



# 4<sup>th</sup> Quarter and Year End 2015 Earnings Results

March 2016



# Participants

**Anand Vadapalli: President and Chief Executive Officer**

**Leonard Steinberg: General Counsel**

**Laurie Butcher: Senior Vice President of Finance**

**Tiffany Dunn: Manager, Investor and Board Relations**

# Safe Harbor Statement

## *Forward-Looking Statements*

We have included in this presentation certain "forward-looking statements," as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on management's beliefs as well as on a number of assumptions concerning future events made using information currently available to management. You are cautioned not to put undue reliance on such forward-looking statements, which are not a guarantee of performance and are subject to a number of risks, uncertainties and other factors, many of which are outside Alaska Communications' control.

For further information regarding risks and uncertainties associated with Alaska Communications' business, please refer to the Alaska Communications' SEC filings, including, but not limited to, our annual report on Form 10-K, quarterly reports on Form 10-Q filed subsequently, and other filings with the SEC, included under headings such as "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

## **2015 Highlights and Business Overview**

**Anand Vadapalli: President and Chief Executive Officer**

# Strong 2015 Creates Momentum Going Forward

- Solid financial performance closing 2015
  - Annual service and other revenue of approximately \$220 million, meeting guidance
  - Annual Adjusted EBITDA of approximately \$50 million, with an exit run-rate of \$55.4 million, meeting guidance
  - Industry leading broadband revenue annual growth of 9.4%
  - Business and wholesale service revenues grew 9.3% annually
  
- Strong operational performance during 2015
  - Concluded sale of the wireless operations February 2015
  - Completed all wireless transition activities by May 2015 and achieved related synergies by Q4
  - Acquired and integrated fiber optic network on the North Slope, in partnership with Quintillion
  - Delivered on service agreement with ConocoPhillips, an anchor tenant on the North Slope network
  
- Top-line growth is key to driving free cash flow expansion
  - Building strategic customer relationships – service is a differentiator
  - Expanding partnerships to deliver network and product offerings for businesses

