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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the HickoryTech first-quarter 2014 earnings conference call. (Operator Instructions)

I would like to hand the conference over to Jennifer Spaude, Director of Investor Relations and Marketing. Ma'am, please go ahead.

Jennifer Spaude - *HickoryTech Corporation - Director, IR and Marketing*

Thank you and good morning. Welcome to HickoryTech's first-quarter earnings call. I am Jennifer Spaude and with me today are John Finke, HickoryTech's President and Chief Executive Officer; and David Christensen, Senior Vice President and Chief Financial Officer.

At the conclusion of the prepared remarks today, we will open the call up for questions. Please refer to the Safe Harbor statement shown on side 2 of our presentation, which is also available on the Investor Relations section of our website at enventis.com.

In order to provide more information to investors, our comments today include certain non-GAAP financial measures. Reconciliation of these non-GAAP measures to the most directly comparable GAAP measures are available on our presentation and in our earnings release.

The information in today's presentation may contain certain statements and predictions that are not historical facts, but are forward-looking in nature. These forward-looking statements are based on current expectations, estimates, and projections about the industry in which we operate and management's beliefs and assumptions as of the time of this call.

Such forward-looking statements are subject to uncertainties. Actual results or outcomes may differ materially from those indicated or suggested by any forward-looking statement, whether as a result of new information, future events, or otherwise.

These statements are not guarantees of future performance and involve certain risks, uncertainties and probabilities, which are difficult to predict. There are many such risks and uncertainties which could affect the economy, our industry, and our Company, in particular. Some or all of which could affect future results.

More information on potential risks and uncertainties is available in the Company's recent filings with the Securities and Exchange Commission. Specifically, HickoryTech's annual Form 10-K and 10-Q reports. All participants are advised that the audio of this conference call is being broadcast and is also being recorded for playback purposes.

At this time, I would like to turn the call over to John Finke.

John Finke - *HickoryTech Corporation - President and CEO*

Thank you, Jennifer, and good morning, everyone. And thank you for joining us today for HickoryTech's first-quarter 2014 earnings call. I am pleased with our financial results for the first quarter and the progress we continue to make with our strategic initiatives.

As I said in our last call, it is a transformational time for our Company in many ways. Over the years, our steady and consistent investments in our fiber network and our business and broadband services have transformed who we are as a Company and positioned us to take advantage of future opportunities.

Our next earnings call will likely be as Enventis Corporation, as we are seeking shareholder approval to change our corporate name to Enventis at our annual shareholder meeting next week. This, too, is another important step in the transformation of our Company.

Last fall, we changed our brand to Enventis and since then have aligned all of our services under one unified brand, which now represents our full range of business and residential services across our entire service area. Every day, we realize benefits in moving to a unified name, as it simplifies our message and represents all of our strengths -- our expertise, our solutions, support, and investments to best serve our customers.

More than ever before, Enventis is being recognized as a leading regional communications provider. We expect to see even more synergies and benefits with aligning our corporate name and stock with our leading service brand. Upon a successful vote at our shareholder meeting, our stock will begin trading under the new ticker symbol ENVE by the end of next week.

Now turning to our first-quarter earnings. We generated $44.2 million of revenue in the first quarter, which was down 9% year over year, primarily due to lower equipment sales, which were down 35% year over year. Service revenue, which accounts for 77% of our total revenue in the quarter, was up 2% year over year. 80% of our first-quarter revenue came from our business and broadband services, as shown on slide 6 in our presentation.

This strategic revenue growth has occurred primarily since 2005, a time when HickoryTech was highly dependent on pure telecom revenue. But today, Enventis is highly diversified business and broadband service provider. We reported net income of $2.1 million for the first quarter, an increase of 27%, and EBITDA total of $12.1 million, an increase of 11%.

We report our results in three segments, each having differing characteristics, but each are important to our success. Our fiber and data segment is our growth area and where we have invested and will continue to invest a significant amount of capital to expand our fiber network and our business services.

