



# Hawaiian Telcom

3<sup>rd</sup> Quarter 2011  
Earnings Conference Call

November 14, 2011

# 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 November 14, 2011. It is anticipated that subsequent events and developments will cause estimates to change.

# Company Overview

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Eric Yeaman, President & CEO

# Company Highlights

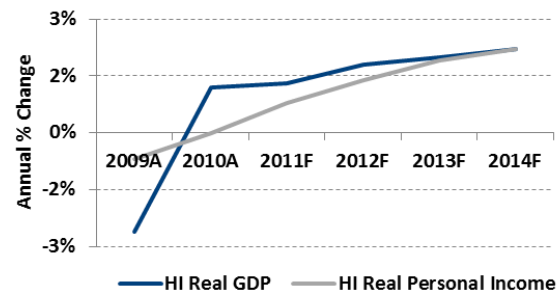
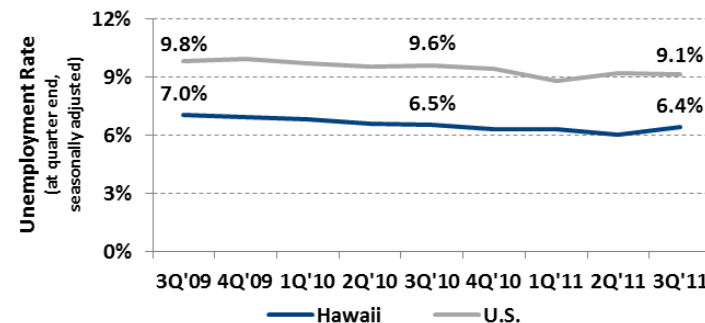
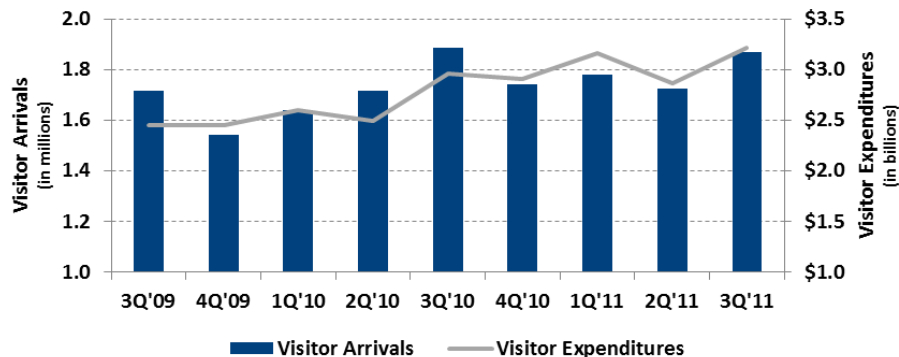
- ▶ 3Q'11 Revenue of \$97M resulted in Adjusted EBITDA of \$31M, up 6.5% Y/Y, and Net Income of \$7.4M
- ▶ Completed an amendment and extension of \$30M revolving credit facility
- ▶ Successfully launched Hawaiian Telcom TV on Oahu
- ▶ Collective bargaining agreement update