# Alaska Economy: Change Creates Opportunity

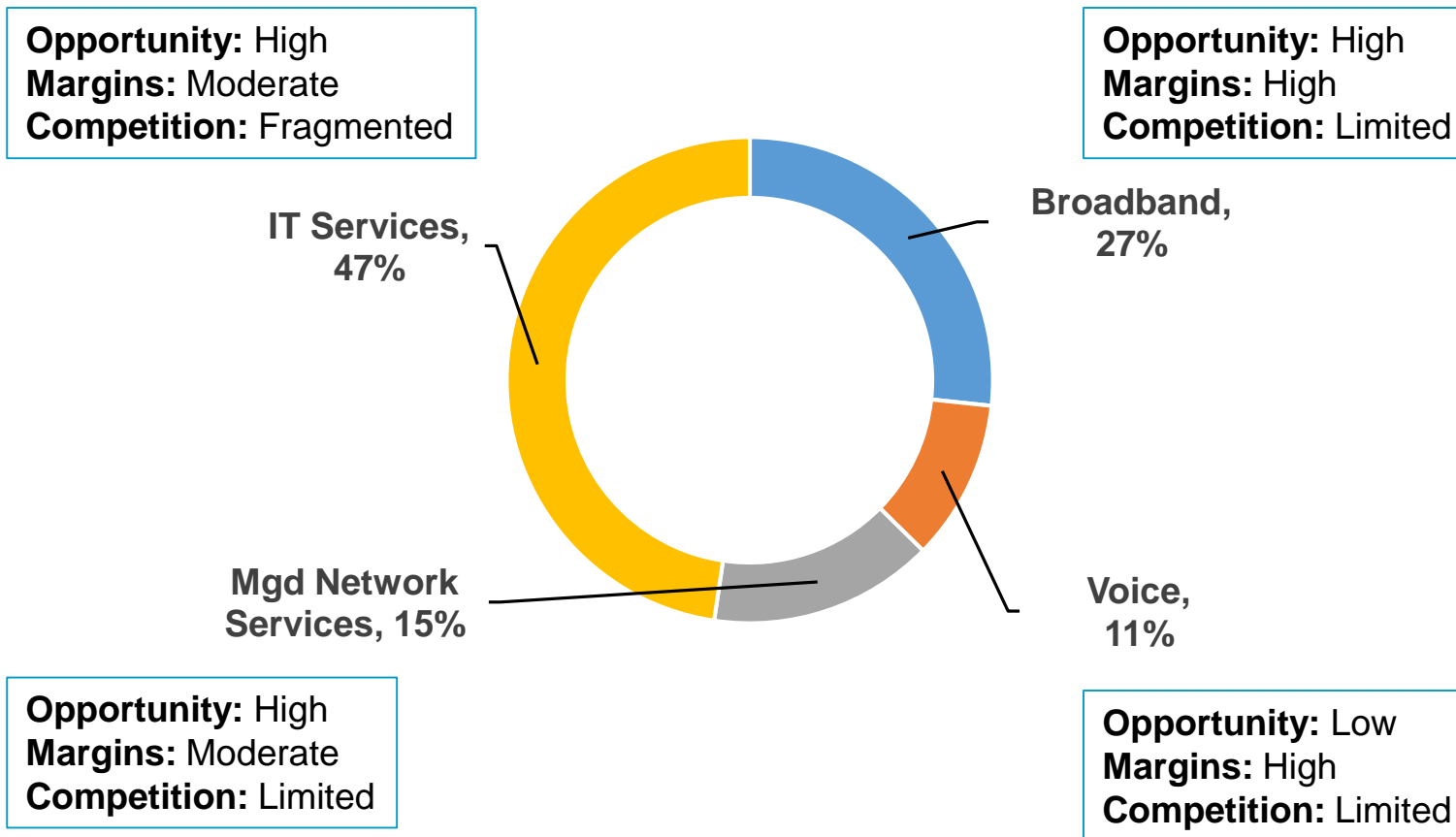
## Alaska's Options for Securing Future

- The State goes into Fiscal 2017 with:
  - ~\$50B in State's Permanent Fund, which will continue to generate earnings over time
  - ~\$13.7B in State reserves providing runway
  - Projected deficit of ~\$3.5B
- Levers available for a thoughtful fiscal policy:
  - Lower Spending on Government
  - State income and sales taxes
  - Modify how Permanent Fund earnings are used
- Reserves provide runway for the State to adjust to its new fiscal policy

## Economic Conditions Create Opportunity

- Creates incentive to look for change. Sectors with the greatest, direct exposure to oil prices:
  - State Government
  - Energy Sector
- Alaska Communications has
  - low exposure to both sectors – collectively less than 5% of our total revenues
  - low share of wallet in both sectors – less than 10% – far lower than our aggregate market share
- Creates new revenue opportunities for Alaska Communications as customers seek greater value not currently provided by the incumbent

# \$1.5 Billion Market, 85% Business, Growing 3-5% a Year



Unique mix of competitive environment, growth opportunity and margin potential creates conditions for driving profitable growth over the long term

# Customer Relationships Drive Top Line Growth

## New and Strengthened Customer Relationships

- Secured several large and strategic wins
  - State of Alaska
  - Akeela
  - Federal Agency
  
- Added 600+ new Small / Medium Business customers
  
- Retained several existing customer relationships with multi year contract extensions, including:
  - Large National Carrier
  - Large Federal Contractor
  - Chugach Electric

## Great Technology and Better People: We Win on Service

- “...Your solution provided options for our business that we hadn’t even considered before. We are excited to be a business partner with ACS...”
  
- “... response to [our] WAN RFP was well written and provided the greatest value to [us] going forward and in this fiscal environment will allow [us ] to future-proof our Network capacity for some time to come ...”
  
- “ ... The system installed in our facility is hands down the best of all 11 educational institutions like ours ... Using your infrastructure drawings as a baseline ... will have capabilities beyond what we could have imagined prior to this project.”



# Product Capabilities Create Differentiation and Value

## Expanding Roster of Partnerships

- Managed Security:
  - **Watchguard IT:** Gold Partner
- Communications:
  - **Avaya:** Silver Partner
- IT Infrastructure:
  - **Microsoft:** Gold Partner, Small Mid-Market Solutions, Data Center Silver Partner
  - **Barracuda:** Storage MSP Partner
- Cloud:
  - **Microsoft:** Silver Partner, Small Mid-Market Cloud Solutions
  - **CyrusOne:** IX (Internet Exchange) Connection

## First with Next Generation Products

- SIP Trunking:
  - All major metro markets in Alaska
  - Based on QoS Enabled, Secure, MEF Certified IP Network
- Hosted Voice over Internet
  - All major metro markets in Alaska
  - Upgraded to High Definition Voice
  - With Unified Communications for Collaboration
- Managed Networks:
  - Proactive management of Enterprise Class networks
  - Customer Portal capabilities for self management and reporting

# Operational Initiatives Drive Service Improvements and Margin Expansion

- Committed to LEAN
  - Eliminates waste while improving service
  - Develops capacity and scale in our operations
  
- Implementing technologies drives service improvements
  - Online and mobile customer service capabilities
  - Automation in Field Operations management is driving improved service capacity
  
- Rigorously measuring customer service at nearly all customer touchpoints
  - Net Promoter Score measured for all customer interactions.
  - Strong improvements in year over year transactional NPS indicate service quality improvements

