

Lumen Technologies, Inc. NYSE:LUMN
Company Conference Presentation
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Call Participants

EXECUTIVES

Kathleen E. Johnson
President & CEO

ANALYSTS

Michael Ng
*Goldman Sachs Group, Inc., Research
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Presentation

Michael Ng

Goldman Sachs Group, Inc., Research Division

Good afternoon, everybody. Welcome to the Lumen Technologies fireside chat at the Goldman Sachs Communacopia and Technology Conference. It's my privilege to introduce the CEO, Kate Johnson, who is the CEO of Lumen Technologies. My name is Mike Ng. I cover U.S. telecom, cable and media here at Goldman Sachs.

We have about 35 minutes for today's presentation. And I really wanted to start off by saying thank you so much, Kate. It's a real pleasure to have you here today.

Kathleen E. Johnson

President & CEO

It's great to be here. Thanks for having us.

Question and Answer

Michael Ng

Goldman Sachs Group, Inc., Research Division

Great. To start things off, let's just talk big picture strategy. I think there's a lot of natural investor market doubt about whether or not anybody can truly transform enterprise telecom and you say Lumen can. So why you? Why now? What's changed?

Kathleen E. Johnson

President & CEO

Really easy thing to think about is just assets and timing. And we've got this really compelling set of assets, which I can talk about, but the time is probably the most significant part of our story. And there's this war on complexity and CIOs every day are having to fight this growing data proliferation from AI. They've got hybrid architecture. So they have people, applications and data dispersed throughout this hybrid architecture. We have data centers. We've got cloud. We've got multi-cloud. We got on-prem. We got at the edge. And their whole job is to drive insight at the speed of thought at the right cost in that sea of complexity.

And Lumen's transformation is about solving that problem by making it easy to network for those CIOs so they can deliver on that promise of insight at the speed of thought. And the signals from the market so far are pretty dramatic. We've got more than 1,000 customers buying in this new NaaS platform, and we've got \$9 billion of deals under our belt to interconnect all the hyperscalers. And so yes, you can transform. You got to have the right people, the right culture, but the right assets at the right time, and we've got all that.

Michael Ng

Goldman Sachs Group, Inc., Research Division

Great. And how do you respond to investors and analysts who may see Lumen as more legacy telecom infrastructure rather than a digital networking platform for AI infrastructure? And then if you could just talk a little bit about like where inside AI infrastructure Lumen fits.

Kathleen E. Johnson

President & CEO

Yes. So the first thing is I have empathy for investors in the telco space because it's been a while since telco has innovated, and we're changing that story. But what took a couple of decades to create in terms of seeding innovation to data centers and technology companies and digital upstart, you can't unwind that in a day, a quarter or a year. It takes a couple of years. And so I would encourage investors to really get curious. Get curious about the technology infrastructure that companies need in order to thrive in an AI multi-cloud world. And I think you would immediately see that fiber is an essential part of that, but also a new way to consume services on that fiber, that's easier, more ubiquitous, available from everywhere and covering all the different connection possibilities universally, and we're the company that's doing that.

So a little bit of patience, but it's happening. We've cleaned up the balance sheet. We've got cash to fuel our transformation. The AT&T transaction allows us to focus on enterprise. We've built a platform that's thriving and is the fastest-growing part of our revenue portfolio from a pace perspective. And so the future is very bright.

Michael Ng

Goldman Sachs Group, Inc., Research Division

Yes. And I appreciate the empathy in terms of the perception that telecom investors may have and you talked a little bit about the cash that you have to pursue this transformation. Revenues are still declining. Do you have enough time to turn this company around? And what about the financial story is different this time around?

Kathleen E. Johnson

President & CEO

Yes, for sure. So yes, we have enough time. Yes, we've made enormous progress. And yes, I am the single most impatient person on the planet. Please don't tell my husband, I admitted that. And so for me to say we have enough time is pretty compelling, but we do. And the first thing is we've really stabilized the balance sheet, we stabilized the cash flow situation period. We have a very

robust modernization and simplification program that's allowing us to pull cost out so that we can pivot to EBITDA growth. We've announced -- we've called that guided that for '26, which is right there on the horizon.