# Hawaii Economic Outlook

Tourism Drives Some Economic Improvement

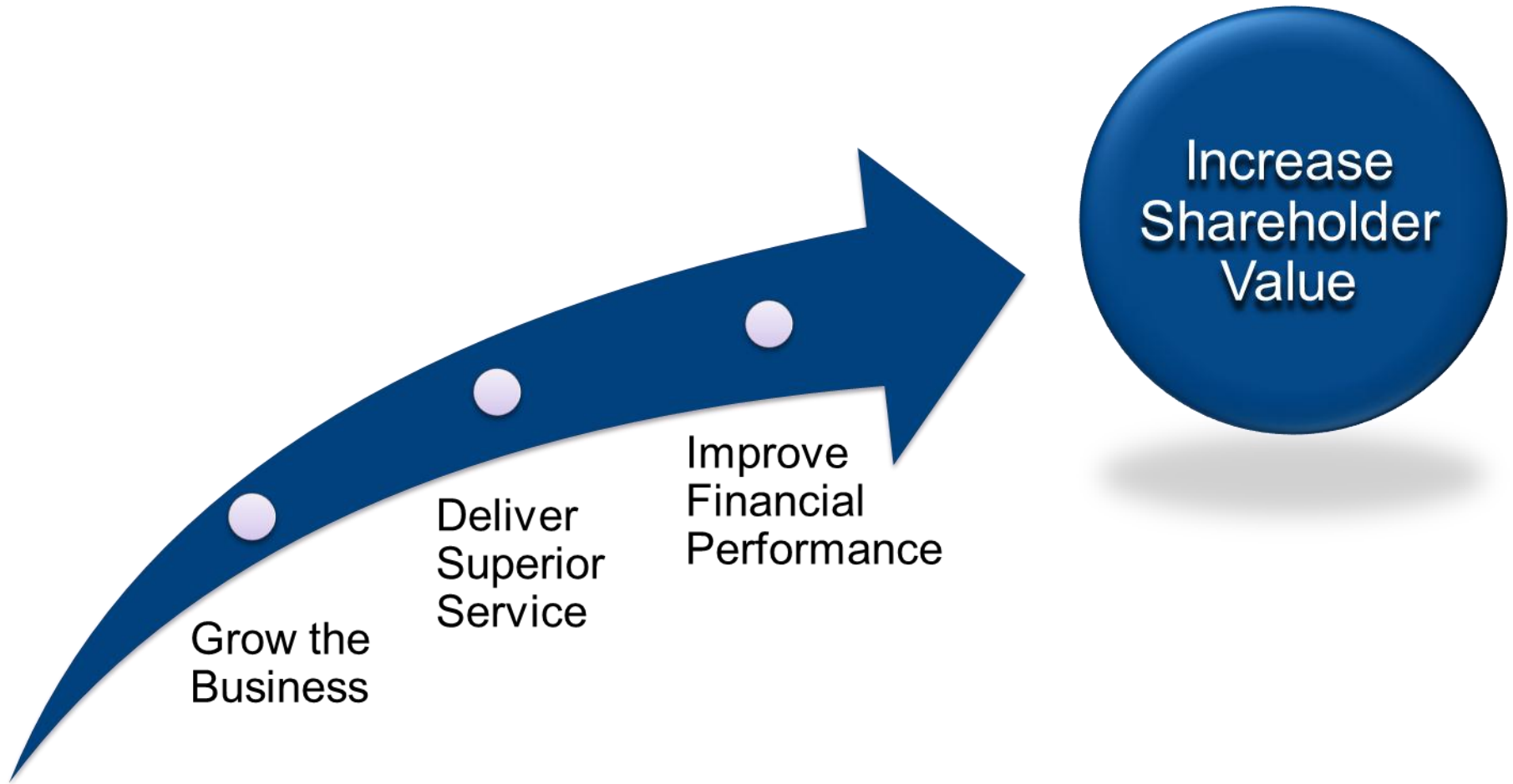
YTD Visitor Spending up 15% & Arrivals up 3%

State Unemployment Remains Relatively Stable



Sources: Visitor Statistics: Hawaii Tourism Authority;  
 Unemployment Rates: U.S. Bureau of Labor Statistics;  
 Real GDP & Personal Income: Hawaii Department of Business, Economic Development & Tourism.

# Strategy Update



# Grow the Business

## Business

- ▶ Enterprise data services up 7% Y/Y
- ▶ Added Ethernet delivery to Dedicated Internet Access service
- ▶ 46% of YTD Business VoIP sales on 5-year term contracts
- ▶ 78% of YTD small business bundle customers on 2-year term contracts



## Consumer

- ▶ Voice access line loss rate declines to 7.4%; down from 8.6% Y/Y in 2010
- ▶ HSI subscribers up 4.6% Y/Y; double 2.3% Y/Y in 2010
- ▶ Video sales penetration of approx. 10% of marketable homes



## Wholesale

- ▶ 46 fiber cell sites completed in 3Q'11
- ▶ 141 fiber cell sites completed YTD; annualized revenue of ~\$2.1M
- ▶ Disconnect of TDM circuits occurring sooner than anticipated





# Deliver Superior Service

## High-Speed Internet Service Enhancement

### ▶ HSI Product Redesign

- Redesigned HSI tiers to allow provisioning of highest possible speed
- Three new high-end tiers introduced with top-tier delivering up to 50Mbps



