

Lumen Technologies, Inc. NYSE:LUMN

FQ2 2025 Earnings Call Transcripts

Thursday, July 31, 2025 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2025-			-FQ3 2025-	-FY 2025-	-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.27)	(0.03)	NM	(0.34)	(0.94)	NA
Revenue (mm)	3113.12	3092.00	<div><div></div>(0.68 %)</div>	3064.92	12396.06	NA

Currency: USD  
Consensus as of Jul-29-2025 10:34 AM GMT

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- EPS NORMALIZED -			
	CONSENSUS	ACTUAL	SURPRISE
FQ3 2024	(0.08)	(0.13)	NM
FQ4 2024	(0.05)	0.09	NM
FQ1 2025	(0.27)	(0.13)	NM
FQ2 2025	(0.27)	(0.03)	NM

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# Call Participants

## EXECUTIVES

**Christopher David Stansbury**  
*Executive VP & CFO*

**Jim Breen**

**Kathleen E. Johnson**  
*President & CEO*

## ANALYSTS

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

# Presentation

## Operator

Ladies and gentlemen, greetings, and welcome to Lumen Technologies Second Quarter 2025 Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded, Thursday, July 31, 2025.

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

## Jim Breen

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'll be referring to certain non-GAAP financial measures reconciled to the most comparable GAAP measures, which could 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 website.

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

## Kathleen E. Johnson President & CEO

Thanks, Jim, and thanks to everybody for joining the call. I'm happy to share that Lumen had a very productive quarter. We announced the sale of our consumer fiber-to-the-home business to AT&T for \$5.75 billion, providing us strategic clarity and a path to financial freedom. We signed nearly \$500 million of new PCF contracts since our last deal update. We strengthened our balance sheet with a successful \$2 billion bond offering that extends maturities and reduced the coupon rate by over 3.5%, saving another \$50 million or so in annual interest expense. And we reported strong revenue and EBITDA despite a onetime RDOF giveback. We're focused and executing extremely well.

So now I want to give some context as to where I think we are in Lumen's transformation story. We see 3 critical financial milestones. The first is to clear a path to a healthy balance sheet and free cash flow to support our transformation. To that end, we're raising 2025 free cash flow guidance by \$500 million. The second milestone is to return to EBITDA growth. And to that end, we're raising our 2025 run rate cost-out target from \$250 million to \$350 million. This will put us near the high end of our EBITDA guide and gives us confidence that we have a path to EBITDA growth.

With free cash flow and EBITDA milestones on track, I'll focus my comments on the third milestone, our pivot back to revenue growth. And I'll start with an update on building the backbone for the AI economy. The global AI race is a matter of economic development and national security for the United States. We are pleased with the administration's AI action plan and recent tax legislation, which not only reduces regulatory barriers and helps accelerate our current network build-out, it also provides us with additional capital to invest in our nation's digital infrastructure. As such, we're making huge progress executing on the \$8.5 billion of PCF contracts we announced last year.

We're constructing 119 ILA sites. We've already deployed 1,200 miles of fiber on 16 routes, and we've completed IRU conduit deployments across 55 additional routes. In another 2 years or so, we expect to finish this construction and overpull work, generating over \$400 million of annual revenue for Lumen for the remaining duration of the 20-year contracts. And as I mentioned upfront, we now have just under \$9 billion in PCF business, adding nearly \$500 million in new contracts since our last update.

Our pipeline of PCF opportunities remain strong with a combination of demand for overpulls on existing conduit, which are higher margin and lower risk as well as new route construction, which is inherently expensive, risky and lower margin. For any new route construction, we're working with our customers on creative deal structures to mitigate risks and manage costs. But please note, none of these remaining deals in the pipeline have been contemplated in our guidance or long-range growth plans. They are purely upside. Additionally, I want to assure our investors that we will remain deeply disciplined in our approach by only inking deals that are value accretive to Lumen's shareholders, even if this means stepping away from an opportunity.

We simply won't be pulled back into the field of dreams, route construction practices of legacy telecom. We're building new capacity trumped every other investment opportunity. At Lumen, we will build new capacity only where we need it and can get the right commercial terms. Our focus is on driving higher utilization of our assets and therefore, better economic returns for our shareholders.

Speaking of better network utilization. AI is forcing a pivotal shift in customer needs, driving unprecedented bandwidth demand for real-time data processing and secure uninterrupted access to critical business applications. Our digital platform and Network as a Service, or NaaS offerings, give customers the flexibility and agility needed to thrive in a multi-cloud hybrid world.