And so the last piece of this puzzle is revenue. I talked about this digital revenue stream that we're focused on, which we're super excited about. But that's not the only part of the story. There are 3 pieces to it. There's the PCF revenue, which is deferred. And as we light up those routes that we've sold to the hyperscalers to interconnect them, we start to recognize that revenue over these 20-year periods. We have our Grow portfolio with IP and Waves, which is growing in the mid- to high single digits year-over-year. And we've got that digital revenue curve that looks like that and gets pretty accretive over the next couple of years. And so a couple of moments that matter.

2026, not only will EBITDA grow, but our Grow portfolio will be bigger than Nurture plus Harvest. And so that gives us a bit of a trampoline moment. The second moment that matters is the business segment returns to revenue growth based on our plans that we're executing to in 2028. And then the total company returns to revenue growth in 2029.

Michael Ng

Goldman Sachs Group, Inc., Research Division

Great. Could you talk a little bit about how Lumen's strategy may be different relative to peers? Naturally, why aren't your competitors all running the same place?

Kathleen E. Johnson

President & CEO

Yes. It's really interesting, and we feel kind of excited about the fact that Lumen is different. A couple of categories here. You've got the big carriers who are really focused on consumer and the convergence of wireless with broadband. That represents the AT&T deal, fiber-to-the-home. It also shows another \$23 billion in it for EchoStar licenses, et cetera. They're focused on consumer. That's where they spend their next dollar of capital. They've got a return profile that looks good there and they're competing for critical mass and there's a consolidation going on.

The next category are pure-play networking companies, right? And the pure-play networking companies that we all know about, number one, they just don't have the critical mass and scale that we do from a fiber network perspective. More importantly, they don't have the cash position that we have, and they don't have the tech team that we have. So we've got this enduring competitive advantage in the physical infrastructure. We've built a digital platform that they can't afford to build and we're running a little faster than they are.

I think there's a third category, and it's one that I would encourage investors to take a peek at, which is the digital upstart that says, "Hey, this network-as-a-service thing is really interesting. Networking is the final frontier for digital transformation. Why don't we cloudify these networking services?" And those stand-alone companies don't own the underlying assets and so they can't get owners' economics. So they never really get there from a profitability and a cash perspective. But they are growing and they're valued very highly because digital revenues tend to such better valuations because they're sticky and they're high margin once you get to scale. And so we're building that inside of Lumen and making a ton of progress on it.

Michael Ng

Goldman Sachs Group, Inc., Research Division

Right. And you touched on PCF. You touched on NaaS. Maybe if you could just talk a little bit more about the customer value proposition here and how that translates into financials that ultimately accrue to shareholders.

Kathleen E. Johnson

President & CEO

Yes. Look, our business model is about we are going to help CIOs simplify the complex. We've got 3 pieces to our strategy. The physical infrastructure, we've got a mile long lead in the marketplace in terms of coverage and unique routes. You can't replicate our network because it's not just long haul, which would, we think, cost around \$150 billion to replicate as we've said in the past. But inside of metro, you can't go back there and interconnect all the buildings inside of Manhattan. That work was done a long time ago, right? Permitting and all those things make it super hard.

So we've got this really nice head start. And we've got a focus on driving utilization on our network. So we interconnected all the hyperscalers and large cloud service providers and created an ecosystem, brought in a bunch of cash, changed our financial story pretty dramatically, but most importantly, positioned us for the next piece, which is that digital platform, Lumen Digital, where

we serve up network as a service, make it easy to consume the services on that network and drive more traffic on it. So instead of obsessing about the next build, we obsess about the next set of services on the network that we already built 25 years ago, okay?

And then the last piece is the connected ecosystem. We got the hyperscalers. We've got density of customers. And now we're starting to build partnerships with some of the fastest-growing technology companies on the planet to integrate technically our NaaS capabilities into their cloud solutions making them available through digital marketplaces. And that 3-tiered strategy, we believe, will get us business growth in '28 and total company growth '29 and beyond. And a lot of the intellectual property that we have in R&D, we haven't even contemplated that in the plan, which I think is really exciting. So it's a very conservative story here that we're going to aggressively go out to try and accelerate everything we do.

Michael Ng
Goldman Sachs Group, Inc., Research Division

Yes. I mean I would love to hear a little bit more about that connected ecosystem because it sounds like to me that you have your NaaS platform and then you have the players that kind of sit on top of it, which in one way, shape or form, maybe even like resellers or building on top of your...

