

COMPANY PROFILE

Level 3 Communications, Inc.

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TABLE OF CONTENTS

Company Overview.....	3
Key Facts.....	3
SWOT Analysis.....	4

COMPANY OVERVIEW

Level 3 Communications, Inc. (Level 3 or "the company") is a facilities-based provider of a range of integrated communications services. The company offers communications services to enterprise, government and carrier customers. Level 3 primarily operates in the US and Europe. It is headquartered in Broomfield, Colorado and employed about 13,500 people as on December 31, 2014.

The company recorded revenues of \$6,777 million during the financial year ended December 2014 (FY2014), an increase of 7.3% over FY2013. The operating profit of the company was \$1,013 million in FY2014, an increase of 52.1% over FY2013. The net profit of the company was \$314 million in FY2014, as compared to a net loss of \$109 million in FY2013.

KEY FACTS

Head Office	Level 3 Communications, Inc. 1025 Eldorado Boulevard Broomfield Colorado 80021 USA
Phone	1 720 888 1000
Fax	
Web Address	http://www.level3.com/en/
Revenue / turnover (USD Mn)	6,777.0
Financial Year End	December
Employees	13,500
NYSE Ticker	LVLT

SWOT ANALYSIS

Level 3 Communications, Inc. (Level 3 or "the company") is a facilities-based provider of a range of integrated communications services. The company offers communications services to enterprise, government and carrier customers. The company's strong communications network allows it to provide a range of services across the globe, thus boosting revenues. However, intense competition may continue to put pricing pressure on the company thereby reducing its margins and has the potential to influence its market share adversely.

Strengths	Weaknesses
Strong communications network Robust portfolio of services and distribution strategy Extensive Patent Portfolio	Considerable debt could limit growth
Opportunities	Threats
Growth in spending for cloud computing services Increase in managed security solutions market	Intense competition Heavy regulations Swift technological changes

Strengths

Strong communications network

Level 3 has a strong communications network. The company operates one of the largest international internet protocol (IP) networks. IP services deliver a broad range of IP transit and network interconnection solutions tailored to meet the varied needs of high bandwidth users. At the end of FY2014, the company's network encompassed intercity network of approximately 74,000 intercity route miles in North America, 26,000 route miles across Europe; and 10,000 route miles in Latin America. Further, it has metropolitan fiber networks in approximately 350 markets which together were approximately 64,000 route miles; and approximately eight million square feet of gateway and transmission facilities in North America, Europe and Latin America. The network also encompasses approximately 350 colocation and data center facilities globally; approximately 33,000 route miles of subsea optical fiber cable systems; and more than 60 countries in service around the world.

Furthermore, the company owns a number of subsea fiber-optic cable systems, including Atlantic Crossing -1 (AC-1), Atlantic Crossing-2 (AC-2), Mid-Atlantic Crossing (MAC), South American Crossing (SAC), Pan American Crossing (PAC) and an approximately 300 route mile system

connecting the UK and Ireland. The company also owns capacity in the TAT-14 transatlantic cable system. In addition, it purchased 700 Gigabits of transatlantic capacity from Apollo Submarine Cable System and an additional one Terabit of capacity on the Apollo South cable system. The company also owns the Japan-US and China-US cable systems and holds indefeasible right of use (IRU) on the Southern Cross cable system extending from Australia to California. It also owns the Americas II cable extending from Florida to Brazil and holds an IRU on the Arcos system in the Caribbean. In addition, the company owns the Reliance-Globacom's transatlantic system, Flag Atlantic-1 and the capacity on the Hibernia transatlantic cable system.

The company's network is designed to take advantage of new technological innovations and provides the flexibility to customize as per the future developments and innovations. The company's strong communications network allows it to provide an array of services across the globe, thus boosting revenues.

Robust portfolio of services and distribution strategy

Level 3 offers a robust portfolio of local, national and global communications services to enterprise, government, service providers and carrier customers. The company's services portfolio includes core network services, wholesale voice services and other services. Level 3's core network services portfolio includes transport and fiber service, including wavelengths, private lines, transoceanic services, and dark fiber, as well as related professional services. The company's colocation and data center services offerings include data center facilities and services, including cloud, hosting, and application management solutions. Level 3's data services portfolio includes internet services, virtual private network (VPN) service, content delivery network (CDN) service, media delivery service, Vyvx broadcast service, converged business network service and managed services. The company also offers a broad range of local and enterprise voice services, including voice over internet protocol (VoIP) services and traditional circuit-switch based services.

