



Hawaiian Telcom

1st Quarter 2011 Earnings Conference Call

May 16, 2011

Hawaiian Telcom 



Agenda

▶ Company Overview

Eric Yeaman
President & CEO

▶ Operational & Financial Review

Robert Reich
SVP & CFO

▶ Q & A

Presented Information

In addition to historical information, this presentation includes certain statements and predictions that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In particular, any statement, projection or estimate that includes or references the words “believes”, “anticipates”, “intends”, “expects”, or any similar expression falls within the safe harbor of forward-looking statements contained in the Reform Act.

Actual results or outcomes may differ materially from those indicated or suggested by any such forward-looking statement for a variety of reasons, including, but not limited to, Hawaiian Telcom’s ability to maintain its market position in communications services, including wireless, wireline and Internet services; general economic trends affecting the purchase or supply of communication services; world and national events that may affect the ability to provide services; changes in the regulatory environment; any rulings, orders or decrees that may be issued by any court or arbitrator; restrictions imposed under various credit facilities and debt instruments; work stoppages caused by labor disputes; adjustments resulting from year-end audit procedures; and Hawaiian Telcom’s ability to develop and launch new products and services.

More information on potential risks and uncertainties is available in recent filings with the Securities and Exchange Commission, including Hawaiian Telcom’s Annual Report on Form 10-K. The information contained in this presentation is as of May 16, 2011. It is anticipated that subsequent events and developments will cause estimates to change.

Company Overview

Eric Yeaman, President & CEO

Company Highlights

- ▶ 1Q'11 Revenue of \$99M resulted in Adjusted EBITDA of \$29M, up 2% Y/Y, and Net Income of \$5.5M
- ▶ Improved Y/Y Access Line loss to 6% & increased HSI subscribers 4% Y/Y
- ▶ Video franchise application accepted & public hearings held
- ▶ Final stage of NASDAQ listing process
- ▶ Plan to refinance existing \$300M term loan

