

CenturyLink Refreshes MDU Broadband Focus

Telco sets new MDU fiber consumer goals as questions about its ILEC future loom.

By Sean Buckley / *Broadband Communities*

CenturyLink became a larger business provider when it acquired Level 3 – enhancing its on-net building and metro fiber footprints – but these assets also position it to more effectively target consumer multi-dwelling-unit properties (MDUs) with fiber-based broadband and home automation capabilities.

This MDU plan comes, however, as the service provider considers options for the consumer ILEC business: a possible sale or spinoff.

To reinvigorate its MDU service focus, the telco tapped cable and telecom veteran Dan O’Connell. As CenturyLink’s vice president of consumer sales, he has been leading the effort to expand the company’s MDU organization to achieve its growth targets.

“We have grown the MDU organization significantly,” he says. “We have anywhere from three to four times the number of customer-facing personnel than we had in 2018. That allows broader coverage to make sure we have the resources to support properties.”

Property owners that oversee MDUs have plenty to gain from fiber-based broadband.

Recent research from market research firm RVA LLC revealed that high-speed broadband, which usually means fiber-based services, adds 2 percent to the value of a condo and 8 percent to the rental price of an apartment.

CenturyLink recognizes its biggest challenge is to enhance focus on consumer broadband

for MDUs and single-family homes. In 2017, it launched an FTTH buildout, passing 900,000 homes and businesses.

O’Connell said CenturyLink’s consumer MDU efforts will start to bear fruit in the coming months.

Enhancing “the MDU organization is a big transition, and accelerating the pace with very high quality is challenging,” O’Connell said at **BROADBAND COMMUNITIES’** 2019 summit. “In the next few months, I think the transition will be behind us, and we’ll be a more effective partner.”

CONSUMER MARKET OUTLOOK

As CenturyLink moves forward with its MDU broadband plans, how will it tie them into the fate of its consumer ILEC business segment?

With enterprise services now comprising more than 50 percent of its revenue mix, the service provider is considering options for this business, including a possible sale or spinoff.

CenturyLink has made several moves to realign the consumer business already.

Citing rising content costs, it stopped promoting the linear Prism IPTV product last April. It also shut down the beta test for its OTT service, Stream. Additionally, CenturyLink ended the expansion of hybrid fiber/copper vectoring and bonding technology broadband services.

“Our customer experience and profitability have benefited from many of our actions,” Jeff Storey, CEO of CenturyLink, said during the

first-quarter earnings call. He cited other examples, including simplifying CenturyLink's products and pricing, expanding its fiber footprint and microtargeting efforts, and increasing penetration where the company already has fiber.

"We will continue to operate this business for long-term cash flow generation. That means we will continue investing where we can grow and expect growth where we invest."

Though not mentioning a definite sale or divestiture – one that would be quite complex in terms of finding a buyer because of its heavy regulatory baggage – Storey said CenturyLink has hired third-party consultants to review the assets.

"We've been open to looking at assets like our consumer business," Storey said. "We have now engaged advisors to assist us in that review. Let me be clear: We're early in what I expect to be a lengthy and complex process."

He added, "During our review, we will not modify our normal operations or our investment patterns. I can't predict the outcome or the timing of this work or if any transactions will come from it at all. Our focus, though, is value maximization for shareholders."

Analysts, though not speculating on any specific outcome, agree that some event will take place.

Doug Dawson of CCG Consulting said in a blog post that though CenturyLink has just begun the process of looking into whether it should sell or spin off the telco business unit, "it won't be surprising to hear about a major restructuring of the company."

TARGETED FIBER INVESTMENTS

A key focus for CenturyLink's MDU program is to expand and enhance its fiber-to-the-premises (FTTP) network. Through its microtargeting process, the service provider allocates capital resources to build fiber in markets that have a high percentage of customers.

Today, the service provider has about 340,000 households connected to its fiber network, which O'Connell says will double this year.

"We are laser focused on fiber expansion," he says. "Every new construction project, whether it be single-family or multifamily, is being built out with a fiber-to-the-home GPON architecture with our

CenturyLink ON service delivery platform."

By purchasing Level 3, CenturyLink was able to expand its metro and last-mile fiber network immediately.

CenturyLink gained an additional

STEMMING BROADBAND LOSSES

CenturyLink's newly fueled MDU effort could help stem ongoing broadband subscriber losses. In 2018, CenturyLink lost a total of 262,000 broadband subscribers as more customers migrated from slow copper-based DSL to cable's DOCSIS-based services.

During the first quarter of 2019, the service provider narrowed its broadband losses to 6,000 total subscribers. It lost 83,000 customers who subscribed to speeds below 20 Mbps but gained 77,000 new subscribers to speeds of 20 Mbps and higher. Interestingly, these gains included 47,000 subscribers who purchased speeds of 100 Mbps and higher.

Broadband revenue, which represents 50 percent of CenturyLink's total consumer revenue, grew 1.3 percent year over year and 2.7 percent sequentially to \$722 million during the first quarter. Overall consumer revenue, which declined 8.1 percent to \$1.4 billion, was impacted by the telco's decision to de-emphasize its Prism linear video product.

Neel Dev, CFO of CenturyLink, told investors during the first-quarter earnings call that the company is "ramping up our microtargeting efforts, and the results so far are encouraging."

He added that its Price for Life program also drove further broadband additions during the first quarter. Price for Life enables subscribers to get a monthly rate that stays the same if they keep the same internet service plan and remain at the same address.

"First-quarter performance was driven by our Price for Life offering and our focused strategy of increasing penetration of our competitive assets," Dev said. "Going forward, we don't expect any material incremental benefit from Price for Life."

