



# 3<sup>rd</sup> Quarter 2017 Earnings Results

November 2017



# Participants

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

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

**Leonard Steinberg: General Counsel**

**Tiffany Smith: 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."

## ***Non-GAAP Measures***

In an effort to provide investors with additional information regarding our financial results, in particular with regards to our liquidity and capital resources, we have disclosed certain non-GAAP financial information such as Adjusted EBITDA, Adjusted Free Cash Flow and Net Debt, which management utilizes to assess performance and believes provides useful information to investors. The definition of these non-GAAP measures are on Schedules 4, 6, and 9 of our earnings press release. Adjusted EBITDA, and Adjusted Free Cash Flow are non-GAAP measures and should not be considered a substitute for Net Income, Net Cash Provided (Used) By Operating Activities and other measures of financial performance recorded in accordance with GAAP. Reconciliations of our non-GAAP measures to our nearest GAAP measures can be found in the Appendix or on our website at <http://www.alsk.com> in the investment data section. Other companies may not calculate non-GAAP measures in the same manner as Alaska Communications. We do not provide guidance for Net Income and Net Cash Provided (Used) By Operating Activities.

## **Q3 2017 Highlights and Business Overview**

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

# Long term market opportunity strong

- Solid sales performance and longer term outlook to mitigate near term volatility
  - Sales performance is strong, sales productivity continues to improve, and additional resources going into 2018 will maintain performance
  - Strong delivery funnel provides visibility into future revenue
  - Rural Health Care impacts unexpected this year, taking several steps to prepare for 2018
  
- Recent wins include
  - New Managed IT contracts with both a large financial institution and native corporation
  - Incremental backhaul services for carrier customers
  - Secured first anchor customer for satellite services
  
- Drivers of Demand
  - Video streaming for consumers
  - Cloud migration for businesses
  - Backhaul as 5G networks expand for enterprises and carriers
  - Alaska economy creates both challenges and opportunity

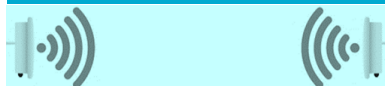
# Network Developments Position us for Future Opportunity

## Fixed Wireless using Unlicensed / Lightly Licensed Spectrum



- Pilot program successful
- Mass market strategy underway
- Capital efficient using:
  - Unlicensed 5Ghz band
  - Lightly licensed 3.65Ghz band
  - 70/80Ghz band
  - More CBRS spectrum in 3.5Ghz lightly licensed band expected in 2018-2019

## Point to Point (PTP) mmWave Technology



- Up to 3 miles
- 1-4 Gbps speeds, depending on distance
- Applications:
  - Backhaul to towers
  - Enterprise customers
  - Backhaul where fiber is unavailable

## Point to MultiPoint (PTMP)



- Up to 7 miles
- 25-50 Mbps speeds, expected to increase
- Applications:
  - “Last Mile” broadband
  - Multi-unit dwellings
  - CAF II program

## Satellite



- Earth station turn up underway utilizing C band spectrum that covers all of Alaska
- Improves cost structure by removing third-party and allows for new sale opportunities
- Pursuing future Low Earth Orbit (LEO) solutions with OneWeb

# **Review of Third Quarter 2017 Results**

**Laurie Butcher, SVP Finance**

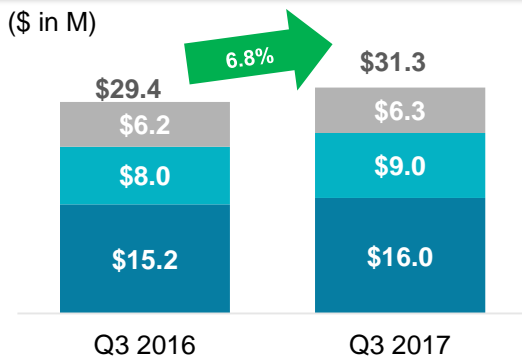
# Q3 and YTD Q3 2017 Revenue Performance

## TOTAL REVENUE GROWTH

Q3				YTD Q3 2017			
(\$ in M)	Q3 2017	Q3 2016	YoY % Increase/Decrease	(\$ in M)	YTD Q3 2017	YTD Q3 2016	YoY % Increase/Decrease
Business and Wholesale	\$34.9	\$34.0	2.5%	Business and Wholesale	\$106.0	\$101.5	4.5%
Consumer	\$9.3	\$9.4	(0.7%)	Consumer	\$27.9	\$28.4	(1.7%)
Regulatory	\$12.5	\$13.1	(4.4%)	Regulatory	\$38.1	\$39.2	(3.0%)
Total Revenue	\$56.7	\$56.5	0.4%	Total Revenue	\$172.0	\$169.1	1.7%