Hawaii Economic Outlook

Economy Continues to Show Signs of Improvement

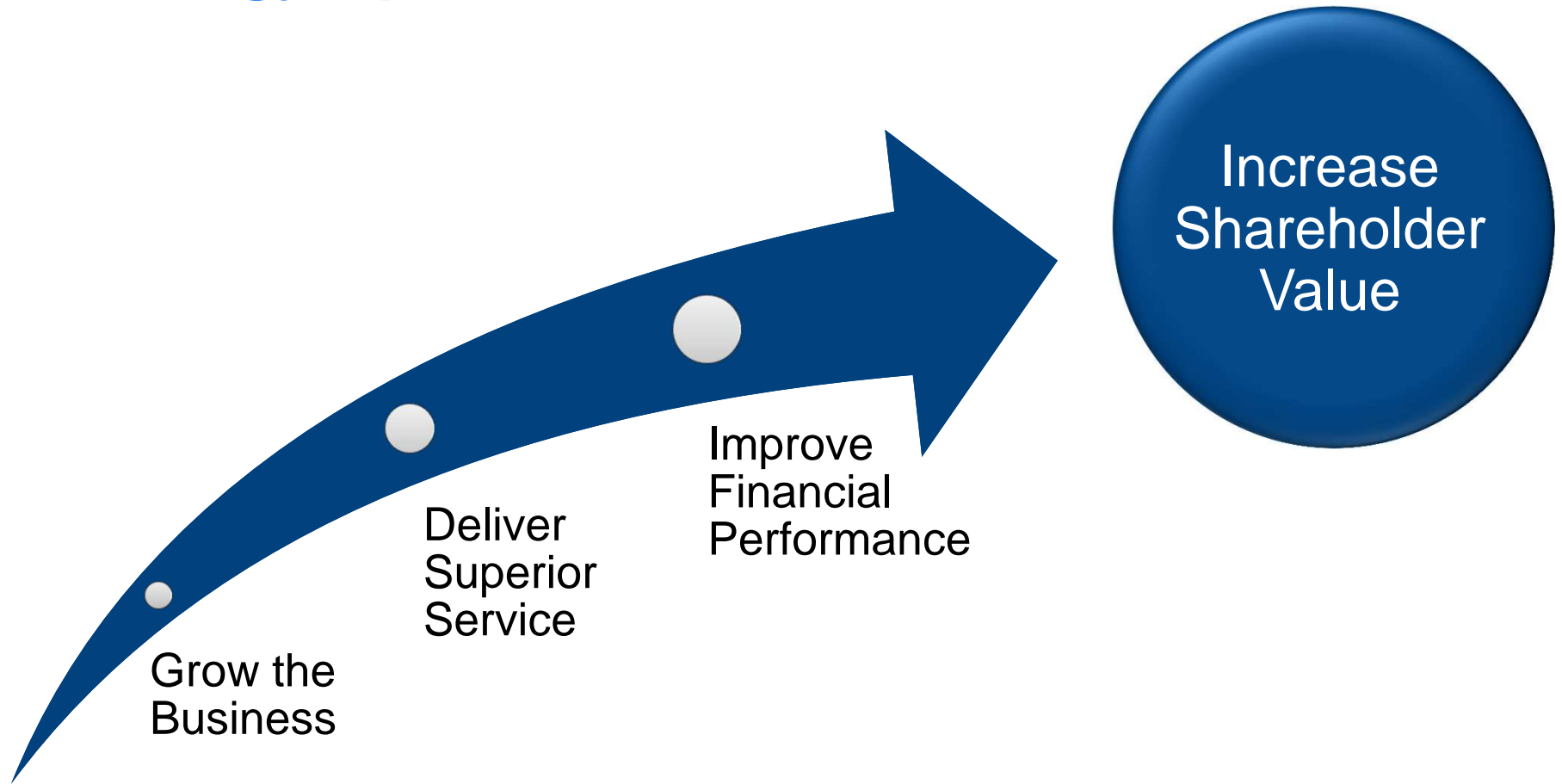
Visitor Arrivals & Spending Continue to Grow

Cautious Outlook Due to Japan Crisis



Sources: University of Hawaii Economic Research Organization & Star Advertiser

Strategy Update



Grow the Business

Business

- ▶ Customers shifting towards IP-based services
- ▶ 79% of Business VoIP sales are new/winback customers
- ▶ Improved managed service capabilities

Consumer

- ▶ Price For Life promotion drives 1Q'11 operating metrics
- ▶ Increased HSI subscribers 4% Y/Y
- ▶ Delivered best access line performance in over four years

Wholesale

- ▶ Started fiber cell site construction in 1Q'11
- ▶ 47 fiber cell sites completed in 1Q'11; will generate annualized revenue of ~\$700K

Deliver Superior Service

Improve Operational Efficiencies & Reduce Costs

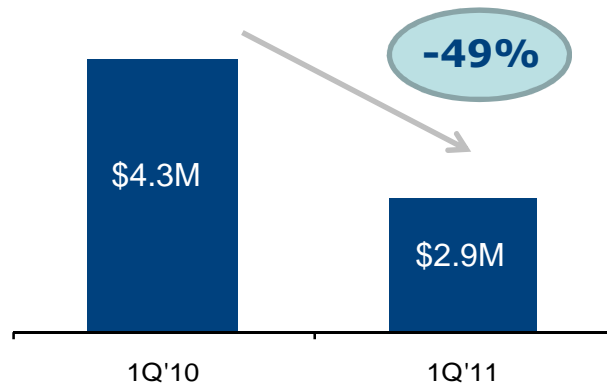
- ▶ Order Management Systems (OMS) department formed
- ▶ Ownership of the order-to-bill process
- ▶ Results highlight effectiveness:
 - 27% Q/Q reduction in order queues
 - 15% Q/Q reduction in billing adjustments

Improve Qualification Accuracy

- ▶ New loop qualification tool installed
- ▶ Improved accuracy delivers better customer experience
- ▶ Critical to the success of IPTV

