The first of its kind!

October 2016

Windstream Holdings, a communications company formed in 2006 by the merger of Alltell and Valor Communications, acquired 9 companies within 8 years. This rapid growth led to a substantial rise in debt which, together with increasing competition from other telecommunications companies, impacted their ability to service their obligations.

It became apparent that something significant had to be done.

In April 2015 Windstream Holdings announced that it successfully completed the tax-free spinoff of select telecommunications network assets into **Communications Sales and Leasing, Inc**. (NASDAQ: CSAL).

"This innovative transaction has made Windstream a stronger company with less debt and increased capacity to invest in our network to provide advanced communication services to customers. I'm also excited about the growth prospects of CS&L." said Tony Thomas, president and chief executive officer of Windstream.

Communications Sales & Leasing is a real estate investment trust (REIT) engaged in the acquisition and construction of mission critical communications infrastructure.

Although CS&L's business primarily consists of the Windstream agreement, the company expects to generate additional revenue through subsequent telecommunication network leases with other carriers and additional business with Windstream.

Private Letter Ruling

CS&L received a lengthy private letter ruling (PLR) regarding the classification of its communications and networking assets as real estate related assets which provided a green light for the REIT conversion.

CS&L has also benefitted from two recent IRS announcements related to REITs and the PLR process, both of which created further barriers to entry for any companies wanting to establish a REIT of similar standing. The first was a decision from 2014 that expanded the definition of real property in order to reduce the number of REIT conversion private letter rulings it would issue. If the IRS is less willing to rule on future communications-related requests, it could increase the risk of a successful conversion for future competitors of CS&L.

The second announcement was the IRS September 2015 notice which stated that it will limit issuing private letter rulings on Property Company tax-deferred spin-offs, of which CS&L and Windstream were prior beneficiaries. It is important to distinguish that no IRS rules were officially changed to prevent others from following suit.

REIT conversions and formations will continue to be allowed. However, a company is less likely to get any IRS blessing ahead of time (in the form of a private letter ruling) as to the taxable nature of the transaction. This adds risk, uncertainty and likely a longer runway for others to follow.

Industry

The result is that CS&L is the first pure-play network REIT of its kind, although there are a number of other telecom-related REITs including data centres and wireless towers. We believe that there will likely be additional network REITs in the future, as well as new transactions that CS&L is a party to that will further solidify its position in the sector.

The underlying demand of all telecom-related REITs continues to be the growth in data, which is primarily being driven by video and mobile. Telecommunications is by far the most capital intensive industry in the U.S. as the need for additional bandwidth and network capacity continues to grow.

North America **IP traffic is expected to continue to grow at a 20% compound annual rate through 2019**, with mobile and video the two fastest growing pieces. Additionally, the **number of connected devices is expected to increase by ~90% between 2013 and 2018 in North America**, which is also driving the traffic growth. All of these data points support the thesis that demand for Internet traffic remains very strong and is likely to continue to drive demand for fibre based networks for the next several years.

Business Strategy

CS&L's business strategy is to own, acquire, and lease telecommunications infrastructure assets. To this end, it has a number of different options available, including:

- acquiring assets in sale-leaseback transactions
- acquiring entire telecommunications companies
- co-investing with other telecommunications operators

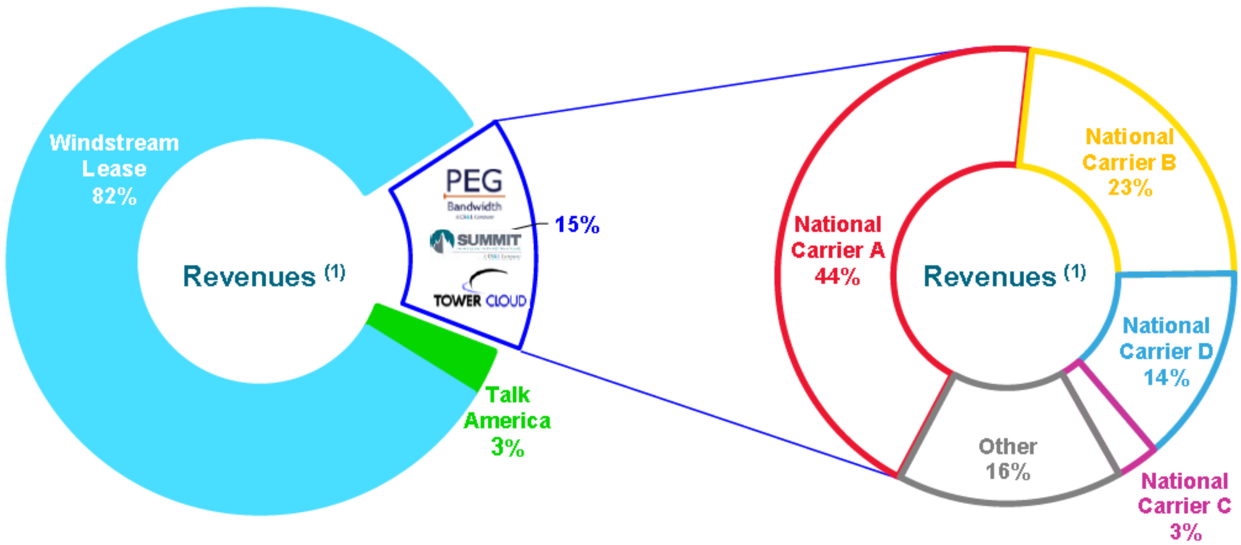
Management states that there are hundreds of small and large potential copper/fibre assets, both private and public, that are readily available.

Their key objective is to diversify CS&L's tenant base and achieve geographic diversity.

They currently own 4.2 million fibre strand miles, 235,200 route miles of copper, 86 wireless towers, in addition to other communications real estate throughout the **United States and Mexico**.

Management showed that they can achieve their tenant diversification targets by announcing two transactions in 2016 (the first of which closed in May) and we expect more to come later this year. Subsequent to the closing of the Tower Cloud acquisition, the company still has ~$300m of liquidity available for further deals.

Achieving Diversification with High Quality Tenants



Source: CS&L Deutsche Bank 24th Annual Leveraged Finance Conference Presentation, 27 September 2016

We at Reitway Global expect CS&L to benefit from the macro trend of increased demand for data services. With consumers and businesses using increased amounts of data, we believe demand will continue to force carriers to upgrade their networks to increase speed and capacity.

As such, we believe CS&L will benefit from its first-mover advantage and stand to be the leading beneficiary of this trend.

References:

Windstream Press Release, 24 April 2015 (http://investor.windstream.com/investors/releasedetail.cfm?releaseid=908571)

Raymond James research

JP Morgan research

Company reports