COMPETING WITH CABLE

CenturyLink's broadband growth trends illustrate the broader challenge telcos face in the broadband race against cable operators. Consider the fact that cable operators added nearly 925,000 subscribers in the first quarter, while the top telcos added only about 20,000 during the same period.

Within the cable segment, Comcast and Charter were the dominant players, adding 375,000 and 428,000 new subscribers, respectively. There are two likely reasons for cable's continued dominance in broadband: ongoing DOCSIS 3.1 upgrades via existing HFC to 1 Gbps and the ability to bundle multiple services, including now wireless.

To be fair, Leichtman Research Group noted in its first-quarter broadband report that the telcos' gain was an improvement from the nearly 35,000 net loss they saw in the first quarter of 2018. This was the first time since the first quarter of 2016 that telcos reported net broadband additions.

At the end of the first quarter of 2019, cable had a 66 percent market share versus 34 percent for telcos. This is up from 63 percent for cable versus 37 percent for telcos at the end of the first quarter of 2017.

200,000 route miles of fiber, including 64,000 route miles in 350 metropolitan areas. In addition, it increased its on-net building reach by nearly 75 percent to approximately 75,000, including 10,000 buildings in Europe, the Middle East, Africa and Latin America.

The service provider now can leverage and extend these assets to serve more potential MDU opportunities in its U.S. territory.

According to O'Connell, whenever CenturyLink sets its sights on a new MDU location for its fiber builds, the company aligns it to serve other business and wholesale opportunities.

"When I bring an MDU or single-family opportunity to the table, there's a cross-functional process that looks at the location of the opportunity that I am pursuing against the fiber assets of any of the entities that now comprise the CenturyLink organization," O'Connell says. "This also includes what we're doing from an enterprise perspective as well as what we're doing to support a 5G deployment for one of the wireless operators."

DIVERSE MARKET NEEDS

Given the footprint CenturyLink serves, the MDU drive will address a diverse set of market needs – rural and urban.

For rural areas, the service provider is leveraging Connect America Fund Phase II (CAF II) funds to build out fiber or other facilities. As of the beginning of May, CenturyLink said it was 60 percent complete with its FCC commitments.

"We're building out a lot of communities with next-generation technology or significant increases in broadband in a public/private partnership to serve those communities," O'Connell says.

For instance, in Minnesota's Fish Lake township, CenturyLink leveraged federal funding to deliver 1 Gbps FTTH service to 900 homes.

Already, the reception to the FTTH service has been positive.

"About 65 percent of the homeowners have subscribed to the fiber-based service," O'Connell says. "When we bring these capabilities out there, the reception is overwhelming."

DRIVING G.FAST

CenturyLink is looking at a mix of existing brownfield and greenfield MDU developments.

In new MDU developments, CenturyLink will use a GPON-based FTTH architecture.

But in existing, or what are called brownfield markets, CenturyLink is leveraging a mix of FTTH, G.fast and millimeter wave (mmWave) wireless to address existing MDUs.

"An overwhelming majority of contracts we have executed this year with existing communities include capital expenses to overbuild with a fiber infrastructure," O'Connell says. "In that case these are sometimes GPON overbuilds; in others, we're bringing fiber to the properties and delivering services via G.fast and mmWave wireless, which are things we're trialing now."

O'Connell adds, "We have a lot of options to serve the different situations based on economics, configuration of the property, and distance to fiber."

The service provider will advance its G.fast capabilities in various markets. It recently secured a contract to install G.fast in a Florida-based MDU.

CenturyLink also is advancing its trials of emerging G.fast technology iterations, such as the ITU's Amendment 1 and Amendment 3, which can deliver up to 500 Mbps and 1 Gbps theoretically over a building's existing coax or copper cabling.

By using G.fast, CenturyLink can provide much higher speeds than what was available over legacy DSL architectures. "We have properties today that are getting 500 Mbps that previously would only have been able to deliver 40 or 60 Mbps," O'Connell says.

CenturyLink's G.fast deployment strategy is representative of a broad, industry-wide trend.

According to a Broadband Trends study, 70 percent of survey participants plan to deploy G.fast by the end of 2019. Thirty-three percent currently are in live deployments.

However, the research firm said, "cost remains the greatest challenge facing operators currently deploying or planning to deploy G.fast technology."

EASY TO USE

In MDUs such as apartment buildings and gated communities, CenturyLink offers its CenturyLink ON product.

It enables customers to instantly activate home internet service and digital home phone using their credit or debit cards.

O'Connell said that CenturyLink ON is all about making the experience of getting broadband services easy for property owners and their consumers alike.

"CenturyLink ON has been a service delivery platform that has really raised our visibility with a lot of folks who are now insisting we bring this same capability to every one of their properties," O'Connell said during **BROADBAND COMMUNITIES'** 2019 summit. "We have made things simple, easy, convenient and hassle-free for their residents, which is what they want."

But the services, features and offers are not available everywhere and may vary by MDU.

Like other service providers targeting MDUs, CenturyLink's MDU drive also incorporates home automation and security. CenturyLink Smart Home offers current and new customers customizable home security and automation packages.

The provider offers three door and window sensors, a motion sensor, four window decals, a key fob and a smart plug, a device that enables a regular electrical outlet to function as an internet-connected tool to manage lights or appliances that consume energy.

"We know that consumers say they would choose a smart home over one without it," O'Connell said at **BROADBAND COMMUNITIES'** 2019 summit. "Nearly the same number of consumers would choose an older home that had been upgraded to smart home technology." ❖

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