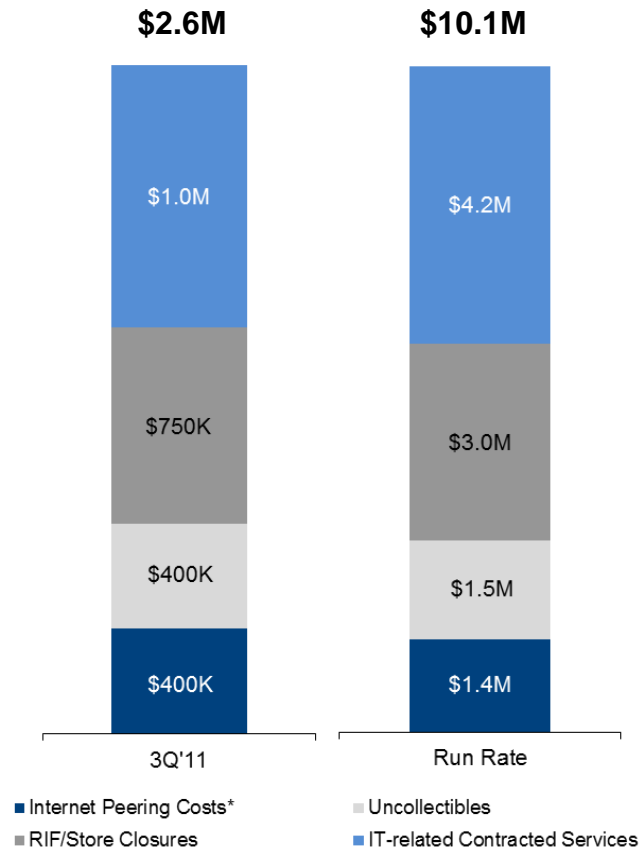
### ▶ Dynamic Line Management

- Installed an automated HSI line optimization tool
- Enhances the customer experience by optimizing speed & stability
- Reduction in call center traffic and field dispatches



# Improve Financial Performance

## Improve Cost Structure



\* Bandwidth demand is expected to increase

- ▶ Cost saving initiatives delivered \$2.6M in 3Q'11 savings and estimated \$10.1M run rate
- ▶ Data center consolidation & lower IT outsourcing contracts
- ▶ Reduction-in-force and retail store closures
- ▶ Improved collections efforts & higher billing accuracy
- ▶ Average cost per megabit reduced

# Operational & Financial Review

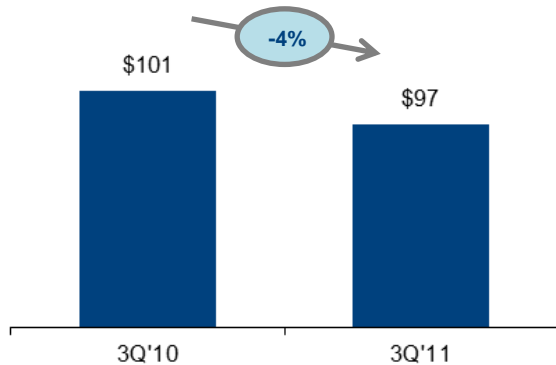
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Robert Reich, SVP & CFO

# Quarterly Revenue & Adjusted EBITDA

(\$ in millions)

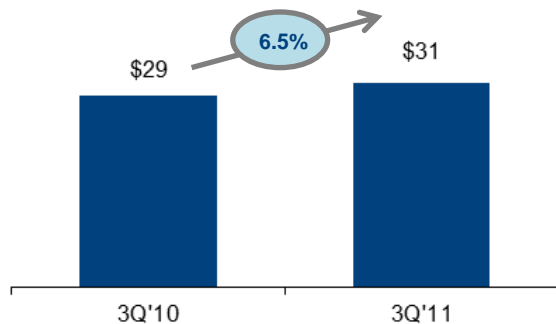
## Total Revenue



## ▶ Third quarter revenues \$97M

- Growth from new IP-based business products and high-speed Internet
- Lower equipment sales and secular pressure on legacy voice service revenues