In addition, the company offers wholesale voice services, including voice termination services and toll free services. Voice termination services include domestic and international voice termination services which are offered to interexchange carriers (IXC), wireless providers, local phone companies, cable companies, resellers and VoIP providers. Toll free services terminates toll free calls that are originated on the traditional telephone network for call centers, conferencing providers, and voice over IP providers.

The robust portfolio of services enables the company to cater to varied requirements facilitating a large customer base.

Extensive patent portfolio

The company has an extensive patent portfolio. The company's patent portfolio includes patents covering technologies ranging from data and voice services, to content distribution, to transmission and networking equipment. Through strategic acquisitions and further R&D, the company, over the years, invested in approximately 1,000 patents and patent applications in the US and around the world. Additionally, the company also received licenses to patents which are held by others. For

instance, in 2007 the company entered into a cross licensing agreement with IBM which gave the company access to 42,000 patents covering technologies relevant to its business. These patent licenses enable the company to operate without the risk of interruption from holder of the patents that has been licensed to the company. The company's extensive patent portfolio enables it to enhance and develop new products and services and also gives competitive advantage.

Weaknesses

Considerable debt could limit growth

Level 3 has accumulated a considerable amount of debt over the past few years. The company's long term debt was \$10,984, \$8,331 and \$8,516 million in FY2014, FY2013, and FY2012, respectively. As a result, the company incurred substantial interest expense to service its debt. The company recorded interest expenses of \$654 million and \$649 million for FY2014 and FY2013, respectively. This increase was a result of additional borrowings to finance the merger with tw telecom, partially offset by a lower cost of borrowing. High debt limits the company's ability to raise further capital to fund its growth. Additionally, the company also has high debt servicing obligations making its cash flows highly vulnerable and impacting its ability to fund growth internally and miss out on future business opportunities. High outstanding debt increases the company's financial risk and place the company at competitive disadvantage and making it more vulnerable to a downturn in its business.

Opportunities

Growth in spending for cloud computing services

The worldwide demand for cloud computing services has seen a significant growth in these few years. Cloud computing is a computing infrastructure model, which enables delivery of software-as-a-service (SaaS). Adoption of cloud computing has been increasing as it enables companies to reduce their expenses related to upfront royalty or licensing payments, investment in hardware infrastructure and other operating expenses. Consequently, the demand for public cloud computing services has been increasing and the spending on these services is expected to grow from \$70 billion in 2015 to more than \$141 billion in 2019, growing at a compound annual growth rate (CAGR) of 19.4% during 2015-19 periods. The telecommunications industry is projected to be the fastest-growing vertical industry over the 2014-2019 forecast period with a worldwide CAGR of 22.2%. The growth in public cloud services spending is primarily driven by the emergence of virtual private cloud (VPC) offerings.

The company is well positioned to benefit from the growing end markets. Level 3 offers a robust portfolio of cloud solutions, including communications as a service (CaaS), and cloud connect solutions. The company's CaaS service delivers a session initiated protocol (SIP) based audio collaboration and on-net web conferencing over a virtual private network (VPN) using a hosted model. The company also offers cloud connect solutions, which provide a private network ecosystem

to connect enterprises to cloud and data center providers. The company's increasing presence in the expanding cloud computing domain will provide enhanced growth prospects.

Increase in managed security solutions market

The managed security solutions market is expected to grow rapidly in the coming years. The increased complexity of managing internal and external threats, coupled with stringent compliance requirements, has resulted in enterprises outsourcing their security management operations. According to industry estimates, the global market for managed security services market is expected to grow from approximately \$15 billion in 2015 to \$33 billion in 2020 representing a CAGR of over 17% from 2015 to 2020.

