash flows with that. We also had a 1-month delay in the long-term Price for Life in the, what we call our legacy Qwest markets and -- but it's launched now and doing well. So we had a 1-month impact there. And the other thing we saw was just a much higher than expected loss of customers at 20 megabits and below speeds. A lot of the markets where we have that. So we have a much higher loss there. I think a couple of reasons. First of all, you see cable rolling out at more -- with a more aggressive offers, higher speeds and just the demand for bandwidth in those markets. We -- as far as what we're doing going forward, we're going to continue to

lead with Price for Life offers. We're going to focus on the higher-value customers. We think it's the right approach. We're also going to focus on penetrating the high-speed footprint we've enabled already. We'll continue to divest in the higher speeds we've talked about previously and we'll provide a higher-value offer in the coming months in the fourth quarter for customers in lower speed markets. We'll try to make some -- we're not going to go with the promotions we've had in the past. We don't think that's the right approach. But we will try to have a value offer for them and also, we have the lower speeds. As far as the plans for our continued build out of the markets as we've talked about before, our view is we shouldn't always move to high-speed technology than market economics will allow us to. We'll put fiber where it makes sense. But if you look at our -- what we've talked with you about before in our top 25 markets by early 2020, we expect to have over 90% of homes passed with 40 megabits or more of service, over 70% of our homes and businesses passed with 100 megabits of service for more and over 20% with 1 gig of service for more. And we'll keep working to enhance those speeds. We think it's -- the more we can get the [indiscernible] per share of the fiber, we'll do more of that when we can. But we believe it's the right approach, and I may have not mentioned this, but we saw growth in all speed bands. Other than 20 megabits and below, we saw growth in units in all of the other speed bands above that. So it is speed that's making a big difference and we'll continue to focus on that buildout.

Operator

Our next question will be from the line of Batya Levi with UBS.

Batya Levi

UBS Investment Bank, Research Division

Maybe one question on the CenturyLink side and one on Level 3. Revenues have been coming in much lower than expected since the beginning of the year. Can you point to the main drivers of the revenue mix? And how quickly do you think the transformation of the businesses will drive improvement in revenue trends? In typical deals before, we've seen interruption to sales you integrate the assets. How do you manage that shift? And one on Level 3 side. I guess, there's been some expectation for North America enterprise trends to improve on a sequential basis. It was flat for the second quarter in a row. What's driving that?

Glen F. Post

CEO & Director

I'll take the first question and let Stewart maybe offer his comments as well. We had an aggressive plan for strategic revenue coming in end of the year and above market plan. And although our strategic revenue has grown, specifically our high-bandwidth revenues has grown in the 5% range on a normalized basis, we had anticipated higher growth than that. And we thought we could -- because of market share opportunities and products we have, we could beat the market to a greater degree than we did. That's the biggest area that we've -- where we've missed. We've got some other issues with some legacy revenues that didn't meet our expectations, and long-distance and private line losses were greater than expected. But the primary issue is we had a very aggressive view of the strategic ratings, high-bandwidth revenues on the enterprise side and that's been the issue we're primarily dealing with. Stewart, you want to...

R. Stewart Ewing

Executive Officer

That's really it, Batya. And I might point out, too, that we [indiscernible] the third quarter from a core record revenue standpoint, we're only about 10 -- although they were lower than our estimates, we're only about \$10 million lower than the average analyst estimates. And total operating revenue was about \$30 million below the average analyst estimates. So a big part of the miss there is related again to the CPE revenue, which is very low margin revenue.

Glen F. Post

CEO & Director

Yes. Batya, I was going to say since March, the CPE revenue has done a big hit on us as well. Just look at \$35 million in the fourth quarter, that's been a big factor in the revenue miss this year.

