



# 4<sup>th</sup> Quarter & Full-Year Earnings Results

March 2014



# Participants

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

**Wayne Graham: Chief Financial Officer**

**Leonard Steinberg: General Counsel**

**Laurie Butcher: Vice President of Finance**

# 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 for the fiscal year ended December 31, 2012, 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."

## **2013 Highlights and Strategic Overview**

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

# How We Create Value For Our Shareholders



Growing Broadband Revenues



Growing EBITDA



Reducing Debt

## 2013 Accomplishments



AWN transaction was closed in July 2013



Strong broadband revenue growth



Focus on high margin business and wholesale segment



TekMate acquisition in January 2014 further strengthens our position with business customers



Access network upgrade program enabling new addressable market



Cost structure re-alignment commences for new wireless operating model

# Superior Broadband Revenue Growth Validates Market Opportunity (000's)

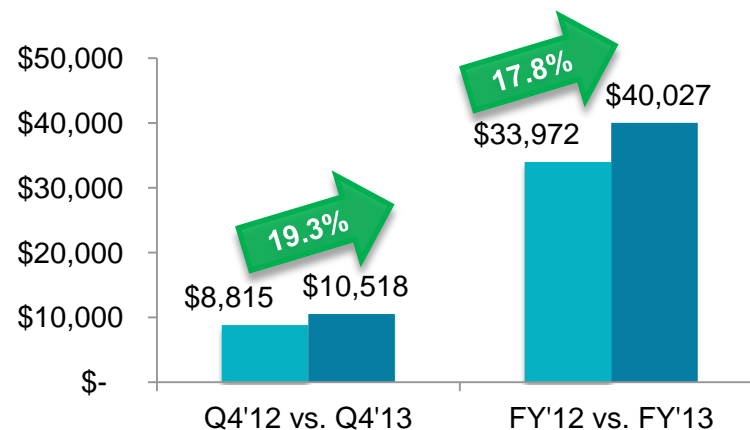
## Business and Wholesale:

- Connections and ARPU grew year over year and sequentially
- Significant progress with backlog in Q4 will drive performance in 2014

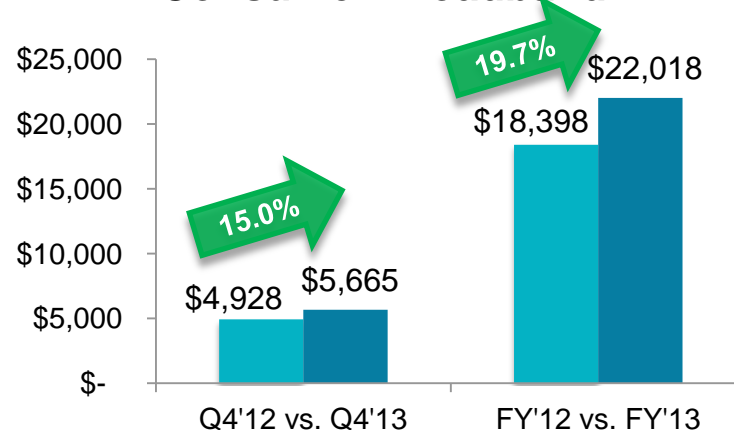
## Consumer:

- Connections grew year over year and sequentially
- Flat rate pricing differentiates us in the market