The company's managed security services provide the expertise and support to detect, prevent and mitigate threats. The company's managed services portfolio provides turnkey management of network firewall and appliances, with optional intrusion detection and prevention packages. It also provides secure information and event management (SIEM) solutions apart from predictive technology to monitor, track and combat threats. The company provides both cloud-based and premise-based solutions. The company's increasing presence in the growing security solutions market coupled with robust market forecast is expected to boost its revenues in the coming years.

Threats

Intense competition

The company faces intense competition across all its business areas. The primary competitors of Level 3 include long distance carriers, incumbent local exchange carriers (ILECs), competitive local exchange carriers (CLECs), post; telegraph, and telephone service (PTT), content delivery network (CDN) companies, and others that provide communications services. In the IP and data services segment the company competes with Verizon, AT&T, XO Communications, NTT, Tata and Cogent in North America, and BT, Orange, TeliaSonera and Telefonica in Europe. Also, in Latin America, its main competitors include Telefonica, Telmex and national incumbent telecommunications carriers. In the transport and fiber services space, the key competitors of the company in North America are other facilities based communications companies, including AT&T, Verizon, CenturyLink, Zayo and XO. Competitors in this space in Europe include PTT companies, BT, Orange, Cable & Wireless, TeliaSonera, Colt, Interoute, KPN and Belgacom. In Latin America, Level 3 competes with Telefonica, Telmex and national incumbent telecommunications carriers. In the wholesale voice service space, the company competes with AT&T, Verizon, CenturyLink, CLECs and national incumbent telecommunications carriers.

The company also faces competition in its colocation and datacenter services segment from other facilities based communications companies, and other colocation providers such as web hosting companies and third party colocation companies. In this space, the company competes with Terremark (Verizon), CoreSite, and Equinix in North America; Equinix, Global Switch, InterXion, Telecity and

Telehouse in Europe; and Telefonica, Telmex and IBM in Latin America. The company also competes in the enterprise and government markets ILECs (such as AT&T, Verizon and CenturyLink) and CLECs (such as XO) in North America. In Europe they include BT, Cable & Wireless (Vodafone), Deutsche Telekom and Orange. In Latin America, competitors include Telefonica and Telmex. In addition, for CDN services, the key competitors include Akamai Technologies and Limelight Networks. Moreover, as the communications industry operates in a technologically complex environment, it is likely that technology advances may further increase the number of competitors. Intense competition may continue to put pricing pressure on the company thereby reducing its margins and has the potential to impact its market share adversely.

Heavy regulations

The company's operations are subject to regulation in each of the countries in which it operates and require it to obtain and maintain a number of governmental licenses and permits. The company's operations around the world are subject to regulation at the regional level, the national level and, in many cases, at the state, provincial, and local levels. Level 3 also operates in some areas of the world without licenses, but only as permitted through relationships with locally licensed partners. The regulation on telecommunications networks and services around the world varies widely. In some countries, the range of services that Level 3 is legally permitted to provide may be limited, or may change. In other countries, existing telecommunications legislation is in the process of development, is unclear or inconsistent, or is applied in an unequal or discriminatory fashion. Changes to existing regulations or rules, or the failure to regulate going forward in areas which have historically been regulated on matters such as network neutrality, licensing fees, environmental, health and safety, privacy, inter-carrier compensation, interconnection and other areas, in general or particular to the company's industry, may increase costs, restrict operations or decrease revenues.

The company's inability or failure to comply with the laws and regulations of one or more countries in which it operates could result in the temporary or permanent suspension of operations. Moreover, these regulatory requirements could change in a manner that significantly increases the company's costs or otherwise adversely affect its operations. The impact of regulatory changes in the telecommunications industry may have an adverse impact on the company's results of operations.

Swift technological changes

The communications industry is subject to rapid and significant changes in technology. In addition, technological innovations may reduce the cost or increase the supply of certain services similar to those that the company provides. As a result, the company's competitors in the future may be new entrants to the communications industry. These new entrants may not be burdened by an installed base of outdated equipment or obsolete technology. The company's success in the future depends on its ability to anticipate and adapt in a timely manner to technological changes. Failure on the company's part to keep track of the latest technological advancements and timely up-gradation of its portfolio will make it difficult for the company to attract new customers and retain existing customers, which may in turn affect the overall business.

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