In 2Q, we saw continued strength in adoption across 3 critical KPIs, all quarter-over-quarter. The number of customers that purchase and use one or more ports was up 35% from first quarter. Total active NaaS ports were up 31%. Total active services were up 22%. So across all 3 metrics, the quarter-over-quarter growth rates in Q2 remained consistent with Q1, showing continued adoption growth and ultimately a significant driver of network utilization. Additionally, we're encouraged by the healthy patterns we're observing in repeat purchases and lower churn rates.

Big name brands are buying Lumen NaaS for their cloud connectivity needs, companies like Pacific Life, Columbia, DXC Technology and so many more. There's even a large investment bank on this call that's using Lumen NaaS, but they were too shy to let us talk about them with this audience. And don't worry, we understand.

As we continue to build and deliver quick, secure and effortless customer experiences, NaaS adoption will continue to accelerate, ultimately becoming a significant part of our revenue growth story.

Last quarter, I shared some detail about our digital platform architecture, talking about Lumen Control Center, Fabric ports and cloud on-ramps. This is how we're building a platform to deliver cloud economics, enabling scaled revenue growth at declining marginal costs. We're continuing to innovate all of these important capabilities, and we plan to announce some exciting Fabric ports innovation later this year. So stay tuned.

But today, I'm happy to give you an update on our cloud on-ramp innovation. We're now working with all 3 major hyperscalers to connect our network directly into their cloud infrastructure, creating the fast lane for AI-powered businesses, bypassing non-value intermediaries. Our goal is to build fully automated API-driven up to 400-gig on-ramp offerings so customers can move as much data as they want wherever and whenever they need it quickly, securely and effortlessly.

Today, we have more than 30 paying customers leveraging our existing multi-cloud networking capabilities through Lumen NaaS. As we launch cloud on-ramps with each hyperscaler, we'll be able to democratize the networking fast lane for all AI-powered businesses and bring multi-cloud networking to everyone digitally.

Okay. I talked about the first 2 important revenue growth vectors for Lumen, the physical layer, where we're building the AI backbone and the digital layer where we sell NaaS. Here comes the third, and it's an important one. By putting our physical network together with our digital platform, we're fulfilling our mission to connect people, data and applications quickly, securely and effortlessly. Ultimately, we've created a connected ecosystem for our customers in both the public and private space to purchase, provision and manage their network services as easily as they do their cloud solutions, again, fully automated, API-driven and available in digital marketplaces. This helps us scale Lumen offerings to new customers faster than ever before and more efficiently than in traditional telecom.

Now there's obviously a lot of work to do. But what's exciting is that this isn't some faraway vision. We already have many of the pieces in place. We have close to 1,000 NaaS customers. We have the 3 biggest cloud service providers connected to our fabric and co-building high-speed on-ramps with us. And we already serve more than 1,500 data centers across the U.S., and that number is growing.

So the newest piece of the puzzle is working with technology companies to integrate our digital network solutions directly into their cloud offerings. Today, networking and connectivity solutions are purchased separately from tech solutions. Soon, customers will be able to purchase their tech solutions bundled and integrated with Lumen networking services available in online marketplaces. So not only will this yield frictionless customer experiences, it gives Lumen scaled commercial reach by turning any technology company into a sell-with and a sell-through channel partner.

To start, we're working with AI companies, backup and recovery solution providers and security companies, all of whom are eager to create a first-mover advantage with this new business model. This connected ecosystem gives Lumen market velocity and reach, positioning us to win in the fast-growing \$15 billion multi-cloud networking market. We offer unparalleled cloud agility with carrier-grade performance engineered for AI, built for scale and designed for the demands of today.

So in summary, we're pivoting Lumen's back to revenue growth by restoring value to once commoditized fiber assets with innovation and new business models. We started by leveraging our physical network to create the backbone for AI, then we built a digital platform to make it easy for customers to consume network services in a cloud-like consumption model. And now we're tying it all together into a digital commercial ecosystem so that our fiber network can help fulfill the ambition of AI. I think you can all agree, this is not your mom's Lumen. So Chris, over to you.

**Christopher David Stansbury**  
*Executive VP & CFO*

Thanks, Kate. As Kate highlighted, we had an eventful and constructive quarter on many fronts. We reported solid 2Q financials, announced the transformative sale of our consumer fiber-to-the-home business to AT&T and successfully refinanced \$2 billion in debt. Financially, revenue and adjusted EBITDA came in better than expected despite a \$46 million onetime impact to both from the Rural Digital Opportunity Fund, or RDOF givebacks.