## Adjusted EBITDA



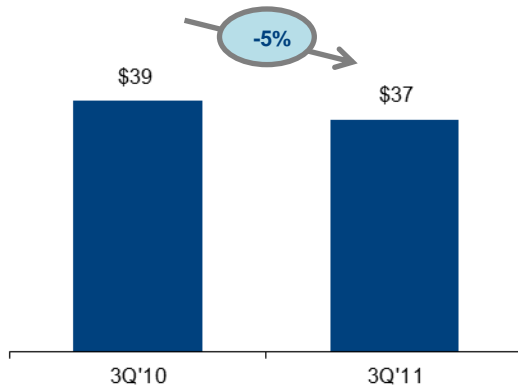
## ▶ Adjusted EBITDA up 6.5% Y/Y

- 32% margin, up from 29% in 3Q'10
- Lower costs from decrease in equipment COGS; contracted services; salaries, wages and benefits; bad debt; offset by energy costs

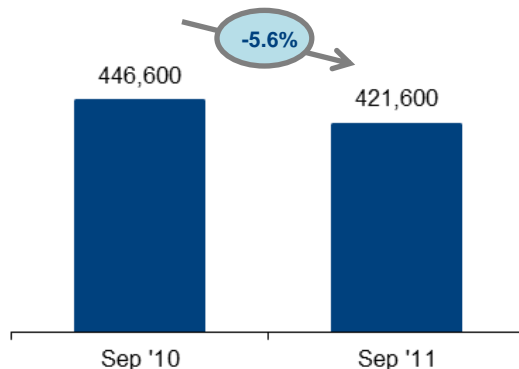
# Local Services

(\$ in millions)

## Local Services Revenue



## Access Lines

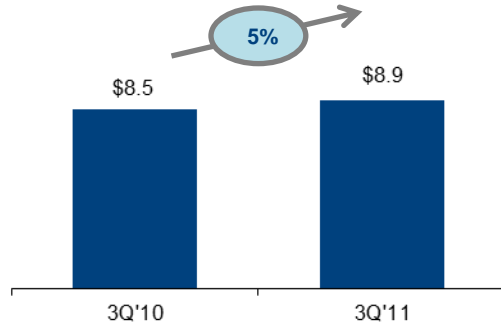


- ▶ **Local revenues down 5% Y/Y**
  - Continued secular pressures
- ▶ **6.9K access line loss in 3Q'11**
  - Down from 7K in 2Q'11
- ▶ **5.6% access line loss Y/Y**
  - Down from 6.6% Y/Y in 3Q'10
  - 7.4% residential line loss; down from 8.6% Y/Y in 2010
  - 3.4% business line loss; down from 4.0% Y/Y in 2010
- ▶ **1,300 bundles added in 3Q'11**
  - 39% of primary residential access lines now in a bundle

# High-Speed Internet

(\$ in millions)

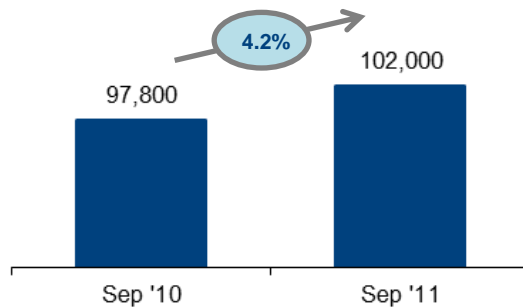
## High-Speed Internet Revenue



## ▶ HSI revenues up 5% Y/Y

- 4.2% HSI subscriber growth Y/Y
- Approximately 102K subscribers
- 27% penetration of primary access lines

## High-Speed Internet Subscribers



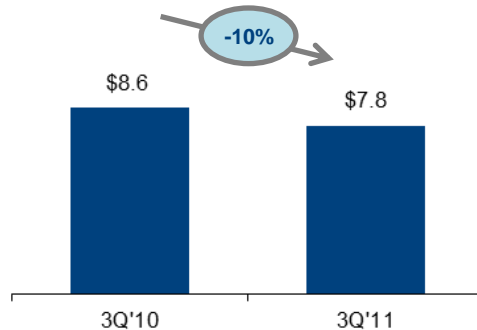
## ▶ 74% of HSI subscribers tied to bundle