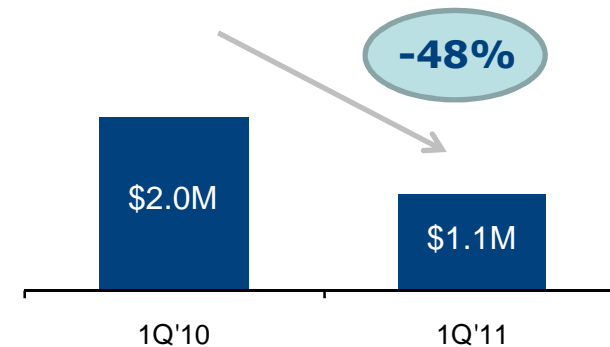
Improve Financial Performance

Reduce IT Outsourcing Costs



- ▶ HT uses an outsourced IT model
- ▶ Y/Y IT outsourcing costs dropped \$1.4M, or 49%
- ▶ Due to data center consolidation & restructured applications management agreement

Decline in Bad Debt Costs



- ▶ Improved collections efforts
- ▶ Higher billing accuracy
- ▶ Y/Y bad debt costs dropped \$0.9M, or 48%

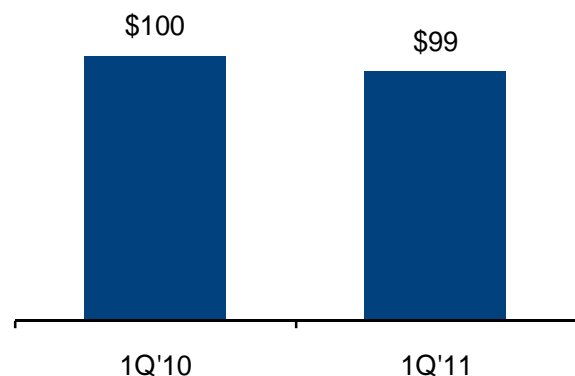
Operational & Financial Review

Robert Reich, SVP & CFO

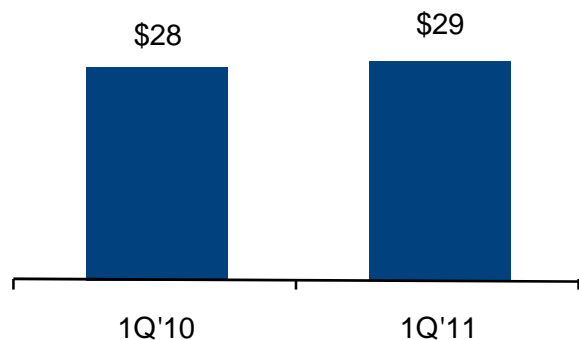
Quarterly Revenue & Adjusted EBITDA

(\$ in millions)

Total Revenue



Adjusted EBITDA



► First quarter revenues \$99M

- Growth from HSI subscribers, IP-based business services and wireless backhaul
- Secular pressure on consumer voice service revenues

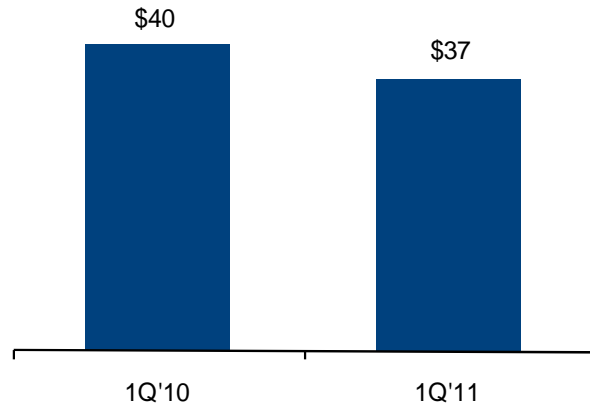
► Adjusted EBITDA up 2% Y/Y

- 29% margin, up from 28% in 1Q'10
- Lower costs from renegotiated IT outsourcing contracts; decline in bad debt costs