### Business Broadband



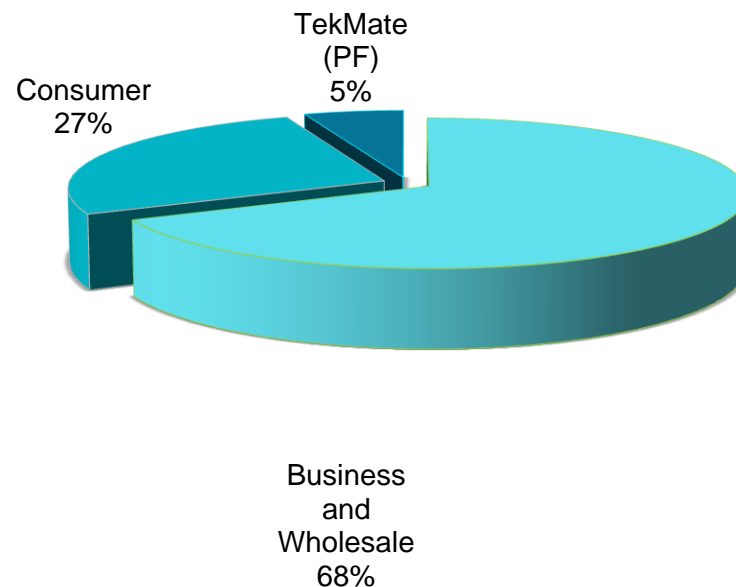
### Consumer Broadband



# Growing the Business Market Segment is Our Top Priority

- Our highly reliable network has always been a differentiator for our customers.
- We offer managed services to further extend our value proposition. TekMate is the leading IT services firm in Alaska, and has a complementary customer base.
- We have recently added key leadership in sales and managed services to accelerate our growth.

## Business and Wholesale Drive Growth (2013\*)



\* Includes 100% of TekMate unaudited results for 2013



# Access Network Upgrade Program Will Drive Further Growth

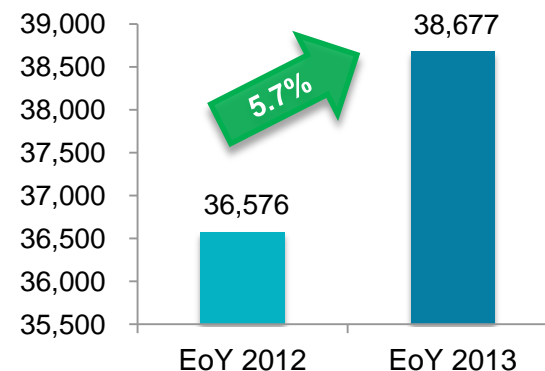
- We have completed access network upgrades including fiber to the business, fiber to the node and existing node upgrades.
- Our first programmatic investment to upgrade our broadband access network totaling approximately \$10 million.
- This program gives us capabilities to serve over 5,000 businesses and over 7,500 consumers with speeds ranging from 25 Mbps to GigE.
- We have begun selling into this network and believe it is a significant revenue opportunity for us in 2014.

# Optimizing Consumer Segment Performance for Profitability

## Wireline Products:

- Continued Growth with our Home Internet products.
  - Careful management of cost structures to improve profitability.
- Finalizing CAF II program for broadband will be an important development in 2014.

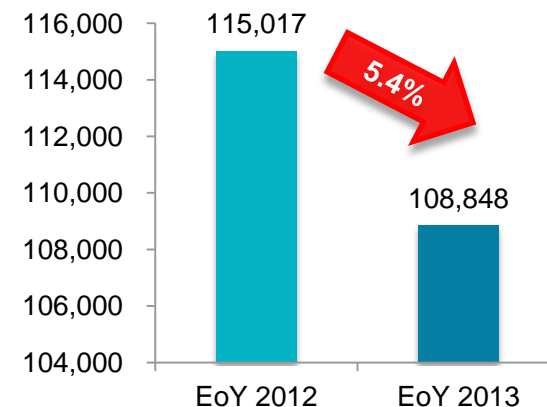
Wireline: Home Internet Connections



## Wireless Products:

- We seek to stabilize wireless retail performance with significant changes to our go-to-market approach.
- AWN distribution mitigates the financial impact of erosion. In Q4 2013 we commenced actions to proactively align wireless cost structures.