**Collectively, increased capacity drives margin expansion, while improved service quality drives customer retention and acquisition**

# **Review of Fourth Quarter and Year End 2015 Results**

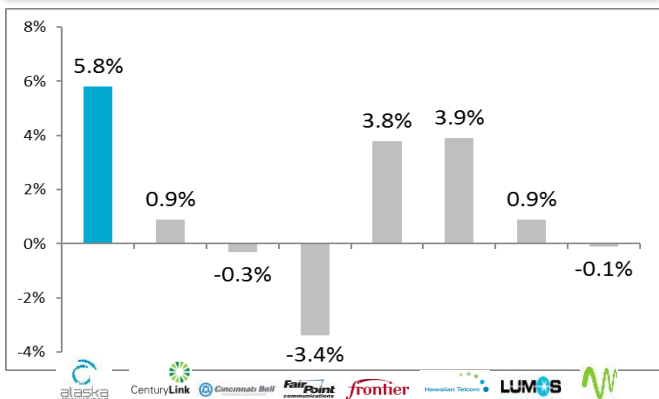
**Laurie Butcher, SVP Finance**

# Superior Revenue Growth Continues

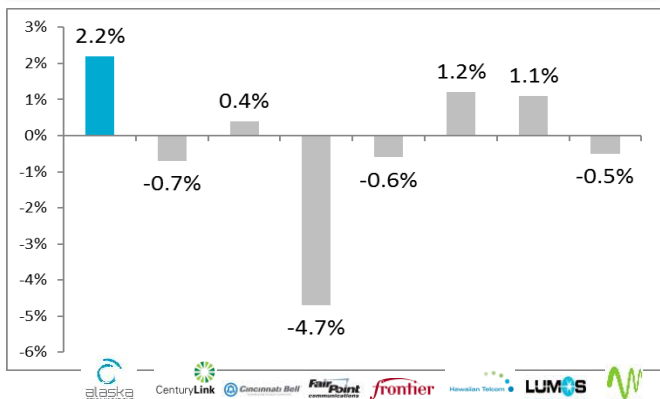
## TOTAL WIRELINE (SERVICE AND OTHER) REVENUE GROWTH

(\$ in M)	Q4 2015	Q4 2014	% Increase	YE 2015	YE 2014	% Increase
Business and Wholesale	\$32.1	\$27.8	15.7%	\$120.2	\$109.9	9.3%
Consumer	\$9.7	\$10.3	(6.3)%	\$39.9	\$41.3	(3.4)%
Other	\$14.8	\$15.4	(4.0)%	\$59.7	\$63.9	(6.5)%
Total Service and Other Revenue	\$56.6	\$53.5	5.8%	\$219.8	\$215.1	2.2%