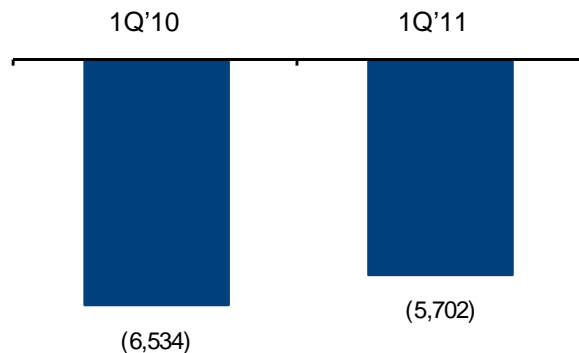
Local Services

(\$ in millions)

Local Services Revenue



Access Line – Quarterly Net Change

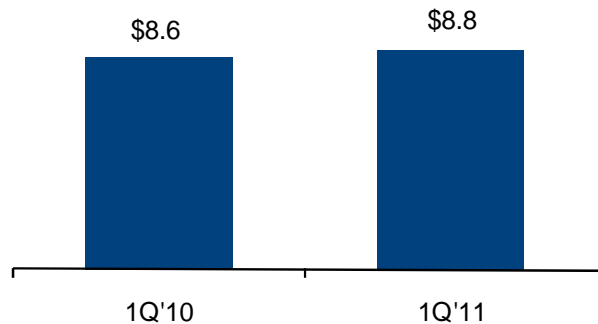


- ▶ **Local revenues down 7.5% Y/Y**
 - Continued secular pressures
- ▶ **5.7K access line loss in 1Q'11**
 - Down from 6.5K in 1Q'10
- ▶ **6% access line loss Y/Y**
 - Down from 7.3% Y/Y in 1Q'10
 - 7.5% residential line loss; down from 9.4% Y/Y in 2010
 - 4.3% business line loss; down from 5.0% Y/Y in 2010
- ▶ **4,500 bundles added in 1Q'11**
 - Innovative promotional offers and retention initiatives drive improved results

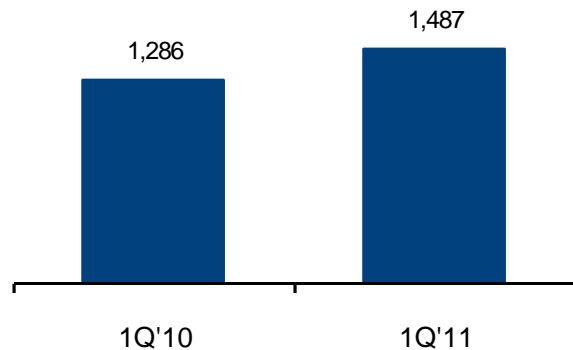
High-Speed Internet

(\$ in millions)

High-Speed Internet Revenue



HSI Line – Quarterly Net Change



▶ **HSI revenues up 2.5% Y/Y**

- Driven by subscriber growth

▶ **Over 100K subscribers**

- 4% HSI growth Y/Y
- 25% penetration of primary access lines

▶ **73% of HSI subscribers tied to bundle**

- Up from 68% in the same period a year-ago

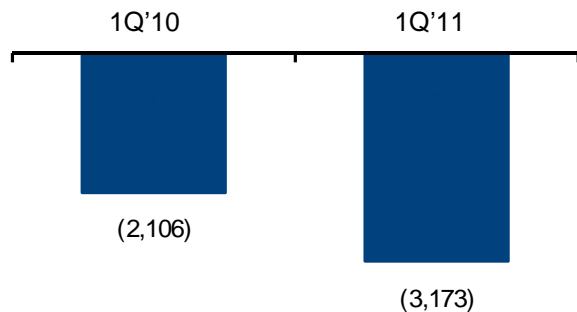
Long Distance Services

(\$ in millions)