Our total business Grow revenue was up 6% year-over-year, and our total business revenue was down only 3.4% year-over-year, well ahead of our competition. A highlight from the quarter was total IP sales up nearly 38% and IP revenue up in the mid-single digits. In May, we announced the sale of our consumer fiber-to-the-home business to AT&T for \$5.75 billion. This transaction allows us to invest and focus on our core enterprise capabilities while also significantly improving our balance sheet.

With plans to pay down approximately \$4.8 billion in super priority debt at close, this would reduce our annual interest expense by approximately \$300 million, reduce CapEx by roughly \$1 billion and reduce leverage on the business by a full turn. This deal goes a long way to strengthening our balance sheet and providing incremental cash to invest in the enterprise customer capabilities that will power our return to revenue growth.

Following an agreement to sell our consumer fiber assets to AT&T, Lumen withdrew from the RDOF program. This decision reflects a strategic shift toward building the next-generation digital networking infrastructure that powers the AI economy and serves enterprise, public sector and wholesale customers. Accordingly, we reported a \$46 million onetime revenue and adjusted EBITDA giveback that Kate referenced at the start of the call.

Now as we turn to debt, we continue to strengthen our balance sheet with a successful \$2 billion bond offering, which enabled us to extend maturities from 2029 and 2030 to 2033. In fact, post the fiber-to-the-home deal close, it reduces our post-TSA exposure in 2029 and 2030 by over 60%, and we're not done yet. It also reduces our cost of capital. The reduction in coupon of more than 3.5% results in annual interest expense savings of approximately \$50 million. This debt refinancing in conjunction with our term loan refi in March, reduced annual interest expense by approximately \$100 million.

We'll continue to work toward improving the balance sheet ahead of the anticipated close of the AT&T transaction in the first half of 2026. And as you can see over the slide, over the past 18 months, we've begun to substantially extend and level out the phasing of our debt maturities. We will aggressively seek opportunities to further delever, extend maturities, simplify and reduce our cost of capital. Stay tuned.

In July, Congress passed the reconciliation bill, which includes 3 pro-growth cost recovery tax provisions. Based on the enactment of the reconciliation bill, we estimate our 2025 tax liability will be reduced by approximately \$400 million. Accordingly, we have filed a refund request with the IRS for \$400 million of estimated taxes previously paid for 2025, which we anticipate receiving later this year. We estimate another large benefit from the reconciliation bill in 2026.

We anticipate benefits from the legislation to decline over time as our CapEx spend and interest expense continue to decrease, which is a good thing.

Lastly, we continue to make progress on Lumen's modernization and simplification with a particular focus on using AI to drive intelligence and automation as we implement new digital enterprise application and unify our network architectures. Last quarter, we said that our modernization and simplification work was off to a great start with a goal of reaching \$250 million in run rate savings exiting this year and \$1 billion exiting 2027. As Kate mentioned, we now see our run rate savings exiting 2025 to be in the \$350 million range, thanks to the hard work from our modernization and simplification team, and we're more than halfway toward that goal through June 30.

Now let's move to the discussion of financial results for the second quarter. Total reported revenue declined 5.4% to \$3.092 billion. Business segment revenue declined 3.4% to \$2.49 billion. Mass Markets segment revenue declined 12.8% to \$602 million. Adjusted EBITDA was \$877 million with a 28.4% margin and free cash flow was negative \$209 million.

Next, I'll review our detailed revenue results for the quarter on a year-over-year basis. And within our North American enterprise channels, which is our business segment, excluding wholesale, international and other, revenue declined only 2.4%. North American Enterprise Grow revenue increased 8.5% year-over-year, driven by large enterprise and public sector growth with continued pressure in Nurture and Harvest product revenue with Harvest product revenue up slightly year-over-year. Overall, North American business declined 3.1%.

On a year-over-year basis, large enterprise revenue declined 2.3% in the second quarter and mid-market revenue declined 11%. In large enterprise and mid-markets, Grow revenue was up 13.3% and 1.2%, respectively, offset by Nurture and Harvest.

Public Sector revenue grew 8.2% year-over-year. Public Sector was helped by Grow revenue up 9.4% and Harvest revenue was up approximately 49% year-over-year. Public Sector Harvest revenue has been elevated over the past couple of quarters, and we estimate it will return to more normalized levels in the second half of 2025. We would expect Public Sector Harvest revenue to remain lumpy quarter-to-quarter based on future voice disconnects and [ summary of rating ].

Wholesale revenue declined approximately 5% year-over-year. The Harvest portion of the wholesale portfolio, which is primarily driven by voice and private line, saw revenue contraction by 6.2% year-over-year in the second quarter. This is primarily driven by telco partners that are selling legacy services. Our Harvest product revenue will likely continue to decline over time and is an area that we will manage for cash. Nurture revenue was down 8.6% in the second quarter on VPN and Ethernet declines and wholesale Grow revenue was down 0.4%. International and other revenue declined 10.9% or \$10 million, driven primarily by VPN declines.