Wireless Connections



# Priorities for 2014

## Business

- Double Down on Business:
  - Leverage our network capabilities
  - Accelerate offerings in managed services

## Consumer

- Manage for financial performance:
  - Improve margins through continuous alignment of cost structures
  - Continue flat rate Home Internet products
  - Work with FCC on CAF II program that supports broadband deployment in Alaska

## Leverage FTTx

- Monetize recent investments:
  - Fiber to the node
  - Managed services and TekMate

# **Review of Fourth Quarter Results and 2014 Guidance**

**Wayne Graham, Chief Financial Officer**

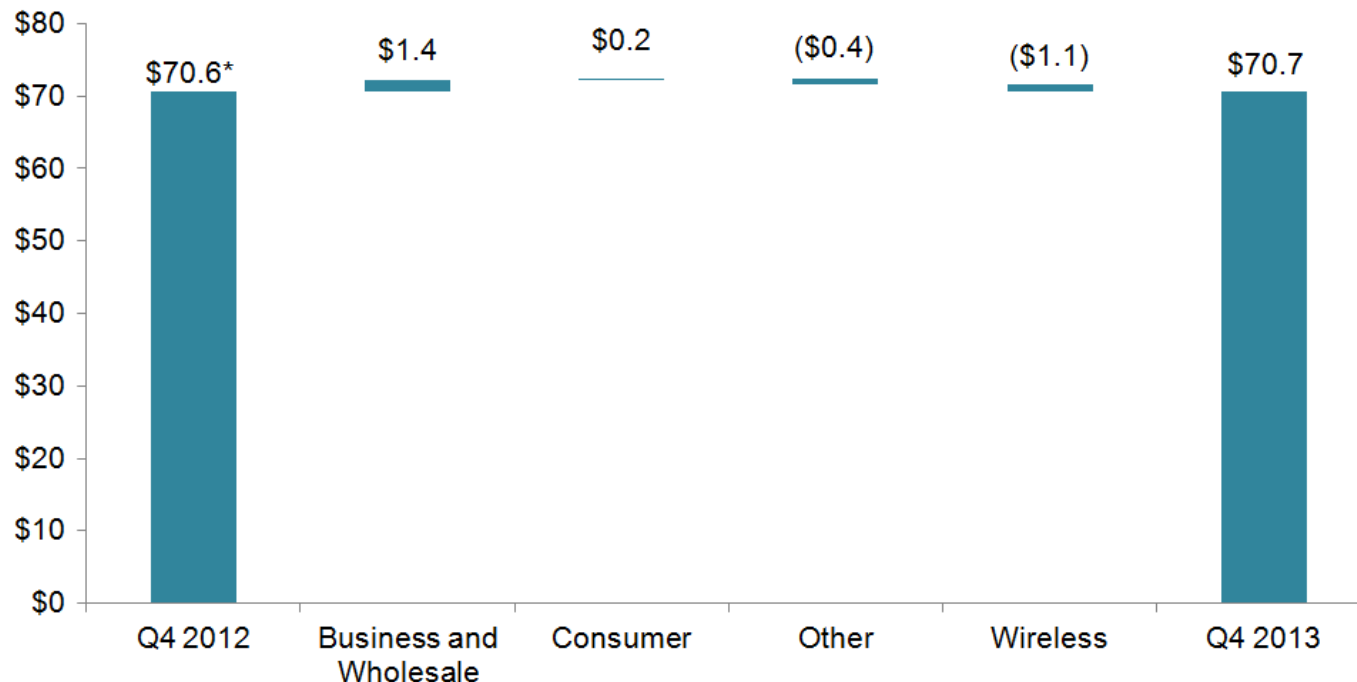
*Source: NEI Estimates, 2013*

# Steady Q4 2013 Revenue Performance (in millions)

- Year over year comparisons affected by:
  - AWN transaction which closed in July 2013.
  - A \$1.5 million transaction with a wholesale carrier and a \$1.5 million large equipment sale in 2012 affected year over year comparison.