Long Distance Services Revenue



LD Line – Quarterly Net Change



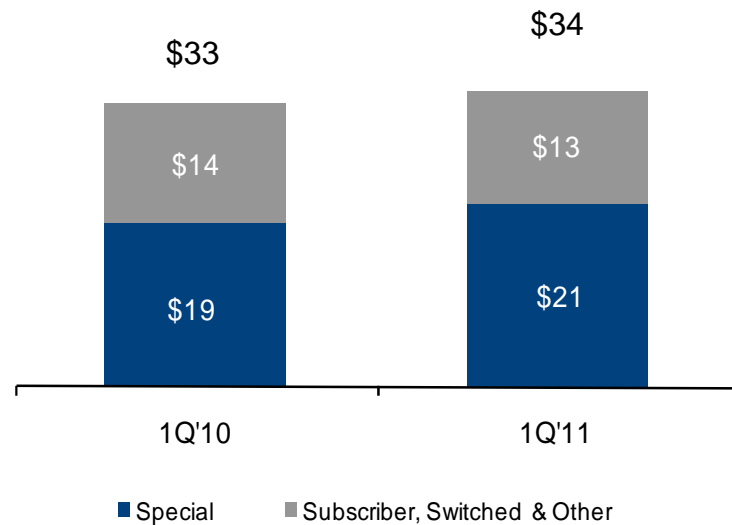
- ▶ **LD revenues down 2% Y/Y**
 - Continued secular pressures
 - ARPU improvement as a result of bundling

- ▶ **6% LD line loss**
 - Up from 4% line loss Y/Y in 2010
 - 7% residential line loss; up from 5% Y/Y in 2010
 - 3% business line loss; consistent with 2010

Network Access Services

(\$ in millions)

Network Access Services Revenue

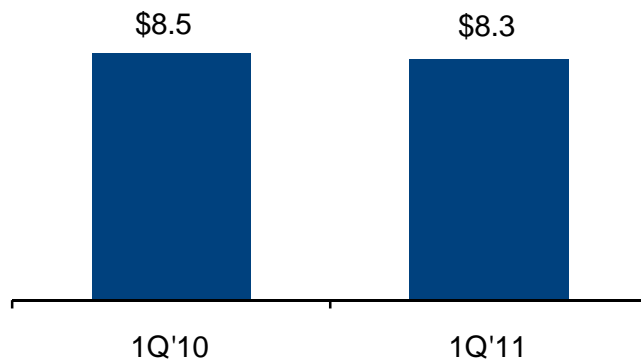


- ▶ **Network Access revenue up 5% Y/Y**
- ▶ **Special Access revenue up 13% Y/Y**
 - 60% of network access services revenue
 - Growth driven primarily by wireless backhaul and new IP-based data services
- ▶ **Subscriber, Switched & Other Access revenue down 6% Y/Y**
 - Decline driven primarily by access line erosion