Sunit S. Patel*Executive VP & CFO*

I'll go with the question on North America enterprise and Jeff can talk about transformation. So on that one, I think as we've been saying now, we've seen our sales been picking up every quarter and Jeff noted in his remarks, but we are quite confident you will see the North America enterprise revenue performance strengthening sequentially in the fourth quarter driven both by us turning up new service and our churn improving. That combined, you will see the strength show up in the fourth quarter and we are pretty confident of that.

Jeffrey K. Storey*CEO, President & Director*

And you asked about integration, and this is in sales that result from a lot of integrations. Integration is tough and we need to make sure that we are very, very focused on maintaining the relationship between our sales team and our customers. We've done a lot of integrations between the 2 companies. We both have a lot of experience in it. Our teams have a lot of experience in it. So we're bringing that to the table. But some of the specific things we're doing are making sure that we don't move a bunch of accounts unnecessarily, making sure that we move accounts one-time, making sure that we try and maintain that relationship between the customer and their account rep, making sure we give information to the account rep to be successful in selling. And then that all the back-office support from service delivery to service assurance that we maintained the experience for the customer so that we can drive continued performance. Integration is important, but I also talked about transformation. And transformation is something that we have an opportunity in front of the combined company. We want to change the way our customers interact with CenturyLink. We want to make it simpler for our employees to meet their needs, continue to deliver an enhanced customer experience for the customers. If we focus our efforts on driving an extraordinary customer experience, then I worry far less about sales misses or the integration impacts of those things. But we are very, very focused on making sure we maintain the momentum, keep up the effort to deliver a great customer experience and drive sales and revenue going forward.

Glen F. Post*CEO & Director*

And Batya -- Jeff, maybe thinking of one other item with our sales team. I've been talking obviously with the sales team the last few months just to see what's going on out there. And one of the things that they refer to is just the uncertainty that's been caused by the elongated process of bringing these 2 companies together. And I realize it's somewhat of an excuse, but it's real to these folks and they're uncertain of where they're going to be. We changed up the specialty in the global enterprise space, we changed up the leadership to the Level 3 leadership and it caused a lot of unrest within CenturyLink ranks. And I tried to put that to rest, we've all worked on it, but it's been a real factor out there. And I believe that after the first year, we get these teams on the same -- you get teams assigned, you get everybody on the same page, we're going to see better performance on our sales teams.

Batya Levi*UBS Investment Bank, Research Division*

Maybe just one quick follow-up. How quickly do you think that we'll start to see the transformation efforts flow into improving revenue trends? So a year from now, for example, do you expect the revenue decline to improve from the current level?

Glen F. Post*CEO & Director*

I'd expect -- so it's hard to say. You're asking me to predict the future and I will give a warning upfront. I'm no good at predicting the future and now I'm going to go ahead and try. I think that a year from now, we ought to be seeing success in the target customers that we're going after with the target products and services that we're going after them with. We think that we have a great capability today to deliver for enterprise customers, and we want to continue to do that. And so we think we have a great capability today. After we continue to work on integration and transformation, we ought to have a great capability

a year from now and we ought to be seeing some results in it. Now again, I'm hesitant to predict exactly when some change is going to occur, but those are the things we are focused on.

Operator

Our next question from the line of Aamir Rozwadowski with Barclays.

Amir Rozwadowski

Barclays PLC, Research Division

A couple, if I may. In thinking about the synergy opportunities, I realize it's early in terms of the close of the transaction. But now that you've got a chance to examine the business a bit, how do we think about potential outperformance relative to the synergy expectations? It seems as though there could be some opportunities to refine those expectations on a go-forward basis. I would love to hear if there's sort of a change or thought process around that.

Glen F. Post

CEO & Director

I think that -- so I think on the synergies, yes, we've had a favorable time over the last year. I think the good news there is -- we -- as we indicated, we got our target set for next year. We're all executing on those. So I would say that sitting here a year later from when we made the announcement, our confidence in being able to meet those synergies is very high. There's more -- less risk involved now since we have -- we executed on specific plans to hit that. Our plan is that every quarter, we will report on achievement of run rate synergies and you, obviously, will report on the integration cost to keep investors and analysts apprised on how we are doing on that. But I think the summary is our confidence level has increased a lot. We see a lot less risk in achieving the synergies we've outlined a year ago.