Now moving to our business product life cycle reporting. I'll reference the results based on our North America enterprise channels. The 2.4% year-over-year decrease was due to declines in Nurture, offset by strength in Grow and Harvest. While results can vary in any quarter, we expect sustained strength in the Grow product revenue as we execute on our core turnaround. Within North America enterprise channels, Grow product revenue increased 8.5% year-over-year, marginally down sequentially from 9.9% year-over-year due to the timing of large contracts within Public Sector in the first quarter. Grow now represents over 48% of our North American enterprise revenue and for our total Business segment carried an approximate 80.4% direct margin this quarter.

Nurture products revenue decreased 18% year-over-year, largely impacted by declines in Ethernet and VPN. Nurture represents approximately 25% of our North America enterprise revenue and for our total business segment carried an approximate 67.1% direct margin this quarter.

Harvest products revenue increased 2.1% year-over-year. Harvest represented approximately 17% of our North America enterprise revenue in the second quarter. For our total business segment, it carried an approximate 75.2% direct margin this quarter. Other product revenue decreased 9% year-over-year. And as a reminder, other product revenue tends to experience fluctuations due to the variable nature of these products.

Now moving briefly to mass markets. Our team continues to do a terrific job building out our fiber-to-the-home footprint, adding new subscribers and providing great service to existing customers. Our fiber broadband revenue increased 19.9% year-over-year and represents 47% of Mass Markets broadband revenue. As a reminder, all of the \$46 million RDOF impact came from our Mass Markets business.

During the quarter, Lumen added approximately 117,000 fiber-enabled homes, bringing our total to approximately 4.4 million as of June 30. We also added 34,000 Quantum Fiber customers, bringing fiber subs to approximately 1.2 million. Fiber ARPU was \$64. At the end of the second 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 second quarter of 2025, adjusted EBITDA, excluding special items, was \$877 million compared to approximately \$1 billion in the year ago quarter. For the second quarter of 2025, our margin was 28.4%. Adjusted EBITDA margins declined 250 basis points year-over-year compared to a 50 basis point year-over-year decrease in the first quarter. The RDOF giveback negatively impacted year-over-year adjusted EBITDA margins by approximately 150 basis points. Special items impacting adjusted EBITDA totaled \$152 million. This includes severance, transaction and separation costs, an RDOF penalty payment of approximately \$50 million and our modernization and simplification initiatives.

Lastly, capital expenditures were \$891 million. Free cash flow, excluding special items, was negative \$209 million. As a reminder, we expect free cash flow to be lumpy quarter-to-quarter as we move through the large PCF builds.

Now I'll talk about changes to our 2025 guidance. With respect to 2025 adjusted EBITDA, we now expect to come in near the high end of the \$3.2 billion to \$3.4 billion range despite the \$46 million RDOF giveback. For the remainder of 2025, in Q3, we would

expect a similar absolute dollar seasonal adjusted EBITDA decline we saw in '24. And additionally, we expect increased costs associated with our utilization of cloud services as we discussed on our fourth quarter '24 call.

As a reminder, our adjusted EBITDA guidance assumes organic revenue declines similar to 2024 and excludes roughly \$300 million in transformation costs to begin the multiyear task of reducing expenses by \$1 billion. We remain confident that we will achieve adjusted EBITDA stability over the next few quarters and see inflection to growth in 2026, driven mainly by continued modernization and simplification savings and improving revenue declines. We're maintaining our 2025 guidance for CapEx spending at \$4.1 billion to \$4.3 billion. However, we now believe we will be at the low end of that range, mainly as a result of timing around some builds, offset by some strategic investments for growth.

Our 2025 cash interest guidance remains at \$1.2 billion to \$1.3 billion, but we now expect to be at the low end of the range as a result of the term loan refinancing in the first quarter.

We're revising our guidance for cash taxes from \$100 million to \$200 million to a benefit of \$300 million to \$400 million based on the expected impact of the reconciliation bill and the anticipated \$400 million refund of estimated federal income taxes to be received in 2025.

Finally, we're raising our full year free cash flow guidance from \$700 million to \$900 million to \$1.2 billion to \$1.4 billion, mainly as a result of the expected \$400 million tax refund, lower-than-anticipated CapEx spending, better adjusted EBITDA performance and lower interest expense.

Free cash flow fundamentals are improving, all great news, and we're pleased with the cash flow generation from our core business. That said, looking forward into 2026, we expect continued lumpiness in our cash flow related to the PCF contracts and related taxes as well as the sale of our consumer fiber-to-the-home business to AT&T, which is expected to close in the first half of 2026.