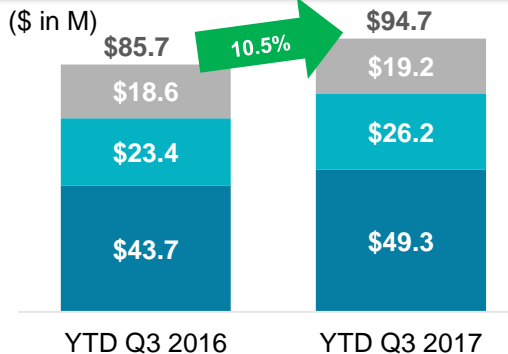
## Total Broadband Revenue comprises 55% of Total Revenue for the Quarter and YTD

(\$ in M)



- Consumer Broadband
- Wholesale Broadband
- Business Broadband

(\$ in M)



- Consumer Broadband
- Wholesale Broadband
- Business Broadband



# Financial Performance Update

- Adjusted EBITDA
  - \$13.0 million for Q3 2017, compared to \$13.9 million Q3 2016
  - \$41.8 million YTD for 2017 and 2016
  - Year to date, \$2.6 million impact on Adjusted EBITDA due to Rural Health Care
  
- Capital Expenditures
  - \$24.1 million YTD 2017, compared to \$22.4 million YTD 2016
  - Success based is \$14.5 million YTD 2017, top projects include:
    - Providing backhaul for Carriers
    - Providing service to government agencies for Next Generation 911 services
    - Increased capacity and upgrade of our long haul fiber routes (AKORN)
    - Investment in satellite technology
  
- Adjusted Free Cash Flow
  - \$6.0 million YTD 2017, compared to \$6.5 million YTD 2016
  - Quarterly variations due to timing of CapEx and Interest expense.

# Performance Summary and Guidance

(\$ in M)	9/30/17	12/31/16
Total Debt	\$187.7	\$179.6
Cash <sup>3</sup>	\$11.2	\$21.2

(\$ in M)	YTD 9/30/17 Results	2017 Guidance	Comments
Total Revenue	\$172.0	\$229 - \$235	Reaffirmed
Adjusted EBITDA <sup>1</sup>	\$41.8	\$56 - \$59	Reduced from \$59 - \$61
Net Capital Spending	\$24.1	\$32 - \$35	Reduced from \$35 - \$38
Adjusted Free Cash Flow <sup>1,2</sup>	\$6.0	\$4 - \$7	Reaffirmed

- 1 Reconciliations of non-GAAP measures to the nearest GAAP measures can be found in the Appendix or on the website at <http://www.alsk.com> in the investment data section. The company does not provide guidance for Net Income and Net Cash Provided By Operating Activities.
- 2 Quarterly Adjusted Free Cash Flow fluctuates and should not be viewed as an indicator of annual performance. Events including seasonality of capital spend and the timing of interest payments, may result in negative Adjusted Free Cash Flow in one or more quarters.
- 3 Change in cash reflects the utilization of cash in the refinancing transactions and other changes in working capital.

# Business Plan Drives Shareholder Value



**Operating  
Performance**

Adjusted FCF growth driven by top line growth

**Capital  
Allocation**

Prudent balance between investing for growth vs.  
returning cash to shareholders

**Strategic  
Actions**

Explore strategic actions to drive scale and diversification

# Use of Non-GAAP Measures

The Company provides certain non-GAAP financial information, including Adjusted EBITDA, Adjusted Free Cash Flow and Net Debt. Adjusted EBITDA eliminates the effects of period to period changes in costs that are not directly attributable to the underlying performance of the Company's business operations and is used by Management and the Company's Board of Directors to evaluate current operating financial performance, analyze and evaluate strategic and operational decisions and better evaluate comparability between periods. Adjusted Free Cash Flow is used to assess the Company's ability to generate cash and plan for future operating and capital actions. Adjusted EBITDA and Adjusted Free Cash Flow are common measures utilized by our peers (other telecommunications companies) and we believe they provide useful information to investors and analysts about the Company's operating results, financial condition and cash flows. Net Debt provides Management and the Board of Directors with a measure of the Company's current leverage position.

Adjusted EBITDA is defined as net income (loss) before interest, loss on extinguishment of debt, depreciation and amortization, gain or loss on asset purchases or disposals, earnings from equity method investments, income taxes, stock-based compensation, pension adjustments, net loss attributable to non-controlling interest and expenses under the Company's long term cash incentive plan ("LTCI"). LTCI expenses are considered part of an interim compensation structure, which ended in 2016, to mitigate the dilutive impact of additional share issuances for executive compensation.

Adjusted Free cash flow is a non-GAAP liquidity measure and is defined as Adjusted EBITDA, less recurring operating cash requirements which include capital expenditures, net of cash received for a fiber build for a carrier customer, less cash income taxes refunded or paid, cash interest paid, amortization of GCI capacity revenue, and cash receipts and payments associated with the purchase of the North Slope fiber network and establishment of our joint venture with Quintillion Holdings Limited. Amortization of deferred revenue associated with our interconnection agreement with GCI is excluded from Adjusted Free Cash Flow because no cash was received by the Company in connection with this agreement. Amortization of all other deferred revenue, including that associated with other IRU capacity arrangements, is included in Adjusted Free Cash Flow because cash was received by the Company, typically at contract inception, and it being amortized to revenue over the term of the relevant agreement.