- Up from 71% in the same period a year-ago

# Long Distance Services

(\$ in millions)

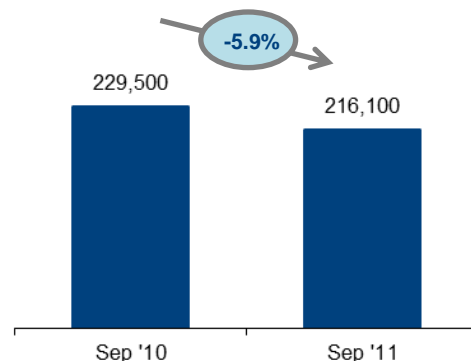
## Long Distance Services Revenue



## ▶ LD revenues down 10% Y/Y

- Continued secular pressures resulting in lower minutes of use
- Increased migration to wireless & VoIP-based technologies

## Long Distance Lines



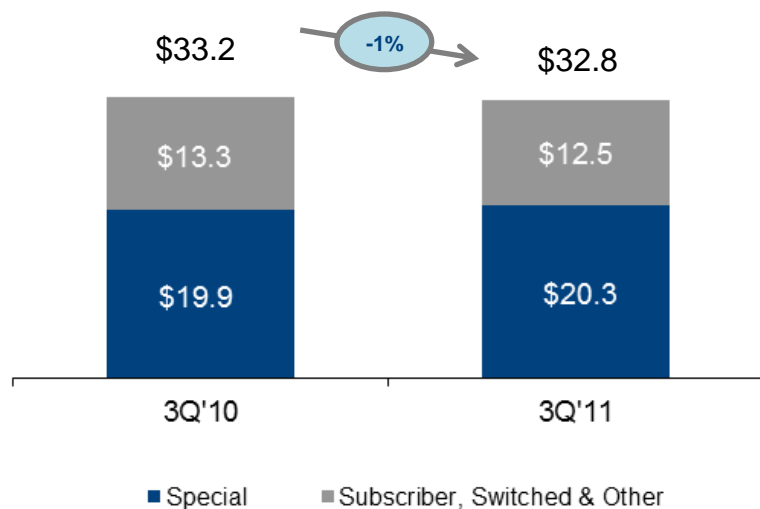
## ▶ 5.9% LD line loss

- Rate of decline in residential & business LD lines consistent with voice access line trends

# Network Access Services

(\$ in millions)

## Network Access Services Revenue



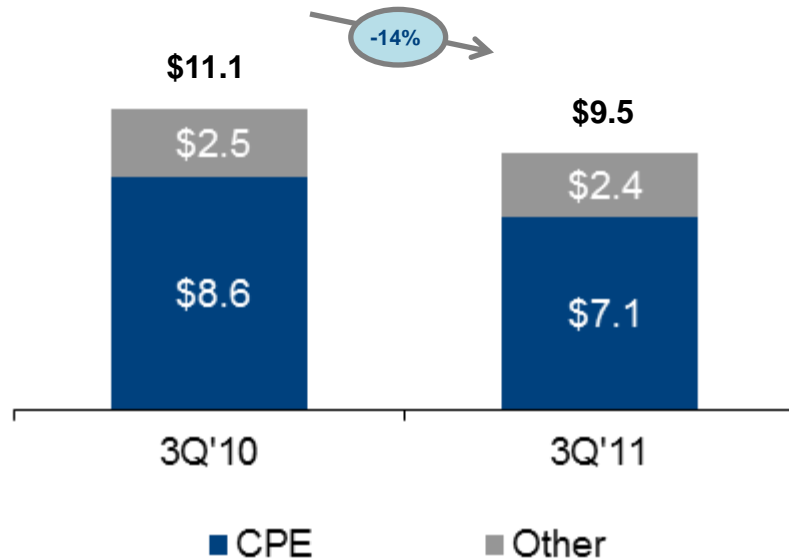
- ▶ **Network Access revenue down 1% Y/Y**
- ▶ **Special Access revenue up 2% Y/Y**
  - 62% of network access services revenue
  - Growth driven by new IP-based business products and higher demand for network capacity from wireless carriers
- ▶ **Subscriber, Switched & Other Access revenue down 6% Y/Y**
  - Reduction driven primarily by access line decline
- ▶ **USF/ICC Reform Impact**