Other Services & Sales

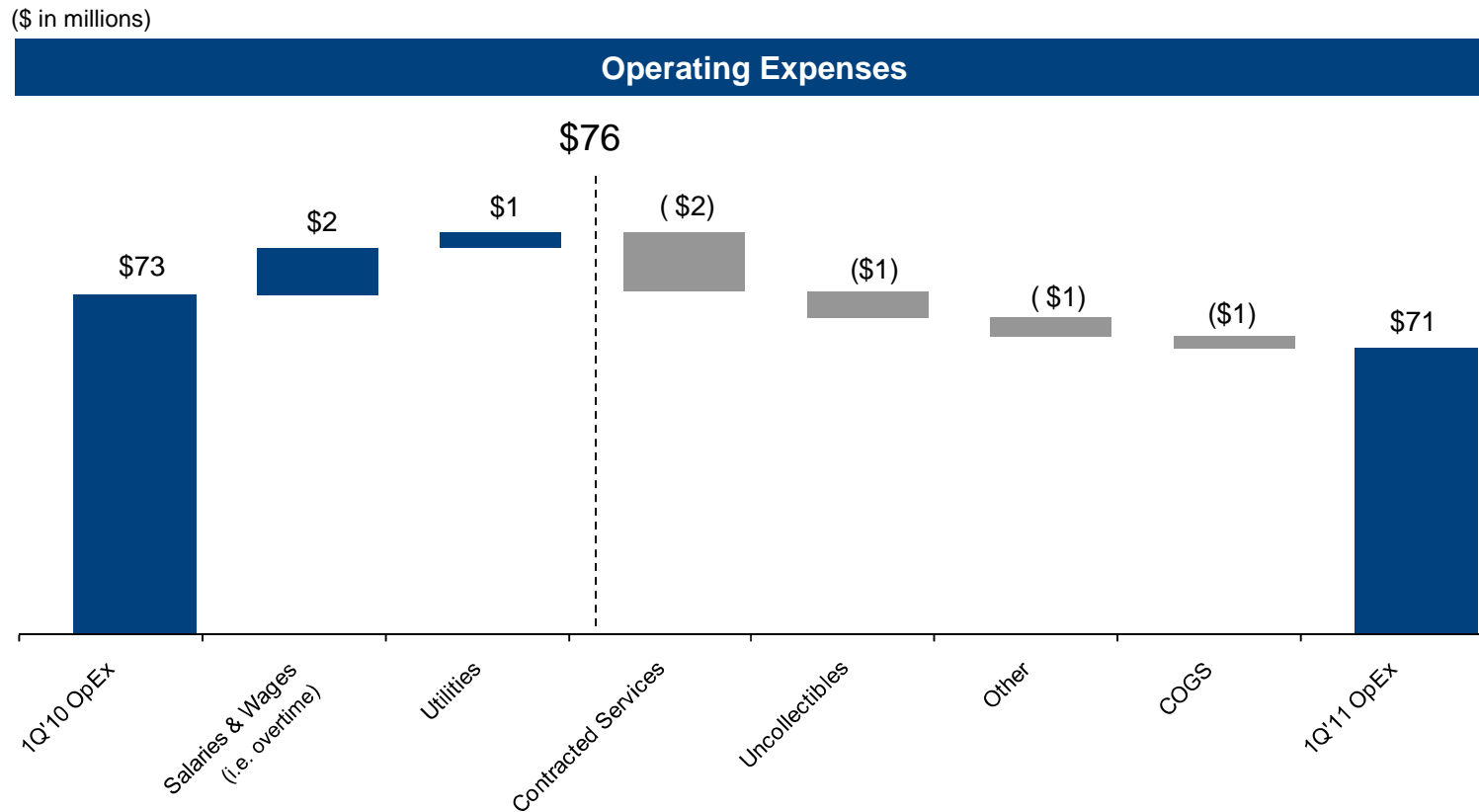
(\$ in millions)

Other Services & Sales Revenue



- ▶ **Other services & sales revenue down 3% Y/Y**
 - Timing of revenue recognition
 - Equipment sales transactions shifted to the second quarter