Amir Rozwadowski

Barclays PLC, Research Division

And a follow-up, if I may. On the -- specifically on the surprise CapEx on the CenturyLink side, can you provide us with color in terms of sort of what was the higher-than-expected CapEx? Was it driven by particular investments to target specific opportunities? And how should we think about that run rate going forward?

R. Stewart Ewing

Executive Officer

So the higher CapEx was driven by, one, on the MPLS and the Ethernet customers in terms of building 2 additional buildings. We decided to try to go ahead and accelerate that process a little bit to give us more inventory to sell into. Also, from a broadband standpoint for the Consumer business, we accelerated some of the CapEx there. Additionally, we accelerated enough CapEx to bring our commitment under the CAF 2 program up to where, by the end of this year, we'll be about 40% complete with that in terms of the households that will pass. So that was the -- those are the biggest items that really contributed to the higher CapEx, which is should translate either into higher revenue in the future or better margins in the future from an expense reduction standpoint.

Glen F. Post

CEO & Director

Yes, and I'll just add to that. About \$100 million of that average is success-based capital. We actually sold more Ethernet and MPLS than we expected it, and of course, it required construction there. So that's primarily where the -- a big portion of that is anyway.

Operator

Our next question will be from the line of Scott Goldman with Jefferies.

Scott Goldman

Jefferies LLC, Research Division

A couple of follow-up questions. I guess, first, on the CenturyLink consumer broadband side of the equation. Glen, I heard your comments earlier. Wonder if you could share with us what percentage of the base is on these lower speed tiers, the sub 20, where you experienced the churn and sort of -- in line with that, any comments you can give in terms of how the quarter progressed as you rolled out Price For Life in the legacy Qwest side? And then just a quick follow-up on the dividend discussion, I know we've talked about it a lot already in the call. In light of the comments you guys have made, just wondering, I think when you announced the deal, the expectation was that 3 or 4 years out, you'd be at 60% payout ratio. It looks like legacy CenturyLink because, obviously, you've been running a bit below expectations on the free cash flow side. How do you think about where that payout ratio looks now 4 years out?

Sunit S. Patel

Executive VP & CFO

I'll cover that first. So I think that as we look at everything that's happening, I think, and as we reevaluated the business, I won't provide specific guidance on coverage ratio, just there's a lot happening with tax legislation and as we work on our NOL utilization. But in general, I think the reason for the confidence is that I think we'll comfortably cover the dividend obligations. So if cash flow, free cash flow should continue to exceed the dividend obligation given both what we expect to do in the short term from a synergies perspective and then all the medium-term utilizing our NOL and also improving the revenue trajectory over time. So I think as we look at all those things together, we just feel comfortable that, that won't be a concern or an issue that we'll have. And obviously, anything with respect to the tax legislation would be a positive for the company.

Scott Goldman

Jefferies LLC, Research Division

So if I could just follow-up on that, it sounds like you've done a little bit more work around the NOLs. Has the view in terms of how much you can save in taxes per year for that first 4 years or so changed or is that still work in progress?

R. Stewart Ewing

Executive Officer

No, I think the work we've done just underlines the confidence we have in what we discussed about the benefits from the NOL a year ago. So I think we continue to be very confident that we'll be able to utilize the Level 3 net operating losses to apply against our income, U.S. federal income.

Scott Goldman

Jefferies LLC, Research Division

Great. On the consumer broadband?

Glen F. Post

CEO & Director

On broadband, we -- I don't have that right here as for the total we have on that. I know we've got the -- trying to look at the objective here of the -- with our top 25 markets where we were headed here is that we will have 90% with over 40 megabits in our top 25 markets. We only have 10% with less than 40 megabits by the end of 2019 or 2000 -- I don't have the total here. We can give that with -- Kristie will let you know what that amount is, Scott. I don't have it right here with me.