	Q4 2013	Q4 2012
Total Revenue	\$76.3	\$95.0
AWN Related	(5.6)	(21.4)
Wholesale Transaction		(1.5)
Large Equipment Sale		(1.5)
Comparable Revenues	\$70.7	\$70.6

# Q4 2013 Revenue Detail

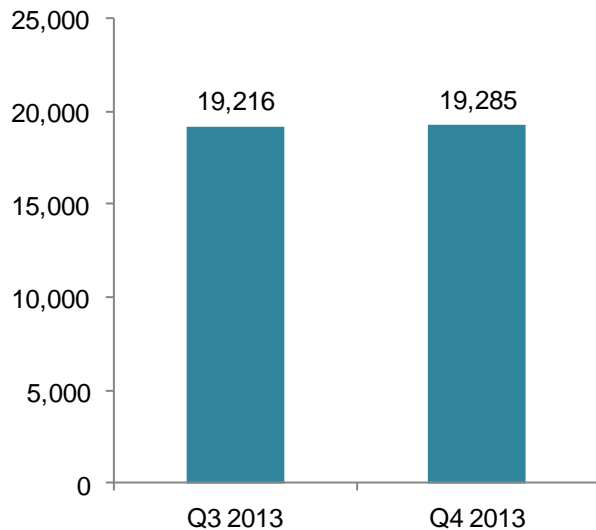


- Business and wholesale grew 5.7%, led by strong performance in broadband.
- Consumer grew 2.8%, led by strong performance in broadband.
- Overall Service Revenue (aka “Wireline”) performance is strong, but weakness in wireless is impacting this performance.

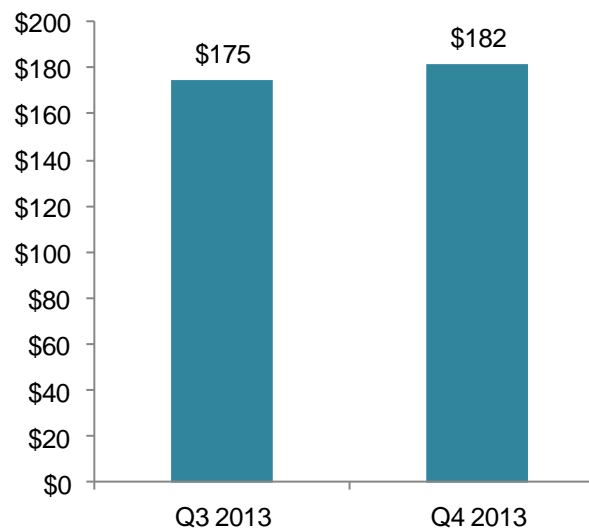
\* Excludes \$1.5 million in revenue related to a wholesale transaction with another carrier, \$1.5 million equipment sale in 2012, and \$21.4 million in AWN revenues.

# Q4 2013 Connections and ARPU

Business Broadband Connections



Business Broadband ARPU



- Demand for broadband service remains strong.
- Higher bandwidth needs are driving ARPU growth.

# 2014 Guidance

Guidance	
Revenue	Approximately \$310 million
Adjusted EBITDA	Approximately \$90 million
Capital Spending	Approximately \$40 million
Free Cash Flow	Approximately \$20 million