# Other Services & Sales

(\$ in millions)

## Other Services & Sales Revenue

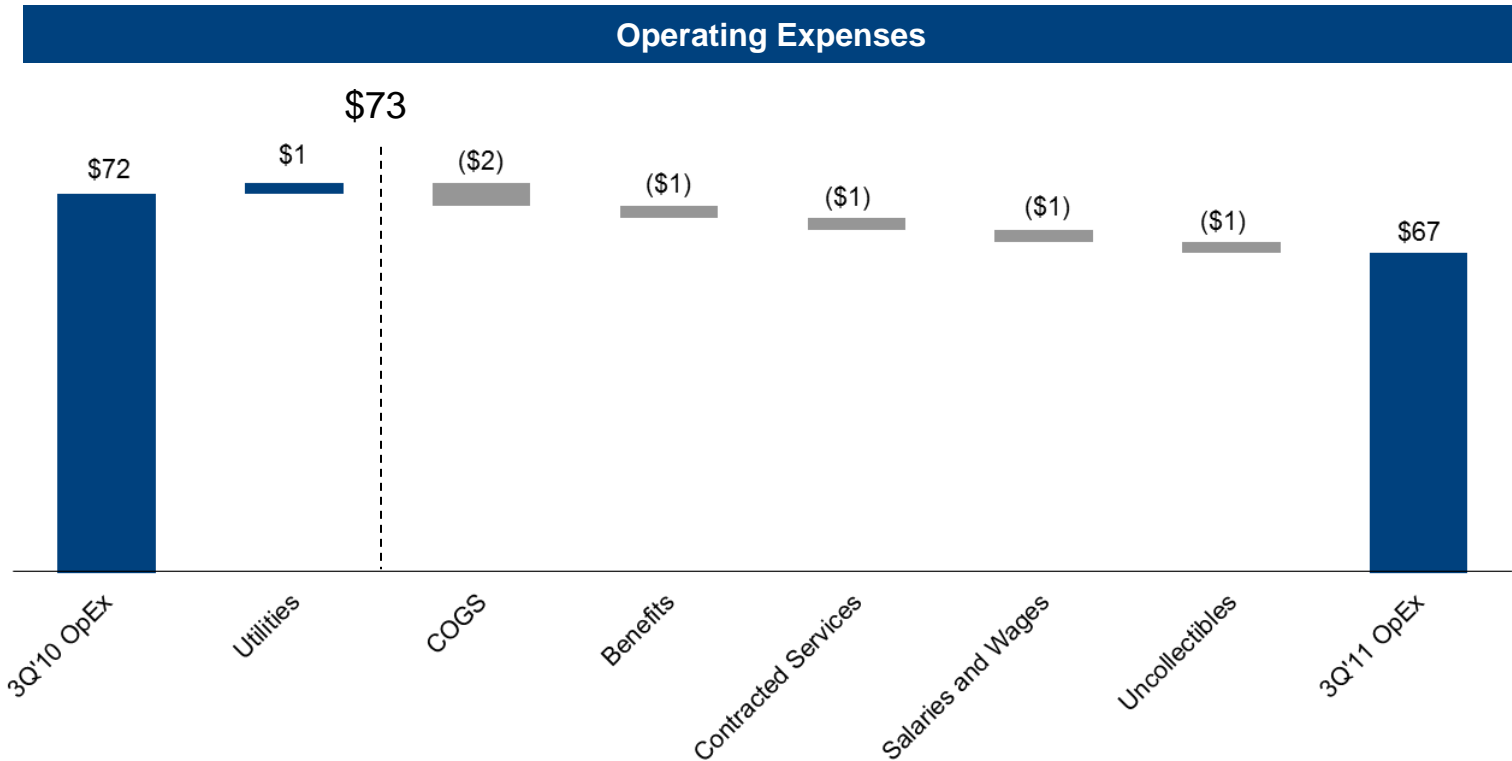


## ▶ Other Services & Sales revenue down \$1.6M Y/Y

- Decrease driven primarily by lower levels of sales and installations of customer premise equipment.
- Sales can vary significantly from quarter to quarter due to timing

# Operating Expenses

(\$ in millions)