Scott Goldman

Jefferies LLC, Research Division

Okay. And then just any comments around how trends progress throughout the quarter, particularly with the Price for Life growing to legacy Qwest side? Did we see churns start to come down or gross add to pickup throughout the quarter?

Glen F. Post

CEO & Director

Yes, we have Price for Life churns come down significantly, absolutely. And we've got the -- we're seeing good penetration, good take rates especially where we got the higher speeds with the Price for Life. It's really been successful. Customers like the simplicity of the offer, the bill, the no fees. The only thing we don't -- that's not covered in the Price for Life quoted price is the taxes.

Operator

The next question will be from the line of Brett Feldman from Goldman Sachs.

Brett Feldman

Goldman Sachs Group Inc., Research Division

I was hoping we could spend a little time talking about your MPLS business. I think you mentioned during the prepared remarks that MPLS revenues grew about 5% in the quarter. And I was curious, how does that compare to the run rate of growth in that products, say, over the last year or 2? The reason I ask is that there's clearly some emerging concern among investors that, that product category is facing some product substitution headwinds. And I just don't think any of us have really good context for how to frame that. And if that is the case, could you maybe just talk to us a little bit about what the competitive dynamic is around the MPLS product set? Do you have the ability to maybe offer some of the alternative others are looking for? And then I guess, just the last question would be, I don't think any of us really know what portion of your revenues are from MPLS. If that's something you could share with us, I think it will be helpful.

Glen F. Post

CEO & Director

No, we don't talk about the percentage of revenue of MPLS but over the last month, this is not exact, but I think it's been in the 5% to 7% range for MPLS growth. And I think what's really important here is that there's a lot of concern about SD-WAN coming in with -- new providers with coming in -- smaller providers perhaps coming in, taking market share away from us or MPLS customers away. And we have actually still grown even with all the activity in the marketplace, we're growing above market with MPLS. And that's really the point here. We have not seen -- we've not suffered to this point from these companies coming in and competitors coming in, taking these customers away from us. We believe that we'll see continued competition this year. But we have a great SD-WAN product. And most customers, when they buy these product, they don't want just a pure SD-WAN. They're going to the MPLS combined with the SD-WAN product and most of the customers who are using the SD-WAN as the governance tool, the management tool to manage all of the -- all the -- transport to their branch offices. So we have a very good tool. We still have a hybrid product that's been very successful, and we believe we are in a very good position to compete going forward for those customers. Jeff, do you want to add anything to that?

Jeffrey K. Storey

CEO, President & Director

Yes. First of all, Brett, I think that Glen's comments on the quality of the product that we have are exactly right. We have a very good product here. And there are times there's a lot of concern I'm hearing in questions that's concerned around will SD-WAN be a substitute for MPLS and therefore, a headwind that we have to overcome? There will be cases where we sold an MPLS circuit where an SD-WAN would've been a better solution. Those will transition. We're good at managing those transitions. There are also places where we lost and we're not able to sell an MPLS circuit because MPLS was too expensive and SD-WAN would've been a better solution. So there will be revenue opportunities for us to win in locations where we can't win today with just pure MPLS services. And one of the things that we know absolutely is that our customers have a diverse set of networking needs, that there are data centers that they want to connect with dark fiber, that there are main locations that they want to connect with waves, that there are a big branch offices that they want to connect with MPLS. And there are small locations that they want to connect with SD-WAN. And the strength of the CenturyLink offering is that we can go across all of those dimensions and solve those networking needs for the customer across each one of those product sets. And so are there headwinds that could come from SD-WAN and other technologies that are being developed? Of course, there are. But we're exceptionally good as an industry in dealing with those

technology transitions and transformations. And we will be, as a company, very successful in dealing with those things and making sure that we continue to focus on satisfying our customers' needs for networking services with profitable revenue and making sure that we're investing in the infrastructure and it will be another tool that we can go to the market with.