Kathleen E. Johnson
President & CEO

Look, in its simplest form that connected the ecosystem gives us a larger sales force. With the right buyers, okay? And then when we integrate our capabilities and make it easy for them to attach and the pipes are bigger and smarter and more secure. Our value proposition to those technology companies is that we accelerate their time to revenue. It no longer do they sell their cloud solution and then wait for networking with their customers side by side. They can actually plug the whole thing and get it up and running in record time, and they get direct access to the clouds because we have direct fiber access and 400 gig on ramp, which we've been announcing already. And the biggest pipes, the most coverage, more secure, et cetera. That's the base case.

The base case is we have more feet on the street, lower cost of sale for our existing services, and that's something. But what I think is really interesting is as these companies start to integrate our technology and recognize that a one CEO say, "You'd just increased our velocity to revenue recognition, I need to plug you in everywhere." That was pretty cool. We put APIs together, then we start to innovate together, then we start to build unique networks and capabilities for them, et cetera. That's another whole set of offerings that we can bring to market.

But I think one of the ones that we're really excited about as well, and I just had a conversation with a CEO of a security company, and they want to embed their security offerings at our edge in our network, in our NaaS platform. And so picture a customer going and saying, "Okay, I want to fire up a Lumen NaaS circuit, and I want some IP on demand, I want some voice, I want direct on-ramps. And oh, what's this third-party capability that I can also put in there," because we get a portion of every one of those subscriptions. So we start to dramatically increase the amount of optionality and the richness of the intellectual property that we will serve up on our network. And the connected ecosystem is it's that final piece of the puzzle that I think is incredibly compelling and nobody else has.

Michael Ng
Goldman Sachs Group, Inc., Research Division

Great. Could you maybe tie some of this together to really solidify in the minds of myself, investors, the strategy with a real world customer example.

Kathleen E. Johnson
President & CEO

Yes, sure. Every customer, every company needs to get data from one cloud to another, including us. And so we have the ability to move data from cloud to cloud through the NaaS platform without going through data center companies. It's cheaper, it's faster, it's more secure and it's highly intelligent because I can turn it on and off. to take all the cost out, it allows us a bit more pricing power, and we provide agility for ourselves.

By the way, we discovered that capability with ourselves because we had some data in Google. We had some data in Azure. We needed to intermingle and then push it back out. We were like it's got to be a better way. Oh, yes, let's use our network to do that. Now you enter in -- look, there's a million different examples, but backup and recovery is a problem that every company has. Cybersecurity is a problem everybody has. And when there's a threat actor that takes down a company, restoration is the name of the game and the speed to restoration matters. As a company, am I going to buy ports that are up and running at 400 gig or more and leave them open and pay for them every month for the rest of my life in case of incursion or am I going to say, "Hey, wait a minute, let me have a

network-as-a-service platform and fire up those circuits in any inter combination." We connect data centers, prem, cloud and edge in any combination. We're the only network provider that does that digitally.

Am I going to do it all the time or am I going to cloudify this thing and do it when and as I need it. So think of a backup and recovery company that says, "What network provider allows me the fastest path to rebuilding that data after a cyber attack?" Lumen is the only one that can do it. And so they interconnect with us, and then we sell together into customers and say, okay, you're going to buy this solution. And I'm being a little bit coy about the names of the companies because we have several that we will announce over the next couple of months. And I don't want to steal thunder from our Analyst Day.

Michael Ng
Goldman Sachs Group, Inc., Research Division

Great. And then maybe you can talk about the most common or expected like AI use cases in a real-world example.

Kathleen E. Johnson
President & CEO

Yes. I mean, look, AI is proliferating data insight at speed of thought, need the data workloads everywhere, NaaS and why it matters, why we have 1,000 customers when this thing -- we started with GA in '24 and got to 1,000 customers really, really quickly. How did we do that? We did that by basically building a platform on net, okay? And we said single pane of glass, interconnect in any combination and allow customers to fire up any port with any service anytime, anywhere. How we operationalize it? There's a management console, there's the fabric port, right?

Fabric port is a game changer. It's intellectual property through software that allows you to put thousands of services on 1 piece of hardware. So old school telco, 1 service, 1 port and underlining infrastructure, fixed costs. New World cloudified. We got as-a-service capabilities on a port, thousands of them, every time you add a service, your marginal cost to serve that revenue goes down, right? And that's super exciting because with the 1,000 customers that we have, we acquired those customers by selling into a universe of more than 100,000 buildings on-net. We only had on-net network-as-a-service available. But in Q4, we'll be announcing the availability of these fabric ports more generally with more capability on them, off-net. So we go from being able to sell into 100,000 buildings to more than \$10 million, okay? And we cloudify the old school off-net model and make it easy for customers to add more and more services on that same single port.

