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Director

Montana Department of Revenue



Steve Bullock
Governor

May 11, 2017

Steven Ingram
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Monroe, LA 71203
Mailstop: LA00010501-3TS150

Dear Mr. Ingram:

This letter is provided in response to the concerns you raised in your April 17th email related to the department's capitalization rate studies for tax year 2017.

Selection of Guideline Companies:

Concern has been raised about the selection of the department's guideline companies and that the guidelines selected do not adequately reflect the market of a wireline telecommunications company without a wireless component.

Due to the amount of consolidation and technological change experienced in the telecommunications industry over the past few years the department has concluded that it currently does not make sense to produce separate cost of capital studies for the wireless and wireline industries as few pure play companies continue to exist for the telecommunications industry.

The department has produced a study that represents the operations of a centrally assessed telecommunications company operating in Montana. The department is tasked with valuing companies that offer two-way transmission of voice, image, data, or other information. Due to the vast majority of companies in Montana offering a combination of voice, image, or data services; guideline companies have been selected that offer a combination of these services.

According to Yahoo Finance CenturyLink, Inc. operates in the industry of "Telecom Services – Domestic". The majority, (9 out of the 14 companies) used in the department's capitalization rate study are also companies listed in this industry. The remaining companies are made up 4 companies in the wireless communications industry and 1 company operating as a CATV System. The department believes the guideline companies it has chosen fairly represent the cost of capital for the companies it values in the telecommunications industry.

The department was also provided a Weighted Average Cost of Capital Study for Wireline Carriers produced by Duff & Phelps. The department reviewed the guideline companies selected and makes the following very general observations: Two of the five guideline companies used by Duff & Phelps are also used in the departments study. The department and Duff & Phelps used Cincinnati Bell Inc. and Frontier Communications Corporation as guideline companies. General Communications, Inc. and Hawaiian Telecom Holdco, Inc. were considered as possible guideline companies by the department but ultimately were removed as it was determined these companies serve regionally limited markets. General Communications, Inc. operates in Alaska and Hawaiian Telecom Holdco, Inc. operates in Hawaii. The department

determined these two companies' operations were not representative of the operating environment in Montana.

Company Size:

A claim is also made that the guideline companies in the Duff & Phelps Study are more comparables to CenturyLink on the basis of size.

Although size is subjective and can be measured in many ways the department compared various measures of size as well as the size premium over risk free rate information provided by Duff & Phelps in their study. The majority of the guideline companies used in Duff & Phelps study would fall toward the low end of the various size measures as demonstrated in Exhibit 16 of Duff & Phelps' study. When comparing the same size measures for CenturyLink it is clear the majority of the guideline companies are not comparable to CenturyLink on the basis of size. For example CenturyLink has total assets of \$47 Billion vs a combined total for all of the guideline companies used in the Duff & Phelps study of \$33 Billion.

Cost of Debt:

Concern has also been raised about the cost of debt that has been used in the department's study.

The department has determined that an investment grade cost of debt is the typical cost that companies are striving for in this industry. However, based on your concern the department has reevaluated its selection of the cost of debt. The department has fully shifted its reliance to the Baa Corporate Bond Yield as reported by Mergent.

Any additional adjustments related to CenturyLink's performance should be considered through the appraisal process and is discussed further below.

Company Specific Consideration:

The purpose of the departments cost of capital studies is to determine a typical financing mix for the industry as well as a typical cost of capital for both debt and equity. Additional considerations beyond what is typical in the industry for such items as risk, expected growth, and other company specific indicators are best considered through the valuation process and are handled on a case by case basis.

I would like to thank you for your comments and the additional information you provided for our consideration. The department encourages further correspondence through the appraisal process to better address CenturyLink's concerns and company specific factors.

Thanks,



Doug Roehm
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