Brett Feldman

Goldman Sachs Group Inc., Research Division

That's helpful. If I can ask one quick follow-up then. If you're comfortable with the performance of that particular product, Glen, I do believe you mentioned that the strategic service revenues have been coming in a bit lighter than you had anticipated. What is the area of shortfall?

Glen F. Post

CEO & Director

It's just we got higher expectations for Ethernet primarily. It's where we had the biggest -- and we just had a very aggressive objective out there, above market objective, in the Ethernet.

Operator

Our next question will be from the line of David Barden with Bank of America Merrill Lynch.

David William Barden

BofA Merrill Lynch, Research Division

I guess, just to start off with -- I mean, I recognize that you had an aggressive plan and you were looking at maybe growing revenues sequentially. The reality is core revenues came in above the low end of the guide. The core revenues are in line with your expectations. The headline revenue misses mostly on equipment revenue. So as you kind of look out with respect to the industry dynamic, I guess, I would love to hear maybe Jeff and Glen kind of weigh in on how important it is that we're taking a 4-player market competing for the national and global enterprise services business and turning it to a 3-player market? And how you think that, that is going to change share dynamics and pricing dynamics? That'll be helpful. And then second, Sunit, I think you talked about kind of a 4.2 leverage today, a goal of 3 to 4. You know at this moment in time and probably most likely tomorrow, the return on purchasing stock is actually a lot higher than anything you could do on the balance sheet right now. As you look at what's happening to your stock and the big diversion between your confidence in the dividend and the market's kind of lack of confidence, how do you arbitrage that? And could you take advantage of that in the market with the cash you're generating today?

Sunit S. Patel

Executive VP & CFO

All right. I'll tackle that one first. So I think as with all these things, there's a balance between leverage and as you correctly point out that our dividend yield is sitting in double digits, which makes it very attractive to buy back stock. I think that our focus really in the first year is to drive the operating performance, make sure we are delivering on the synergies and we've got plans that we're executing on to drag the transformation that Jeff talked about. And then we'll see where we are over the next year from an EBITDA growth and where the stock's traded at. And no, it's not lost on us, today's an arbitrage there. I think just in the near term, we're going to focus on driving the operating performance and then continue to study that and take a look at that but probably nothing in the short term, but we are keenly looking at that.

Jeffrey K. Storey

CEO, President & Director

David, I'll kick off on your question about the market and what happens as we go from a 4-player market to a 3-player market, I don't really think about it that way. I worry about 1 player in the market and that's CenturyLink. And we know from history that if we perform well, if we execute well, our customers buy our services. If we sell the right product, we can make money at those products and deliver for our customers. Pricing dynamics and share dynamics, I hope that we get a greater share of our customer spend, that

we become more integrated into their business and more essential for their success. We see that, that once a customer starts buying services from us, they continue to buy more and more, and so we see that trend and we want to continue that. The pricing dynamics is less related to the number of players in the market and more to technology transitions and technology substitutions. And one of the things that -- over the last 20 years, we've gotten pretty good at making sure that the pricing dynamics in the market that we're comfortable with them. We've talked a lot -- Sunit and I have both talked a lot and I know Glen and Stewart have, about pricing over the years, but that's not a primary driver in our financials. The primary drivers are we able to meet our customers' needs and sell them more services. We deal with the pricing, downward pressures pretty well. And they're not near as aggressive as they used to be.

Glen F. Post
CEO & Director

And I'll just say and I agree with what Jeff said. The way we will look at the market, we have a real opportunity now with the combined company here to really leverage our expansive network with a global reach we have, the amount of fiber, 100,000 fiber-connected buildings, working in 60 countries. We also have a lot more traffic on-net. We control the customer experience better, we can drive better profitability. In addition, we can leverage the new products and service each company, bring some unique products like Century's SD-WAN product that Jeff was talking about earlier, and the sea of products that Level 3 brings to the table. These are the kind of things we can leverage and really look forward to driving better penetration and win in market share.