Operating Expenses

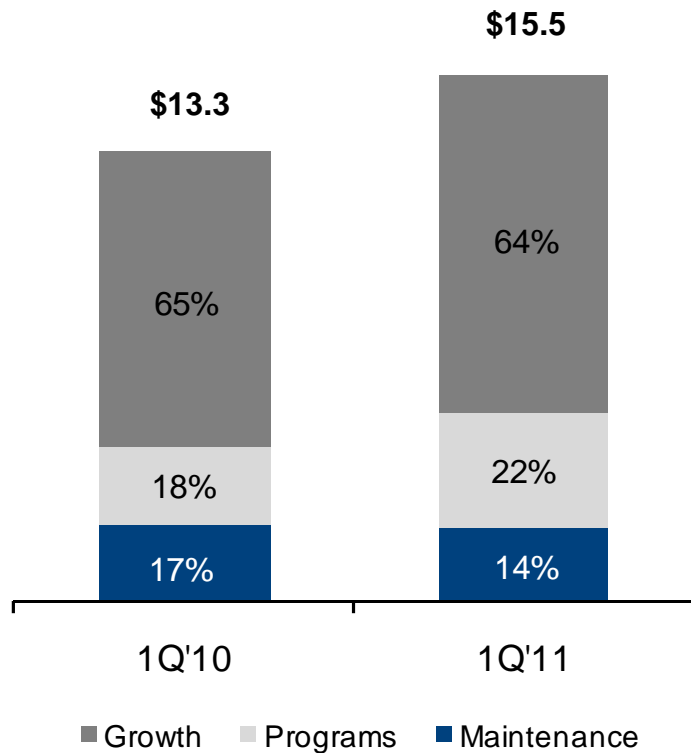


- ▶ Overall operating expense reductions totaling more than \$5 million more than offset cost increases experienced in first quarter

Capital Expenditures

(\$ in millions)

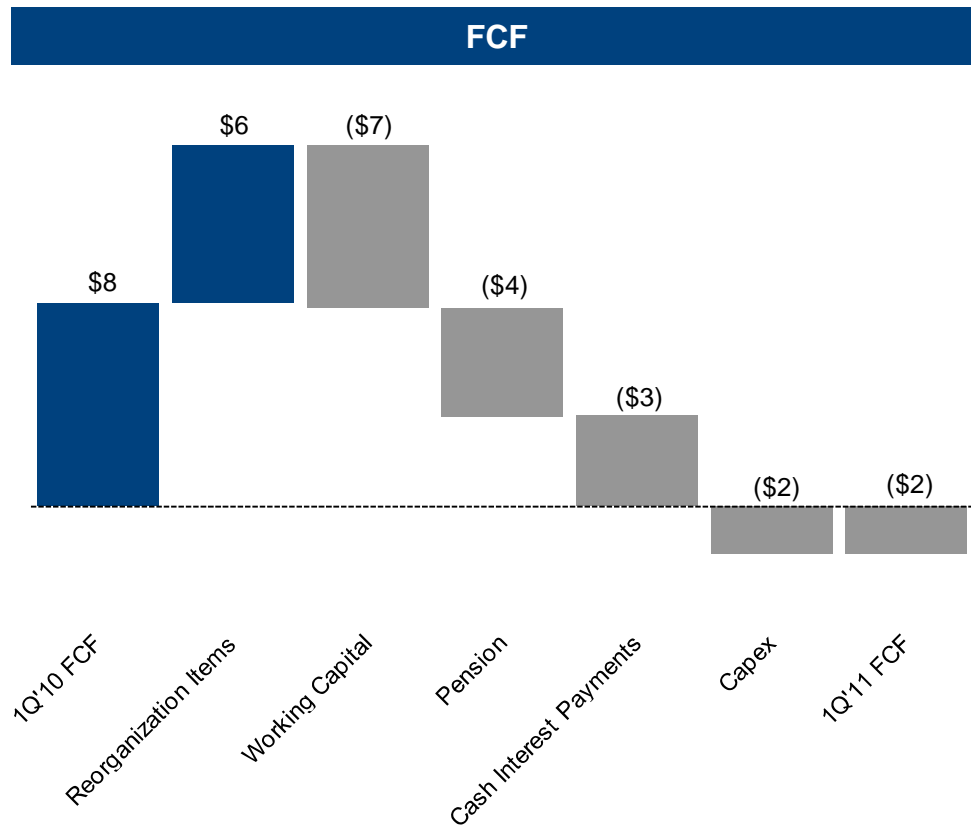
Capital Expenditures



- ▶ Overall \$2M increase in capital expenditures
- ▶ Increase due primarily to fiber deployment to wireless cell sites and broadband network enhancements
- ▶ Focused on growth and expansion related initiatives