Our equipment segment requires very little capital, has some revenue fluctuations depending upon timing of larger installations, and is where we significantly grew services revenue, demonstrating the value and expertise we provide in this area. And our third segment, telecom, is where we have a declining and mature revenue stream, which is partially offset by growth in broadband services.

The overall elements of our success are unchanged. It is a balance of maintaining and growing through solid operational execution and a discipline focused on meeting our financial objectives and creating value for our shareholders. Our focus on profitability is clear and we will continue to work to scale our business as our revenues grow.

Now let's look into a little more detail. And we will start with the fiber and data segment. Fiber and data revenue was up 6%, driven by our expanded growth and a disciplined approach to gaining quality market share.

We are making good progress, adding fiber access networks within our core footprint, and welcome the spring thaw, as we have many outside plant projects queued up in this area, which will extend fiber directly to business customers.

Our targeted approach to add lit buildings and extend fiber to our business customers gives us more control of the service level we provide and, as a result, provide a better customer experience, which is a key priority for Enventis.

Additionally, it eliminates off-net circuit costs and is expected to improve our margins over time, providing a solid return on our investment in each area we target.

The number of fiber-served cell types increased from 59 at the end of the first quarter of 2013 to 89 sites at the end of the first quarter of 2014. We expect revenue growth with fiber to the tower initiatives at carriers to continue to upgrade bandwidth and services on existing towers.

However, this growth will also be tempered by carrier network optimization and price compression as TDM services convert to IP and ethernet solutions.

We continue to be selective in our approach to ensure tower builds are a good fit within our network and produce a solid return on the investment. We face aggressive competition in all our markets we serve and have bolstered our business promotion and sales plan in order to be more competitive with some providers who appear to be trying to buy business in our core regions.

Our fiber and data strategy is to continue to aggressively sell both retail and wholesale services. Our challenge lies in scaling our fiber and data business as we work to increase market share and drive growth within our footprint. We are working to reduce our order installation intervals and improve our overall customer experience for maximum customer retention.

We also look forward to our cloud services launched this summer, where we will build an even stronger product and service portfolio and provide more value through a robust cloud offering. We are enhancing our SingleLink Unified Communications Solutions, making it more robust and bringing even more features to our customers.

And we are expanding our service offering to include data protection, cloud compute, and cloud Wi-Fi services. We have the network experience and the technical expertise throughout our organization to effectively design, implement, and support these services.

Additionally, we feel we bring a unique position to the market by offering both a premise and cloud-based solution. Our research indicates solid demand with these cloud services and we look forward to telling you more about our service offering in the coming months.

Now turning to our equipment segment, where revenue was down in the first quarter based on the quarterly fluctuations we see in the equipment business. Although new equipment sales were down for the quarter, we built on our success of growing services revenue in 2013 and posted a 19% increase in the service revenue in the first quarter. We are focused on selling the value of our equipment solutions and partnering with businesses to provide them ongoing support.

We are leveraging our recent Cisco Master Cloud Builder Specialization, which demonstrate our capabilities to build and deploy cloud-ready integrated infrastructures. Enventis is one of approximately 20 partners in the United States with this elite specialization.

This level of expertise is extremely helpful in building out our managed and hosted cloud-based services. Few providers have the depth and breadth to compete with our product and services portfolio or with our technical expertise.

Now turning to our telecom segment, where we offer both business and residential services over our own infrastructure, serving communities across southern Minnesota and northwest Iowa. Telecom revenue was down slightly in the first quarter, with declines in the mature or legacy products and services. Broadband revenue growth continued, with a 5% revenue increase for the quarter.

We have always said our telecom markets are competitive, with services offered by cable companies, Internet service providers, wireless providers, and other network providers. This past quarter, we experienced more aggressive competition from a larger cable company in the Mankato area, where we are headquartered.

We have countered their messages by encouraging our customers to do the real comparison. Enventis customers can expect honesty and integrity in all that we do.