The Company does not provide reconciliations of guidance for Adjusted EBITDA to Net Income, and Adjusted Free Cash Flow to Net Cash Provided by Operating Activities, in reliance on the unreasonable efforts exception provided under Item 10(e)(1)(i)(B) of Regulation S-K. The Company does not forecast certain items required to develop the comparable GAAP financial measures. These items are charges and benefits for uncollectible accounts, certain other non-cash expenses, unusual items typically excluded from Adjusted EBITDA and Free Cash Flow, and changes in operating assets and liabilities (generally the most significant of these items, representing cash outflows of \$7.7 million in the nine-month period of 2017).

Adjusted EBITDA and Adjusted Free Cash Flow are not GAAP measures and should not be considered a substitute for net income, net cash provided by operating activities, or net cash provided or used. Adjusted EBITDA as computed below is not consistent with the definition of Consolidated EBITDA referenced in our 2015 Senior Credit Agreements, and other companies may not calculate Non-GAAP measures in the same manner we do.

The following tables provide the computation of Adjusted EBITDA and reconciliation to Net Income, and the computation of Adjusted Free Cash Flow and reconciliation to Net Cash Provided by Operating Activities for the three and nine months ended September 30, 2017.

# Reconciliation of Non-GAAP Measures Adjusted EBITDA to Net (Loss) Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income (loss)	\$ 284	\$ 320	\$ (3,254)	\$ 656
Add (subtract):				
Interest expense	3,577	3,869	11,335	11,590
Loss on extinguishment of debt	93	-	7,527	336
Interest income	(13)	(7)	(27)	(18)
Depreciation and amortization	9,193	8,748	27,124	25,908
Loss on disposal of assets, net	40	132	73	284
Income tax (benefit) expense	(422)	(82)	(1,886)	217
Stock-based compensation	261	700	842	2,147
Long-term cash incentives	-	180	-	585
Pension adjustment	-	(41)	-	-
Net loss attributable to noncontrolling interest	36	34	100	101
Adjusted EBITDA	<u>\$ 13,049</u>	<u>\$ 13,853</u>	<u>\$ 41,834</u>	<u>\$ 41,806</u>

# Reconciliation of Non-GAAP Measures

## Cash from Operating Activities to Adjusted Free Cash Flow

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net cash provided by operating activities	\$ 8,623	\$ 9,478	\$ 25,688	\$ 28,364
Adjustments to reconcile net cash provided by operating activities to adjusted free cash flow:				
Capital expenditures	(13,532)	(8,689)	(24,054)	(22,351)
Payment for North Slope fiber network	-	-	-	(5,500)
Proceeds on sale of fiber to joint venture partner	-	-	-	2,650
Amortization of deferred capacity revenue	884	862	2,601	2,564
Amortization of GCI capacity revenue	(522)	(522)	(1,549)	(1,547)
Amortization of debt issuance costs and debt discount	(414)	(1,014)	(1,951)	(3,035)
Interest expense	3,577	3,869	11,335	11,590
Interest paid	(3,279)	(1,653)	(10,874)	(8,012)
Interest income	(13)	(7)	(27)	(18)
Income tax (benefit) expense	(422)	(82)	(1,886)	217
Income taxes (payable) receivable	(3)	130	(577)	852
Income taxes refunded (paid), net	52	-	624	(577)
Deferred income tax benefit (expense)	374	(48)	1,840	(543)
Tax deficiencies from share-based payments	-	-	-	51
Charge for uncollectible accounts	(929)	(89)	(2,562)	(166)
Long-term cash incentives	-	180	-	585
Pension adjustment	-	(41)	-	-
Net loss attributable to noncontrolling interest	36	34	100	101
Other non-cash expense, net	(142)	(52)	(430)	(466)
Changes in operating assets and liabilities	1,478	633	7,703	1,710
Adjusted free cash flow	\$ (4,232)	\$ 2,989	\$ 5,981	\$ 6,469

## Adjusted Free Cash Flow

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Adjusted EBITDA	\$ 13,049	\$ 13,853	\$ 41,834	\$ 41,806
Less:				
Capital expenditures	(13,532)	(8,689)	(24,054)	(22,351)
Payment for North Slope fiber network	-	-	-	(5,500)
Proceeds on sale of fiber to joint venture partner	-	-	-	2,650
Amortization of GCI capacity revenue	(522)	(522)	(1,549)	(1,547)
Income taxes refunded (paid), net	52	-	624	(577)
Interest paid	(3,279)	(1,653)	(10,874)	(8,012)
Adjusted free cash flow*	<u>\$ (4,232)</u>	<u>\$ 2,989</u>	<u>\$ 5,981</u>	<u>\$ 6,469</u>

\* Quarterly Adjusted Free Cash Flow fluctuates and should not be viewed as an indicator of annual performance. Onetime events, seasonality of capital spend and the timing of interest payments may result in negative Adjusted Free Cash Flow in one or more quarters.