Overall, our first half performance represents a great start to the year as we challenge the norms of traditional legacy telecom through the transformation of Lumen's network assets, service delivery platforms and financials. With adjusted EBITDA on the path to inflection and then growth in '26, combined with healthy cash flows as well as a significant restructuring and delevering of the balance sheet underway, we are materially strengthening the financial foundation of Lumen, which allows us to focus our resources on customers and solutions with attractive growth and margin profiles.

We believe our innovation will lead to new revenue streams that satisfy the needs of customers in today's multi-cloud AI environment, while the financial transformation of Lumen leads to leverage and borrowing cost reductions and cost structure optimization. We're excited about the path we're on and look forward to providing more updates along our journey. And with that, I'll now hand it back to Kate for closing remarks.

**Kathleen E. Johnson**  
*President & CEO*

Thanks, Chris. I just want to recap real quick. The headline is we're making material progress in our core transformation. Lumen is financially healthy with a strengthened balance sheet and free cash flow to fuel our transformation. We're confident in our return to EBITDA growth, thanks to great execution by the team. And we've got a plan to deliver revenue growth that leverages the combination of our physical assets and the digital platform that we've built, and creates a scalable commercial ecosystem that will make it easy for our customers to thrive in an AI-powered multi-cloud world. It's a new day for Lumen, and we're playing to win. And with that, we'll take questions.



# Question and Answer

## Operator

[Operator Instructions] And our first question comes from the line of Michael Rollins with Citi.

**Michael Ian Rollins**  
*Citigroup Inc., Research Division*

I was curious to focus a bit on your Slide 13, where you walk us through the Grow, Harvest buckets within North American enterprise. And when you look at that segment performance during the quarter, down 2.4% year-over-year, how much of that would you attribute coming from the forward operational progress that you described earlier on the call versus things that might be anomalous, whether they're helpful or hurtful? And then given the comments that you made about the Public Sector and maybe having some tougher comps in the back half, can you give us a sense of how revenue in this bucket might evolve in terms of that rate over -- the year-over-year rate of change?

**Christopher David Stansbury**  
*Executive VP & CFO*

Yes. So I'll try to attack that a couple of ways, Mike. First of all, we're really, really pleased with the rate of the Grow bucket at 8.5%. That's strategic revenue. It's the most valuable revenue that we have from a margin standpoint and it's really focused on where we're going. So the fact that, that's growing and is now almost half of what we sell has material implications for the slowdown of the revenue declines in our ultimate inflection.

If we look at Nurture and really the VPN and Ethernet declines, we're going to be in the double-digit decline territory, I think, for the foreseeable future, just as the technology shifts to some of those newer Grow items where we're well positioned.

The Harvest piece is probably the most surprising this quarter, and it really does relate to some of the Public Sector work that we're doing in the interim, which we don't expect will continue. It's going to -- it has helped us for a few quarters. But over time, we would expect that the Harvest bucket will continue to decline.

As it relates to Public Sector, quarter-to-quarter, we are going to see that jump around. That said, I can tell you that Public Sector is exceeding our internal expectations for the year. We're doing very well in that space. And we're super pleased with the work that team is doing, and I think we're well positioned as we go forward.

So over time, again, continued growth in Grow. And by the way, almost no material impact of the PCF deals yet on revenue. And so that's, I'd say, really organic. But again, overall, super pleased. I think the 2.4% is probably a little suppressed because of what we're seeing in Harvest this quarter, but the reality is we're going to be declining at rates that, like we said, are similar to last year for the full year.

**Michael Ian Rollins**  
*Citigroup Inc., Research Division*

And has this progress pulled forward when you think you'll get to that revenue breakeven or Grow point? Or is your expectation similar to what it has been?

**Christopher David Stansbury**  
*Executive VP & CFO*

Yes. So if you look at our current and historical trends and you look at Grow revenue as a percentage of the total, I mean, first, Grow will be more than half sometime next year. And as we said, that's materially better revenue for us. We believe that our investments in the physical network, the digital platform and the emerging technology ecosystem are all differentiators that expand our commercial reach and help us really drive scale revenue. So with all that, we believe that total company revenue will grow in 2029, is consistent with what we said. But the business segment could pivot to growth even sooner. The key variable there is we are aggressively shifting our resources towards these growth areas that Kate really touched on today. And that's what will determine our ability to go faster. So more to come as we learn more about our success in those areas in the coming quarters.