So now take AI, gosh, I don't know where I need my data and when and how I'm going to be serving it, I need flexibility. I needed to be dynamic, I need to be lease costs. I need to be biggest pipes, so I need to be more secure. So AI companies are partnering with us to take our capabilities to their customers like Palantir announced last week.

Michael Ng
Goldman Sachs Group, Inc., Research Division

I see. 1,000 NaaS customers adopting the platform. Is that enough to produce meaningful revenue? Like what's the revenue potential per NaaS customer?

Kathleen E. Johnson
President & CEO

Yes. So we haven't announced the revenue potential per NaaS customer, but we are going to be bringing the math for modeling to a theater near you, okay? And we're going to shine a light on it because right now, it's about customer adoption 1,000 customers. What we're seeing that's really exciting our buying patterns that those customers are all coming back and adding ports. And we have a lot of traction in financial services. We have a lot of traction in health care. And third industry right after that is in retail. And these are companies that have a lot of data needs. They work with clouds, but they're also geographically dispersed, and NaaS is perfectly suited to them. So the revenue model for that will be based on the fabric port and how many services we can put on top of it. And in a world, just dream with me for a second here.

Michael Ng
Goldman Sachs Group, Inc., Research Division

Happy to.

Kathleen E. Johnson
President & CEO

So just imagine sending a fabric port to a customer eliminating truck rolls and having the fabric ports that we're contemplating, you plug in, it as plugging in an Ethernet cable and then it automatically self-registers with Lumen Connect and self-provisions, and you get a pick list of services. I want some IP. I want them voice. I want a cloud on-ramp. I want some security. All the normal ASPs add that up, that's on 1 port. And then you say, okay, let's go to the next screen, what third-party services can I serve up on that port? I want security from this company. I want AI services from that company, et cetera, et cetera. And you start to grow the revenue per port. So the port is going to be the unit of measure that really matters, growing revenue on top of it is going to be really important and putting the ecosystem, the connected ecosystem together is what's really going to enrich it.

Michael Ng
Goldman Sachs Group, Inc., Research Division

Great. So Lumen has an agreement to sell its mass fiber business to AT&T. You guys have also done a lot in terms of balance sheet restructuring. Talk a little bit about how the balance sheet supports growth and what's the right optimal leverage for Lumen?.

Kathleen E. Johnson
President & CEO

I'm sorry, did you just ask me about the balance sheet supporting growth for Lumen?

Michael Ng
Goldman Sachs Group, Inc., Research Division

I did, yes.

Kathleen E. Johnson
President & CEO

That might be the first time that anybody has ever asked a quest. Thank you so much fun. And yes, it can support growth because it cleaned it up, and it's pretty exciting. So post AT&T transaction, we're going to be in a great place, bringing leverage under 4. And we've got optionality because we've got cash from all these deals, right? And so every dollar of capital we're going to choose. Is it best to invest more in the physical layer, what's the return look like? Is it best to invest in the digital there? What's that return profile look like? Should I be spending more to integrate with more technology companies? What's the return on those scenarios? Is there a company out there that I should be buying? Or should I go buy back stock? And that optionality is something that we've never had and it's good to be here, but we will be relentlessly disciplined about examining those profiles before we spend any of those dollars because we like how it feels to be on this side of all of that.

Michael Ng
Goldman Sachs Group, Inc., Research Division

Right. And as we think about returns, you've also talked about getting to meaningfully higher margins than where we are today over the next few years. What gets you there is that product mix? Is it the modernization simplification plan?

Kathleen E. Johnson
President & CEO

It's both. That's exactly what, it's both. And just think about Lumen as a collection of companies that in a declining market, it was about going and getting the next big batch of revenue that you could glue together to try and stabilize. But there wasn't any integration underneath. So we have this proliferation of applications. There wasn't any upgrade and modernization and process simplification. And we're doing all of that now and it's going extremely well. We called \$250 million of savings exiting '25, and we'll be probably at \$350 million exiting '25 and that \$1 billion that we committed to the Street by the end of '27, it gets more complex and harder to do, but we're on track.

