

REITs and the Windstream Strategy - Overview

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Windstream's REIT

- Fiber and copper assets to spin off into REIT (less than 25% of total assets)
- Windstream retains electronics – switches, routers, DSLAMs, etc.
- Windstream to pay spinoff \$650 million annually for use of assets
- Windstream retains 20% of REIT for one year
- IRS and state PUC approved
- Expected to close in 2015

Why a REIT?

- REITs pay 90% of income as dividends & avoid corporate tax on that money – the money Windstream would have paid in taxes is now freed up for network investment (company was already paying dividends so no extra cost there)
- \$3.35 billion debt essentially transferred to the REIT
- Windstream to bring 10 Mbps Internet to >80% of customers by 2018
- REIT anticipates purchasing assets from other network operators – “elegant exit” strategy for small telcos

Operational Issues

- Windstream assets are for its exclusive use
- Companies to jointly decide about new copper/ fiber- Windstream to deploy its own if needs be
- CAF funding goes to Windstream

Other Carriers?

- Tier 1s Fear Loss of Control
- Tier 2s & 3s Wait & See
- Only Smallest Likely to Spin Off to Windstream Rather Than Doing Own Spinoff
- Little Activity Expected for a Year

Thank you!

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