## Operator

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

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

So I guess, Chris, you kind of addressed it in your prepared remarks, but I just want to make sure I understand. So with the cost savings pull forward up to \$350 million this year, it sounds like you're just kind of running ahead of schedule against that \$1 billion program. And so while maybe EBITDA is now anticipated to come in at the high end of the range, could you comment about maybe expectations for 2026, if that has kind of changed at all?

And then within the second -- I guess, sticking with 2025 for a second, just again, another clarification question. Was the RDOF giveback, was that anticipated in the guidance at the beginning of the year because it seems to be a nice momentum you might be having except for that.

And then one last one as we kind of think about I guess within your prepared remarks, again, Chris, you talked about the benefits of the reconciliation bill perhaps declining over time or being not necessarily as impactful over time. Makes sense. But could you perhaps unpack for us some of the different pieces around maybe free cash flow as you think about the -- or just tailwinds there as you think about the separation of the Mass Markets business and just the resulting impact on free cash?

**Christopher David Stansbury***Executive VP & CFO*

Yes. So let me do them in reverse order. As it relates to the commentary around how those benefits will decline, they're really declining for good reasons, right? So we're -- our guidance for CapEx this year is a little over \$4 billion, \$1 billion of that is the fiber-to-the-home builds, right? So as you go forward and that is no longer being invested in and our CapEx spend comes down, the ability to use bonus depreciation to reduce taxes goes away. That's a good thing.

If you look at the substantial deleveraging of the company and even in a leverage-neutral scenario, our ability to dramatically reduce our cost of capital and borrowing as credit markets have great confidence in the future of the company. I mean, our bonds are trading effectively at par, who would have thunk, right? And so that's giving us the opportunity to borrow at much cheaper rates.

Interest expense between what we've done this year-to-date, and paying down the super priority at the deal close is reducing our interest expense by over \$400 million a year. And so as the deductibility levels go up, that's a great benefit to us this year. But as we spend less on interest, there's less deductibility. Again, a net good thing.

In terms of RDOF, that was not contemplated in guidance at the beginning of the year. And it really was a decision around whether with the sale of the fiber-to-the-home business, those builds would continue. And the decision was made as we work through that process to not continue that, hence, the giveback. And so that had a negative impact on the quarter. But again, it's not something that's impactful to the enterprise business, which is our focus.

And then as it relates to '26, I would say, at this point, no change. I mean we said that we expect EBITDA to inflect next year. I think that's still in the cards. We were thinking that we were going to be able to call that point of quarterly inflection soon. I think the over-delivery this year is creating the good problem of making that harder to call. And so -- but as we look at our performance into next year, I would say no changes at this point in terms of what we said. And obviously, as we move through the year and towards Investor Day, we'll be able to share more.

**Operator**

And our next question comes from the line of Batya Levi with UBS.

**Batya Levi***UBS Investment Bank, Research Division*

A couple of questions. You had guided to about \$200 million of incremental costs that we'll see this year that's included in EBITDA. Any update on where we are? How should we think about it going forward? And does that maybe bleed into '26 as well?

And just to go back to the EBITDA guide, given the performance in the first half, I know there will be some seasonality in expenses in 3Q. It sounds like you do have more upside. Is there anything else that you would call out that would just cap you at towards the high end of the EBITDA range?

And maybe just one more on the PCF sales. Can you provide a bit more color on the drivers of where they came from? And would the structure be similar to the initial ones that we saw in terms of CapEx requirements, margins, timing, et cetera?

**Kathleen E. Johnson**  
*President & CEO*

Batya, it's Kate. I'll start with the PCF deal. So the \$500 million is a similar economics to the first \$8.5 billion that we did. And the lion's share of that is on overpull work. That's why I mentioned that it was lower risk and higher margin. The composition of the new routes remains in the pipe, though we're doing some pretty creative things with our partners. The buyers on the other side are a combination of data center and hyperscaler companies that are connecting data centers to support the expansion of their AI training models and the proliferation of bringing those capabilities to customers. So it's really very much in the same vein as we described over the past couple of quarters.

**Christopher David Stansbury**  
*Executive VP & CFO*

Yes. And as it relates to the EBITDA question, I know OpEx is in there, some of this is in OpEx, some of it is. The headwinds on EBITDA that the underlying business is really overcoming is we've got about \$100 million impact from forced disconnects. So we've been pretty vocal about that over the first half of the year. I think in the long run, it's better for us because there's a lot of bad behavior in that, but that has a near-term implication. There's about \$50 million as we move more of our workloads to the cloud. And there's about \$50 million in PCF OpEx costs in the second half. So those impacts are really all second half. But again, guiding to the high end, I think the strength of the underlying business is what's allowing us to do that.