Free Cash Flow

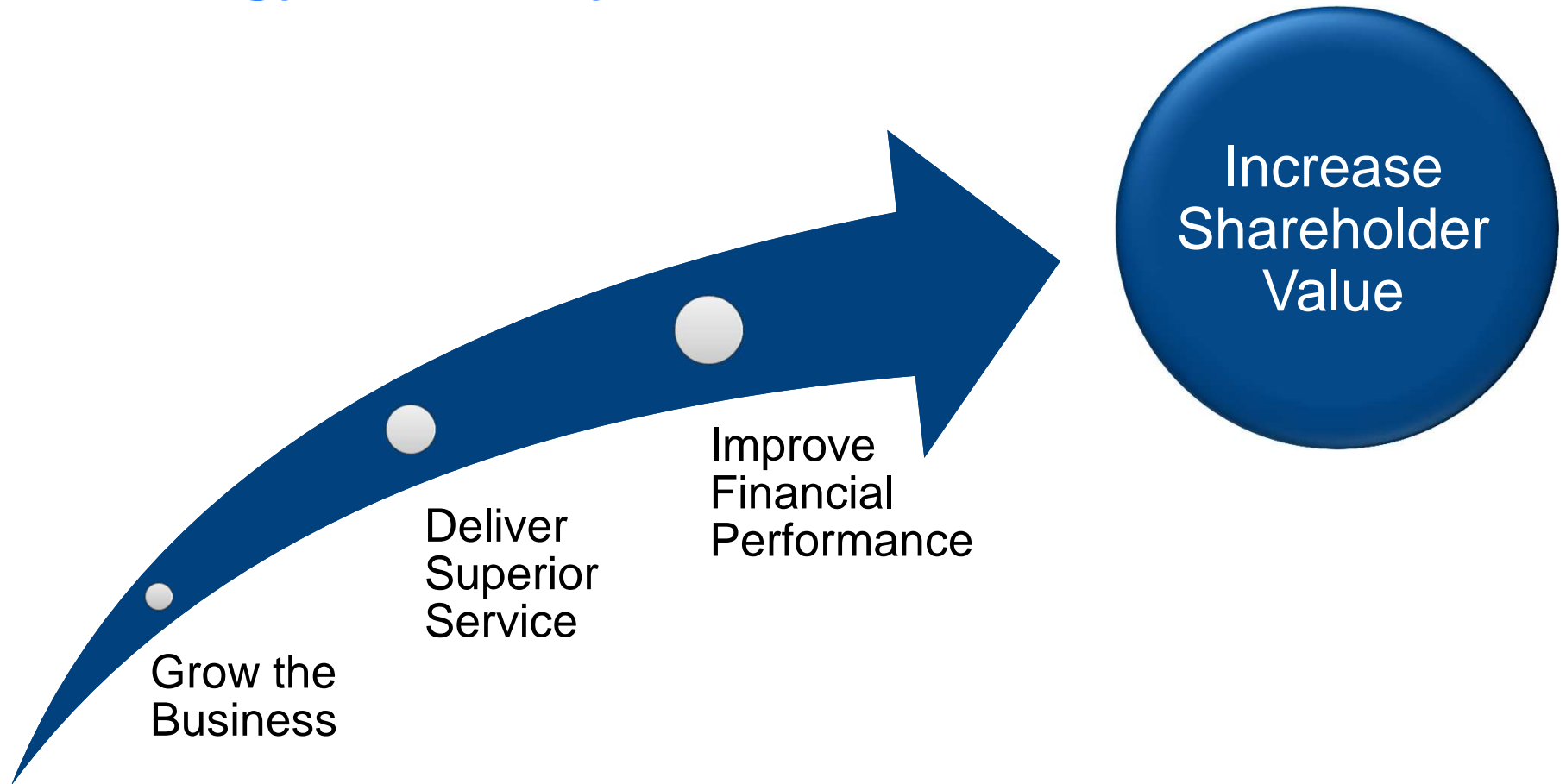
(\$ in millions)



► 1Q'11 FCF of (\$2M)

- \$6M decrease in costs related to bankruptcy
- Unfavorable Y/Y comparisons for working capital, pension funding and capital spending expected to reverse as 2011 progresses
- (\$3M) decrease from higher interest payments

Strategy Summary



Q&A