### Quarterly Performance

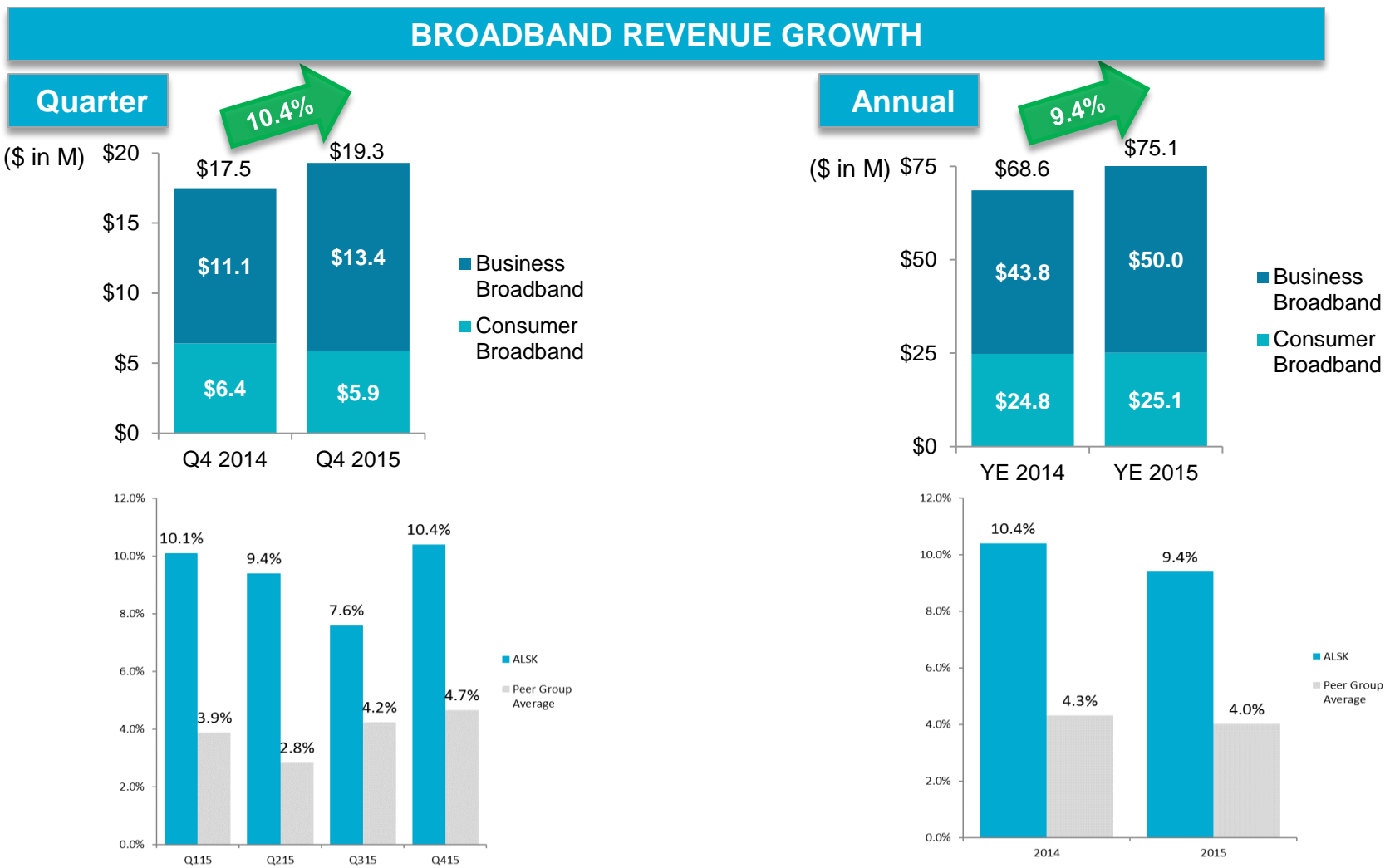


### Annual Performance



Sources: Respective company public filings. Performance includes Q3 and YTD Q3 data for Hawaiian Telcom and Lumos (Q4 and YE numbers were unavailable at the time of reporting).

# Superior Revenue Growth Driven By Broadband



The peer group average includes CBB, CTL, FRP, FTR, HCOM, LMOS and WIN.

Sources: Respective company public filings. Peer group average includes Q3 and YTD Q3 data for Hawaiian Telcom and Lumos (Q4 and YE numbers were unavailable at the time of reporting).

# 2015 Financial Performance and Milestones

(\$ in M)	2015 Guidance	2015 Actual Results
Total Service and Other Revenue	~\$220	\$219.8
Run Rate Adjusted EBITDA Exiting 2015	\$54 - \$56	\$55.4
Net Capital Spending	\$34 - \$36	\$32.9
Net Debt at Year End	~\$159	\$161.7
Total Debt at Year End	NA	\$188.7
Net Debt Leverage Ratio	NA	2.9x

- Reduced total debt by over \$240 million during 2015.
- Repurchased \$10 million in convertible notes below par, in January 2016
- Completed refinance of senior debt, bringing net debt leverage ratio to 2.9x, positioned as one of lowest levered companies in industry in September of 2015

# 2016 Guidance

(\$ in M)	2015 Actual	2016 Guidance
Total Service and Other Revenue	~ \$220	~ \$228
Adjusted EBITDA	~ \$50	~ \$59
Net Capital Spending	~ \$33	~ \$35
Free Cash Flow	~ \$(4)	~ \$5

**Inflexion point with positive Free Cash Flow driven by continued growth in top line**

# Directional View over the Next Two – Three Years

Revenue	Share of 2015 Total Wireline Revenue	Directional Annualized Growth
Total Wireline		2% - 5%
• Business and Wholesale	55%	At or above 8%
• Consumer	18%	Stable starting 2017
• Access, Support and Other	27%	
• High Cost Support	9%	Flat
• Access	15%	(4)% - (5)%
• Equipment Sales	3%	Variable growth

	Directional Annualized View
Adjusted EBITDA	4% to 8% growth
Free Cash Flow	Positive 2016, strong growth thereafter
• CapEx	~\$35M
• Cash Interest	~\$13M
• Cash Taxes	Subject to AMT, expected to be de minimis

**Strong Free Cash Flow growth creates favorable conditions for shareholder value creation**



# Business Plan Drives Shareholder Value

**Top Line  
Growth**

**Unique Competitive Dynamic  
Growing Market  
Products and Partnerships**

**Margin  
Expansion**

**LEAN creates organizational capacity  
Customer service drives retention and acquisition**

**Shareholder  
Value**

**EBITDA and FCF growth drives shareholder value creation**