David William Barden
BofA Merrill Lynch, Research Division

Great. And then if I could, just 1 last question as a follow-up. Sunit, any kind of onetime items that affected the quarter positively or negative on revenue costs?

Sunit S. Patel
Executive VP & CFO

No, just the usual number of items you see in any given quarter. So nothing unusual.

Glen F. Post
CEO & Director

Nothing for either company there, David.

Operator

Our next question will be from the line of Nick Del Deo with MoffettNathanson.

Nicholas Ralph Del Deo
MoffettNathanson LLC

First, sort of going back to the synergy targets, a footnote in the memorandum and order that the FCC authored approving the deal noted that you guys had raised the synergy estimate that you had submitted to them. But the numbers were redacted. Are those numbers you plan on sharing with us at some point? Those are going to stay close to the rest?

Sunit S. Patel
Executive VP & CFO

Are you talking about part of the normal SEC filings around the time of the announcement?

Nicholas Ralph Del Deo
MoffettNathanson LLC

No, the FCC.

R. Stewart Ewing
Executive Officer

.....
WWW.SPCAPITALIQ.COM

I'm sorry?

Nicholas Ralph Del Deo
MoffettNathanson LLC

The FCC.

Sunit S. Patel
Executive VP & CFO

The FCC. I mean -- again, I mean, the only comment I would make is what I said earlier, which is that as we've looked at what we can do here and our confidence where we're executing in line with what we have talked about. But I think the risk in what we outlined is quite a bit diminished because we've had the last year to study that and now put an execution plan in progress.

Nicholas Ralph Del Deo
MoffettNathanson LLC

Okay. And then maybe one for Glen. In the beginning of that year, I forgot the exact stats, but you outlined a sales pipeline that was substantially in excess of what it had been in prior quarters. How come we haven't seen the growth in fly by that pipeline really flow through into the numbers?

Glen F. Post
CEO & Director

Part of the issue is that we have a lot -- ended up with a lot of concern with customers and just with bringing these companies together. Questions like which network were they going to be on, questions about who the teams would be, just a lot of uncertainty. That's part of the issue. I think we had -- I think our sales folks were a little over optimistic and saw what they had in the funnel early on as well, so I think that was part of it. But I do believe that going forward with a new network and the new sales management team we had in place now, we have an opportunity to really do a better job with that forecast, #1, but also in bringing real revenue to the table. So we're confident in the sales teams we have out there, the leadership we have now to drive real performance.

Nicholas Ralph Del Deo
MoffettNathanson LLC

Have you been able to go back and mitigate some of the concerns that customers have had, talk about what the combined company is going to bring the table and get comfortable with it?

Glen F. Post
CEO & Director

Yes, we've been -- Jeff and I both and others have been on the phone with our key customers across the country, talk to them about the combined company and what we're doing together, how the networks are going to work. We still can't answer all their questions, but we're there for them and we're in a continual process of contacting those customers and working with each. The CPOs, CIOs and CEOs of these major companies across country.

R. Stewart Ewing
Executive Officer

And Nick, I don't think that -- none of the customers I've talked to have concerns about whether this is good for them, good for the industry, good for our ability to offer products and services that meet their needs. I think some of them want to know, well, I'm going to spend more with you, am I going to get a better discount? If I wait until after the close, am I going to get it a better price? I think there are some of those things that have gone on, but nobody's come to me and said -- or anybody that I've gone to has said, "Wait a minute. We're really concerned about this." No, they think it's good. They think we're a stronger company. They think we have the ability to bring the quality of both networks to bear for them. They think that we have better products as a combined business. There are always concerns about are

you going to mess things up during integration. But for the most part, I think our customers are very comfortable with this and think it's a very positive outcome for them in doing business with CenturyLink.