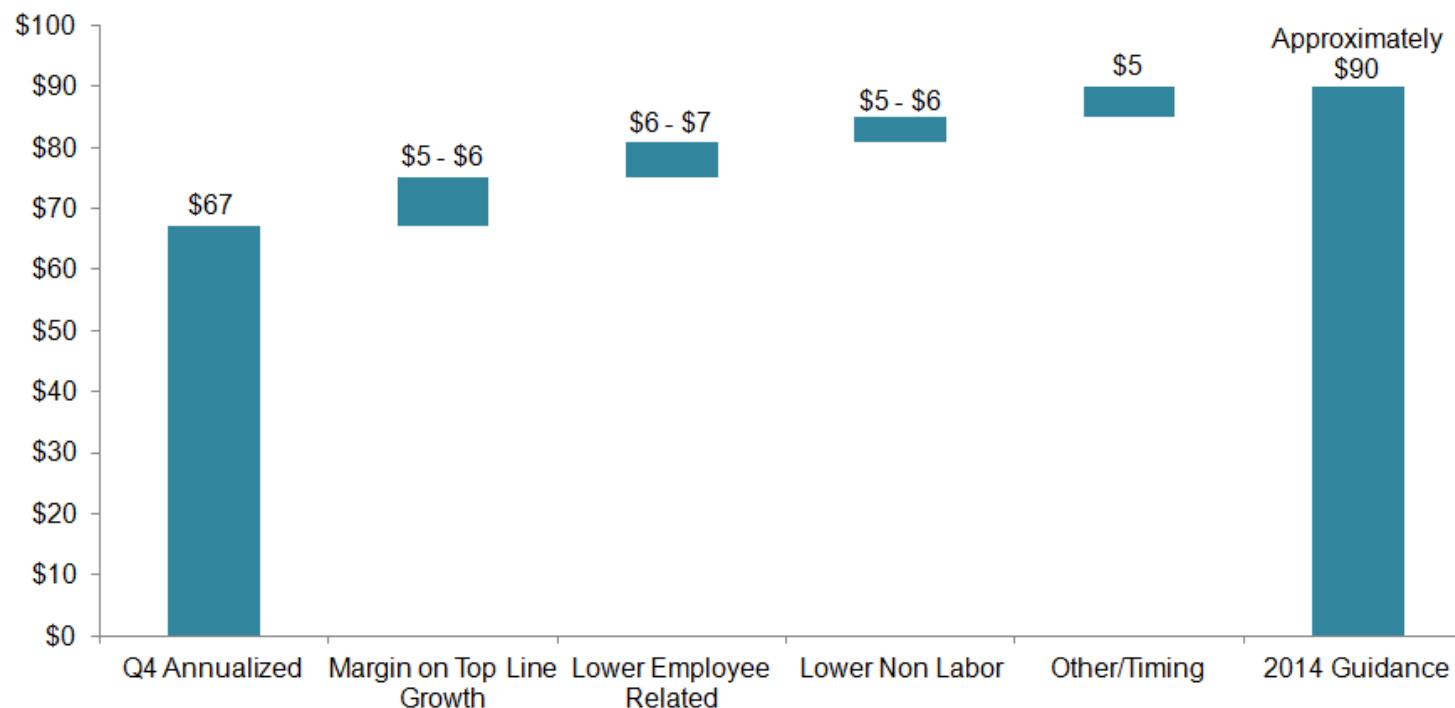
- Revenue growth will accelerate from 2013 levels in business and wholesale as we moved through our backlog from Q4 and own 100% of TekMate.
- Consumer revenues performance will be consistent.
- While access revenues will continue to erode, we expect high cost support revenue to be stable year over year, but the outcome of the FCC’s ruling on CAF II will be key to this outlook.
- Capital spending has \$10 million of success based capital (for strategic customer wins and FTTx).
- Free Cash Flow continued to be dedicated toward debt reductions.
- Guidance is better than the expectations we presented last year when we closed AWN.



# Revenue Bridge Q4 Annualized to Guidance (in millions)



# Adjusted EBITDA Bridge Q4 Annualized to Guidance (in millions)



- Q4 2014 was a transitional quarter under the AWN model.
- We have and are continuing to align our cost structure within our wireless operating model.
- Top line growth is on net and is high margin.
- Guidance is consistent with our long term directional view provided last year when we closed the AWN transaction.

# In Closing, We Deliver Value By Doing What We Say ...

**Grow retail  
broadband  
REVENUES**



**RESULTS:**

- Superior broadband growth validates market opportunity.
- Fiber-to-the-Node and Managed Services will accelerate future growth.

**Enhancing  
EBITDA**



**RESULTS:**

- Predictable cash flows from AWN and alignment of our cost structures.
- Our 2014 EBITDA will provide the baseline from which to measure long-term EBITDA growth.

**FREE  
CASH FLOW**



**RESULTS:**

- Over \$100 million in debt reductions.
- Free cash flow dedicated to continued balance sheet strengthening.

**DEBT**





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