I understand your question as it relates to '26. And the point is we've got to wait and see because -- we've had some really great work by the team on modernization and simplification. The question is, can we increase the exit run rate for '26? We don't know yet. And so we're looking at all of those things, and that will be contemplated, obviously, when we give guidance. But it's a great question, and it's a nice problem to have the business performing the way it is right now.

#### **Operator**

And our next question comes from the line of Nick Del Deo with MoffettNathanson.

**Nicholas Ralph Del Deo**  
*MoffettNathanson LLC*

First, Chris, returning to the public sector performance. The 10-Q mentioned temporary rate increases that benefited the Harvest revenue. So I assume that's the driver. I guess, have there been EBITDA implications from these rate increases? Or are they sort of offsetting higher off-net costs?

**Christopher David Stansbury**  
*Executive VP & CFO*

It's a bit of both. So in some cases, there's charges that are impacting revenue that are offsetting cost increases on the EBITDA side. In other cases, we're being paid to help keep services running. And that's more temporary in nature, and it's why our prepared remarks said that we expect this to moderate over time.

**Nicholas Ralph Del Deo**  
*MoffettNathanson LLC*

Okay. And any chance you can kind of quantify that at all or just leave it at a bit of both?

**Christopher David Stansbury**  
*Executive VP & CFO*

I want to keep it at a higher level just because of the customers involved and the types of things that we're doing. I don't think we want to get into a lot of detail on that.

**Nicholas Ralph Del Deo**  
*MoffettNathanson LLC*

Okay. Fair enough. And then, Kate, maybe returning to the PCF deals, you think about the cadence of those since you closed on the initial \$8.5 billion. Is that mostly a function of the dynamics that you described in your prepared remarks related to new construction and the complexities around that? Or are there kind of other gating factors that you're working through that are kind of determining the cadence there?

**Kathleen E. Johnson**  
*President & CEO*

I think the cadence is really determined by this -- the complexity of building new routes. They're riskier, they're lower margin and both counterparties want to manage the risk, manage the cost, et cetera. And so -- and just kind of imagine building from one city to another, from one side of the U.S. to the other, how many municipalities you're going through, how many different types of material on the ground you're going through, et cetera. So having more and more intelligence around what the true cost is going to be with engineering, design and inspection processes is a long pole in the tent.

I do want to just sort of reiterate that I think in the old days, maybe the idea was build the route and figure out how to get traffic on the route eventually. And we're just not going to do that. We're going to drive utilization on our existing network because every dollar from that kind of revenue is higher quality. And so we're orienting everything we're doing around driving net new services, which is why I talked about the connected ecosystem that we're building on top of the physical network.

**Operator**

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

**Gregory Bradford Williams**  
*TD Cowen, Research Division*

Maybe just dovetailing off that last statement about complexity of building. The CapEx guidance that's coming down towards the low end, I would have thought that the hyperscalers would want to build as soon as possible, but I guess you're hearing it's also complexity. Is that the reason for the CapEx coming down? Or is the CapEx coming down for deals that are unrelated to PCS?

Second question is just around the tech solutions that you noted in the scripted remarks, the sale with and sell-through channel partners. Can you help us with the rev share model, what that would look like and size it and the timing of that opportunity?

**Kathleen E. Johnson**  
*President & CEO*

Sure. I'll start with the connected ecosystem business model, and then I'll pass to Chris for the commentary around CapEx. So the platform that we've built, the digital layer on top of the physical network enables a technology partner to connect with us through APIs and make solutions integrated and available in a marketplace. So picture a backup and recovery company selling a cloud solution with bundled I-OD or VPN-OD or E-OD, any of the Ethernet, Internet or VPN On Demand.

And in a couple of clicks and you're able to get the thing deployed and you have total management control and provisioning through a control center. So that's the first thing, just to explain what we're actually building, and we're pretty far down the path with several partners on this.

How the economics actually work? If nothing other than just having a sell with sell-through partner, it's the sales force of those technology partners that are actually selling to their customers, but they're attaching Lumen capabilities. So our cost of sale goes down, and they're just selling basically NAS attached to whatever product they have.

So I just met with the CEO of one of the companies that we're working with, and we've done some beta customer testing. And his comment to me was integrating these network capabilities has basically improved everything about the offering that I'm bringing to my customers. It's easier to deploy. It's more reliable. It's a better customer experience. But more importantly, it's providing more resilience for our customers because attached to the cloud solution, they have all the things that you're building and offering to customers like direct on-ramps into the hyperscalers. So it's a very promising model in terms of expanding velocity and commercial reach. Chris, do you want to talk about the CapEx?