So that's part of the margin expansion. But the mix, as you said, also this digital revenue, that's fastest growing piece of our portfolio, again, smaller base, so being pragmatic here, it's great margin. And over the next 4 to 5 years, I think we can expand the margin by about 20% to get into the mid-30s.

Michael Ng
Goldman Sachs Group, Inc., Research Division

Yes. you're investing on all these new capabilities and products. At the same time, the company has talked about a 50% reduction in CapEx intensity. What is driving that?

Kathleen E. Johnson
President & CEO

A couple of things. Number one, the AT&T transaction upon close will be a reduction of about \$1 billion of capital per year that we were investing in the Quantum Fiber business. And then we have these PCF deals. And when we're finished with our current tranche of the \$9 billion that we sold, that will be another \$1 billion per year. So we would go from around \$4 billion to around \$2 billion. The question is, can we do better than that?

And the great thing about digital services is build once, sell many marginal costs down. Is there more opportunity to continue to reduce our capital intensity we think maybe. Additionally, cloud economics in NaaS is fewer truck rolls and less capital intensity in terms of servicing and keep the lights on and all that stuff reduction, we think we'll continue to get more efficient. But the truth is that there's -- we're also going to examine all of our opportunities in that disciplined approach that I talked about, where if there's more PCF deals to be done, which we believe that's a real possibility. The window for that capital intensity based on the incredibly lucrative economics of PCF deals, we may extend that window a bit.

Michael Ng
Goldman Sachs Group, Inc., Research Division

Great. Lumen had some good recent success with public sector customers. Do you see that continuing? How do you balance the public and private sector opportunities? And are there synergies there? What's Lumen's strategy?

Kathleen E. Johnson
President & CEO

Yes. We are extremely committed to the public sector for a couple of reasons. Number one, we believe it's a matter of national security to maintain a leadership position in AI. And we are working closely with the administration to ensure that they understand all the implications of AI infrastructure and infrastructure policy calls that they're making. We think they're doing a really nice job making it pro investment, pro business, but also best for the citizens because that we need to maintain that leadership position.

Secondarily, they're running a pretty significant modernization and simplification playbook of their own, right? And we're a part of that. And what I've really enjoyed is sharing our playbook of how you do that because it's not just about the dollars. And it's not just about hiring the right infrastructure provider, it's about playing to win. It's about making sure you really execute on a playbook that takes talent and skills and courage and culture into place. And they've been extremely receptive knowing a little bit about our turnaround in terms of coaching them, which has ingratiated us in a way that's exciting.

Michael Ng
Goldman Sachs Group, Inc., Research Division

Great. Just in the last couple of minutes we have here, obviously, there's a lot of change happening in Lumen as there is for the broader industry. How do you think Lumen should be measured in terms of success, right, beyond just revenue in the near future? What should investors look for in the next 12 to 18 months that as Proofpoints' women's strategy is actually working? And then as you look to 2026 and beyond, what are the key operational priorities to drive consistent free cash flow?

Kathleen E. Johnson
President & CEO

I really think that the complexity of our turnaround is hard to conceive and you really have to take time to get curious and kind of dive in and there's just so much on the operational side as there is on the financial side. The financial, we've talked about free cash flow. We've talked about EBITDA. We have the plan for revenue growth here. So when I say we have 1,000 customers on a brand-new digital platform, and we got there in 18 months from GA to eclipsing 1,000. And by the way, it's significantly higher than 1,000 today. Any digital company out there that did that in 1.5 years would garner a lot of attention.

But that capability and that platform is in the walls of Lumen, and we're continuing to press the gas pedal to accelerate, and we can share operational metrics, but we have to be sort of very cognizant of the fact that disruption in the marketplace is structural, and it takes time. And it's really hard for us to call the ball of exactly what's going to happen in all the variables together, so we're maybe even being a little bit more cautious than we should in terms of shining a light on that. So stick with us operationally, look for customer stories, look for announcements of upgrades in all of the metros bigger pipes, smarter pipes, look for third-party IP embedded in our network. These are the things that are indicators that we're cooking a pretty compelling story.

Michael Ng

Goldman Sachs Group, Inc., Research Division

Right. Very helpful. Well, Kate, it's been an absolute pleasure and privilege to have you on stage here. Thank you so much for being here today.

Kathleen E. Johnson
President & CEO

Thanks, Mike. Yes. Thank you.

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