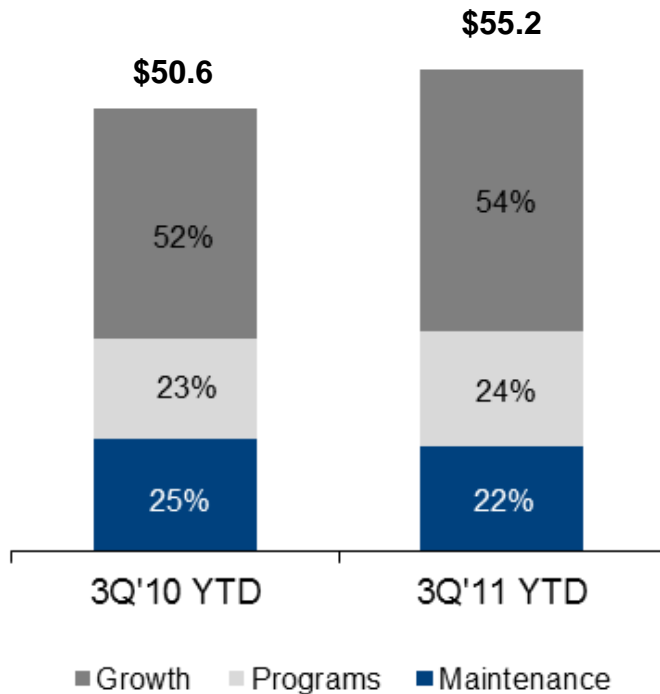


- ▶ Overall operating expense reductions totaling \$6 million offset increased utility costs

# Capital Expenditures

(\$ in millions)

## YTD CapEx

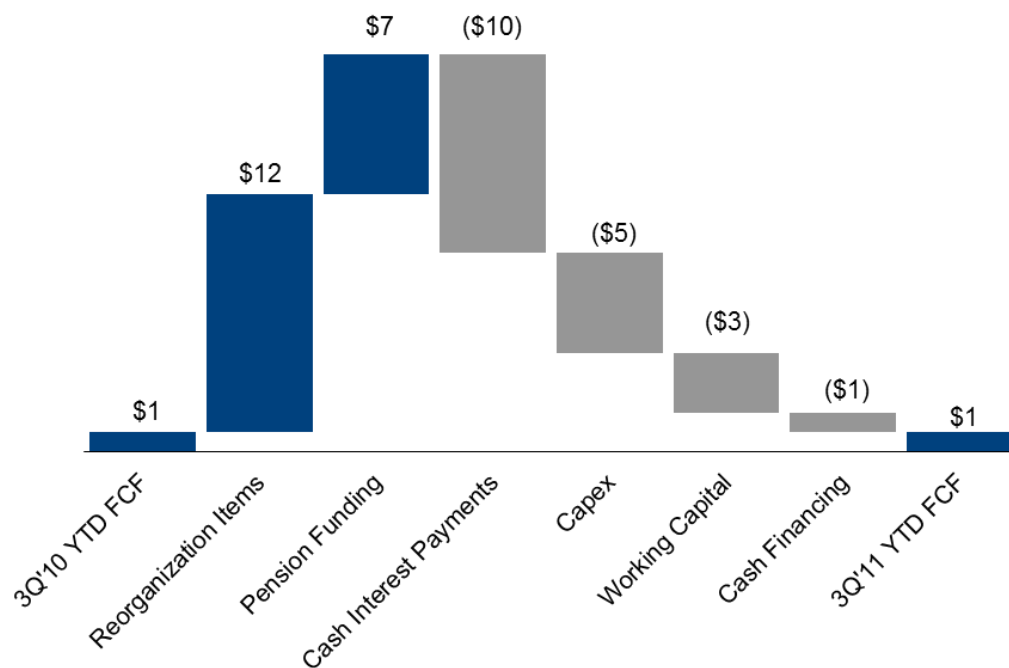


- ▶ Overall \$4.5M increase in capital expenditures YTD
- ▶ Increase due primarily to fiber deployment to wireless cell sites to support 4G upgrade
- ▶ Focused on growth and expansion related initiatives
- ▶ Total 2011 expected to be comparable to 2010

# Free Cash Flow

(\$ in millions)