Glen F. Post
CEO & Director

And I'm getting the same feedback from folks I'm talking with.

Operator

Our next question from the line of Timothy Horan with Oppenheimer and Company.

Timothy Kelly Horan
Oppenheimer & Co. Inc., Research Division

Stewart, good luck, and thanks for all your help over the years. Sunit, can you talk about, with your synergy assumption, what are you kind of assuming for revenues? I mean, can this be a positive revenue growth company at some point? And maybe just your rough idea on the timing of that?

Sunit S. Patel
Executive VP & CFO

I think the simple answer is yes. And I think the transformation that Jeff was talking about in terms of the experience with customers being digital, making it easier for our employees to serve our customers and also just how we go-to-market. I think the combination of all those things, combined with the network reach we have, we should be able to win more in the marketplace as a combined company than we have separately. So I think that you will, for a start, seeing that on the enterprise side of the business. And similarly, as Jeff pointed out, I think even on the consumer side, we think there's opportunity to do better. So I think in summary, that's where we're focused on, meaning driving profitable growth to the EBITDA and free cash flow line, but clearly having -- not -- making sure we don't lose our sight in terms of trying to work on improving our revenue growth trends.

Timothy Kelly Horan
Oppenheimer & Co. Inc., Research Division

And on the network and infrastructure side, you would seem to have a very, very high quality and very good network on the enterprise side and obviously, the consumers' lagging a little bit. I mean, should we think about it a little bit of a shift maybe from CapEx emphasis from enterprise to consumer at this point?

R. Stewart Ewing
Executive Officer

Look, we've been closed for 8 days, so we'll work on exactly how we're going to allocate our capital going forward. But I think that our capital needs to be allocated to drive the customer experience and that's true for the Consumer business. That's true for the Enterprise business. We need to get closer and closer to the customer with fiber. We need to build infrastructure to drive the simplification of the way that the customers interface with us. And the more we do that, the more we focus on driving a differentiated customer experience, the more overtime that would equate to not only reducing cost and higher profitability and better free cash flow, but over time, we'll also translate into better growth. Customers will churn at a lower rate, they'll buy more services from us. And so that is really how we're going to continue to invest. And as I said and as Sunit said and Stewart alluded to, we need to continue to invest that capital in driving our business forward. And so we think that there's real opportunities to do that, both in the Consumer business and in the Enterprise business. I think some of those may have different growth trajectories, but we think they have all -- that we can drive better profit out of all of them.

Timothy Kelly Horan
Oppenheimer & Co. Inc., Research Division

And sorry, lastly, on the broadband side, the cable companies have been very good about just upgrading customer speeds annually or every other year. Do you have percent of customers -- or customers below 20 megs, can you operate a lot of them voluntarily, the 20 megs? Or are these just customer scenarios that can't get 20 megs?

Glen F. Post
CEO & Director

We'll certainly -- we'll have the opportunity to upgrade them as we build out more of the plan and expand on the -- or follow this path we've set for investment. One example is what Stewart mentioned earlier, there's a CAF 2 investment. We're upgrading those customers to higher speeds, providing greater opportunities. So those are in the most of the areas that have very low speeds. But even the 20 megabits with our 40-megabit expansion targets and our 100-megabit expansion targets, we're going to be able to upgrade a lot of those customers going forward.

Operator

Our next question from the line of [Lisa Lam] with Morgan Stanley.

Spencer S. Gantsoudes
Morgan Stanley, Research Division

It's Spencer for Simon. Most of our questions have been answered. So just a quick one. There was a noticeable improvement in other enterprise legacy revenue and it grew quarter-over-quarter versus consistent prior declines. Anything -- any noticeable changes in that segment that drove that improvement?