**Christopher David Stansbury**  
*Executive VP & CFO*

Yes. So on the CapEx, I mean, I would say the primary thing is really just a shift in our -- what's happening versus our estimates, although we don't expect it impacts the timing of revenue. There are some equipment backlogs around some components that we're navigating. I would say that, that's been material to date. The biggest thing is just the timing of the big PCF builds and where we are in the construction process. So given the size of the CapEx, the difference of kind of midpoint to lower end in the greater scheme of things is not really that material given the complexity of what we're managing.

**Operator**

And our next question comes from the line of Frank Louthan with Raymond James.

**Frank Garrett Louthan**

*Raymond James & Associates, Inc., Research Division*

Looking at -- you touched on this, but maybe just a little more color. When can we expect to see Grow and Nurture maybe show some more consistent growth going forward? And then I apologize if I missed this, but over time, lots of times contracts can expand from the original scope. Has any of that happened with some of these -- with the AI fiber builds, the original \$8.5 billion? Have those customers come in and expanded those original projects to any meaningful extent?

**Kathleen E. Johnson**

*President & CEO*

Frank, thanks for the question. So regarding the PCF deals, there are repeat customers and the contract vehicles are complex. So sometimes we're using existing vehicles and expanding. But I think the key point you're hitting on is, yes, these are repeat customers that are coming back to Lumen. They're happy with our on-time, on-budget delivery of what we've given them so far. And so they're asking for more.

**Christopher David Stansbury**

*Executive VP & CFO*

Yes. Sorry, Frank, what was the second? Oh, the Grow. I would say Grow has consistently been in that kind of high single-digit territory. Will it move around a bit? Yes, it will. So we're really pleased about that. It's probably the most important number as it relates to our ability to inflect revenue going forward. As it relates to Nurture, I expect that to continue to decline. We expect Harvest to continue to decline. But the point is that they're quickly becoming a smaller and smaller piece of the portfolio. And so those variables combined with what Kate talked about around the digital layer and the ecosystem, that's ultimately what pivots us to growth.

**Operator**

[Operator Instructions] And our next question comes from the line of Eric Luebchow with Wells Fargo.

**Eric Thomas Luebchow**

*Wells Fargo Securities, LLC, Research Division*

Just one for me, touching on the PCF contracts again. The hyperscalers reported earnings recently, and we saw CapEx expectations rise across the board. So with the \$9 billion booked, I mean, does the addressable market or opportunity that you see that's attractive out there bigger today than it was when you first started announcing these deals? Or does it give you an incentive, especially coupled with tax reform to potentially ramp up CapEx in the next couple of years into these businesses beyond what you've already announced?

**Kathleen E. Johnson**

*President & CEO*

So I think we've been pretty clear that connecting data centers for the hyperscalers, that market is Phase 1 of what we see as a 3-phase evolution for AI. It's about the hyperscalers saying, gosh, we need so much more compute. It's about building net new data centers and connecting them. We're doing that in parallel. We're building the routes in parallel with the construction of the data centers. The second phase is when enterprises start actually consuming AI, and that's where you're seeing the proliferation of data centers across the United States, many hundreds of data centers being built over the next 3 or 4 years. And we're in conversations with those companies as well to connect them. That's a different nature and size of contract, obviously, than the hyperscaler.

And then the third piece of this is we really feel like there'll be yet another expansion required in the physical network once AI is really talking to AI. And we're doing a substantial build-out in metros around the country to accommodate AI rings for that very purpose. But the first phase was always kind of finite. And what we're seeing is that we're winning this business. I don't think anybody else has near the amount of deals won and the construction is going well. But once we get them strong up, we're really focusing on the build-out for #2 and 3, which are where the advanced services really come into play and sort of accrue to that grow bucket that Chris just described.

Chris, do you have anything to add on that?

**Christopher David Stansbury**

*Executive VP & CFO*

No. I mean I think the only other piece that I would add is that I think the current administration has been very clear about the U.S.' need to continue its leadership in the AI space. And that's beyond enterprise. That's also in the public sector domain, and there could be opportunities there as well. So we'll see how that pans out.

**Operator**

And with no further questions, I'll turn the call back over to Kate Johnson for closing remarks.

**Kathleen E. Johnson**  
*President & CEO*

Thanks so much, operator. Thanks, everybody, for a great call and insightful questions. I just want to close out with a shout out to all Lumenaries, the great men and women of Lumen for tirelessly working to turn this company around. As you heard today, your work is driving material results, and we're just so grateful to you. There's no one that we'd rather play to win with than you. See you all soon.

**Operator**

And ladies and gentlemen, this concludes today's call. We thank you for your participation. You may now disconnect.

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