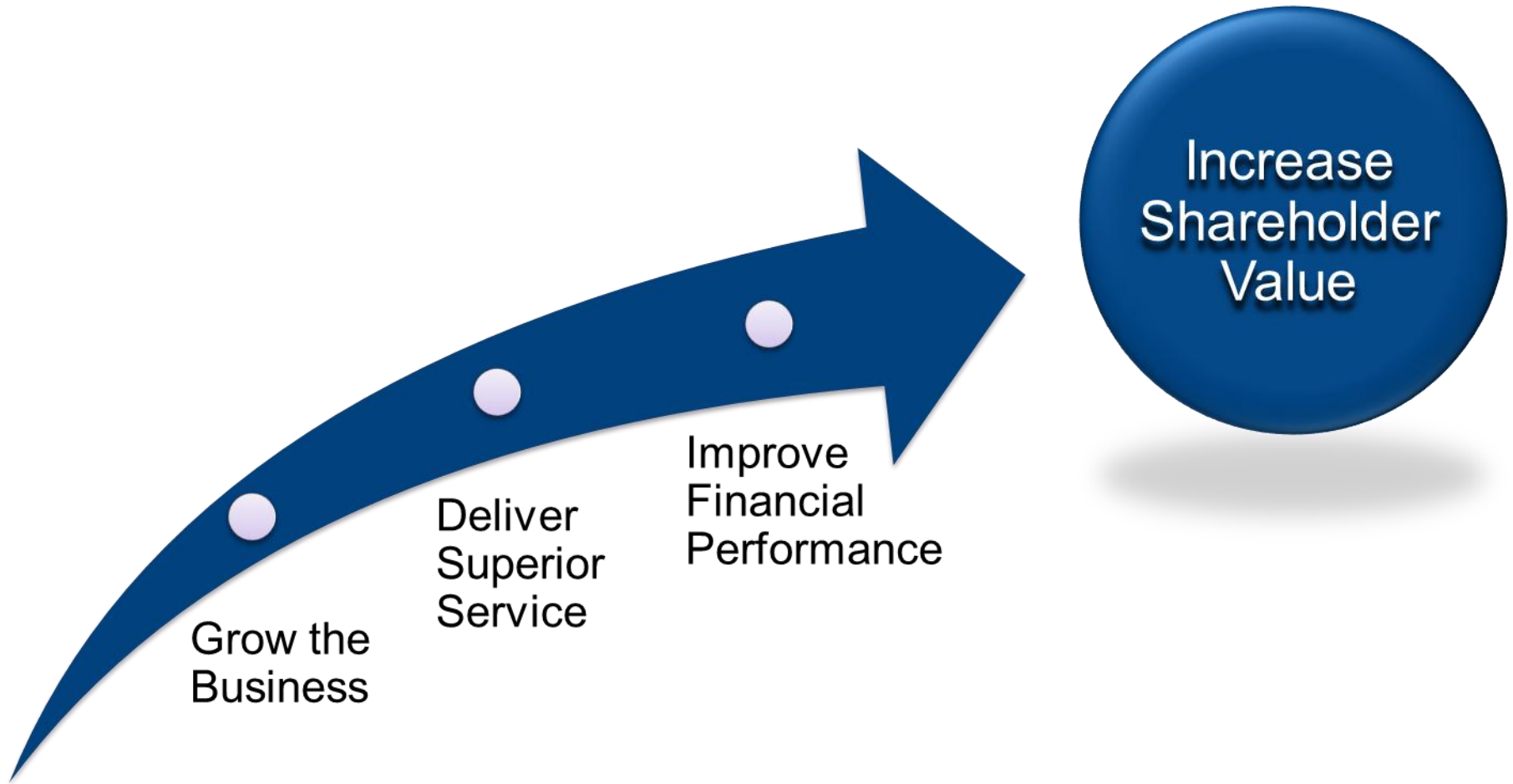
## YTD FCF



## ▶ 3Q'11 YTD FCF of \$1M

- \$12M decrease in costs related to bankruptcy substantially offset by higher interest payments
- Total pension funding for 2011 \$7 million lower than 2010
- Unfavorable Y/Y comparisons for capital spending expected to reverse in fourth quarter

# Summary Remarks



# Q&A

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