Glen F. Post
CEO & Director

Nothing real noticeable that we know of, Spencer, that I've seen in anyway. Look, I'll have Kristie and Tony can follow-up with you on that.

Operator

And our last question for today will be from the line of Ana Goshko with Bank of America Merrill Lynch.

Anastazia Goshko
BofA Merrill Lynch, Research Division

Just a couple of follow-ups. So on the first topic, so Sunit, 2 follow-ups on the debt side. So one, you talked about the goal to delever, that low 4x. So do you plan to achieve that through actual debt paydown with free cash flow after the dividend? Or is that really going to be driven by EBITDA growth?

Sunit S. Patel
Executive VP & CFO

My comment on there was essentially being driven by EBITDA growth with the free cash flow generation. We have options to either pay down debt or buy back stock. But I was really focused on just EBITDA growth driving the leverage down.

Anastazia Goshko
BofA Merrill Lynch, Research Division

Okay. And then just another quick one. I think at Level 3, you've spent some years managing a complex capital structure. But now, it's even gotten more complex. You've got \$39 billion of debt and really a lot of different constituents because you've got debt from the Qwest days and EMBARQ days and Level 3 days, et cetera. So do you plan to simplify the capital structure? Or how do you plan to sort of access the debt market to refi and raise capital going forward?

Sunit S. Patel
Executive VP & CFO

Yes. So I think it will be on several fronts and over several years. Our overall goal is to simplify the capital structure. There are many ways to do that, but it will take some time. The key point in the short term is to drive down our overall leverage. And then the question is how do you grow from the number of entities we have now? Shrink by 1, shrink by 1 more and then you're down to 1. But it's going to take a few years. Don't have the exact journey lined out, but some will also depend on market conditions and driving down our leverage. But our overall goal is to simplify it.

Anastazia Goshko

BofA Merrill Lynch, Research Division

Okay. And then just final question on the dividend payment. I know this has been discussed a lot and you expressed strong commitment to it. But I guess, the question is what we've seen with these telecom dividends in particular is oftentimes how the market decides, right? And when shareholders are not giving you credit for the dividend, companies often decide that there's a better use of the capital. So why is the dividend that you're paying now the right number?

Sunit S. Patel

Executive VP & CFO

Well, so I would say a couple of things. One, we are not like other telecom companies that have been challenged in this regard. So our revenue mix, our scale, our reach, our profit trajectory in terms of what we can do from a synergy perspective, from a transformation perspective, that can also alter the revenue trajectory, growth trajectory. So very, very different from any of the other telecom cases you might be thinking about. And I think the point was not that we are just committed to the dividend, I think I was also underlining I'm highly confident that we'll be able to maintain the dividend over the next few years, so I don't see any issue with that per se. Now obviously, to do that, we're going to have to execute well from an integration perspective and from a transformation perspective. The question on is that the right capital allocation? We always have debates about whether you should the stock buybacks or dividends, but at this point in time, we think that, that is a very good way of returning capital to shareholders and illustrates our confidence in the business' ability to generate free cash flow. And as Jeff pointed out, we're going to be very focused on driving that free cash flow per share.

Glen F. Post

CEO & Director

Thank you. And in closing, obviously, we're very pleased with the -- completing the acquisition of Level 3. With that transaction, we've strengthened our network focus, we've strengthened our management team, we're positioned as one of the world leading network services companies. And we're looking forward to taking advantage of the expanded network, international network we have, the increased fiber access we have today with 100,000 buildings there. We're willing to take advantage of the enhanced products that we -- the company's bringing together. Now we have a laser focus on delivering a great customer experience, improving the cash flows and driving profitable growth in the months ahead. And we look forward to talking with you about all of this in the weeks ahead. So thank you again for joining our call today and look forward to working with you.

Operator

We would like to thank everyone for your participation and for using the CenturyLink conferencing service today. This does conclude the conference call. We ask that you please disconnect your lines. Have a great day, everyone.

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