Our consumer bundle offer continued to have strong adoption, with more than half of our residential access lines tied to multiservice bundles, with the high majority of those opting into two-year agreements. It was two years ago this July that we introduced these more aggressive bundles, and based on that timeline, we have taken a proactive step to assure customers they will continue to realize these savings. We were successful reducing churn last year and this step should aid in churn reduction going forward. Overall, we had a solid quarter and we continue to execute on our plan.

Now I would like to turn the call over to David Christensen, who will provide you some further financial details on our first quarter results. Dave?

David Christensen - *HickoryTech Corporation - SVP and CFO*

Thank you, John. Good morning, everyone. We had a solid first quarter. We have now seen four consecutive quarters where we have been able to report good results. Our trailing twelve-month EBITDA of $48.2 million is a product of $184.7 million of trailing twelve-month revenue. There is a fundamental pattern and consistency in those trailing twelve months. I would say that represents a good look-back period.

First-quarter consolidated revenue totaled $44.2 million, a 9% decline from a year ago. This decrease was driven primarily by our equipment sales revenue, which can vary from quarter to quarter. The further you go down our income statement, the better the results look.

Costs and expenses decreased 12% and operating income increased 16%. Our EBITDA was up 11% and net income increased 27%. These are all excellent results.

Now for some more specifics. Fiber and data segment revenue totaled $17.7 million in the first quarter, an increase of 6% year over year and up from the previous quarter. This increase is driven by organic growth of 9% in our business services revenue.

Our business service product line is the largest portion of our fiber and data segment, representing about 55% of total segment revenue. This growth is all organic and it is net of churn and price compression.

We see continued demand for integrated voice and data services from business customers. We are benefiting from the additional fiber area networks that John spoke about. And this strategy is how we are focusing and expanding our sales process.

Wholesale revenue is up 2% in the first quarter. While we were able to grow wholesale revenue 7% in 2013, we see growth rates being influenced this year by customer network regrooming efforts and price compression as TDM services convert to ethernet and IP services.

Specifically, certain wireless carriers are working through several regrooming projects, which will create an increased level of churn in 2014, and which will have the effect of tempering wholesale revenue growth. We have factored that into our guidance.

Total costs and expenses in the segment decreased 2% for the quarter. First-quarter 2013 included a $633,000 asset impairment charge in our fiber and data segment. In a normalized comparison, our year-over-year change in cost of services and selling general and administrative expenses for this segment would still have shown a slight decrease, even if the asset impairment cost of last year is removed in the comparison. Operating income and net income for this segment were up 80% and 81%, respectively.

Our equipment segment revenue totaled $12.2 million in the first quarter and was down $5 million or 29%. As we have outlined in the past, this segment experiences the most revenue volatility based on the nature and the one-time -- of the one-time equipment sales business.

For the past two quarters, we have been seeing some customer reluctance to spend and some indecisiveness in placing their equipment orders. We have a solid sales funnel and we continue to focus on growing our services revenue within this equipment segment, which had service revenue increase of 19% in the first quarter. This year-over-year improvement in equipment service revenue is consistent with the fiscal 2013 results, where we grew service revenue by 29%.

Costs in our equipment segment were $11.8 million compared with $16.4 million last year, down in alignment with lower equipment sales, thus keeping our margin in this business very sound. Operating income and net income for the equipment segment were both down for the first quarter approximately 41%, although in dollar terms, that amounted to only $335,000 and $198,000, respectively.

Telecom revenue was down 2% in the first quarter, an actual improvement from the 4% annual decline for 2013 and the 10% annual decline for 2012. Network access revenue declined 6%. The declines in these legacy services are largely due to access line erosion, price compression, and the impact of regulatory reform that occurred in 2012. Our telecom broadband revenues continued our success story by increasing 5% despite other wireline trends and very active competition.

We continue to work on costs and expenses in the telecom segment. TV programming costs continue to be a challenge for us and virtually every other broadcast service provider out there. Recently, we began new contract terms with content providers, which increased our future costs for a number of high demand TV channels.

While we can't control the high rates demanded by these content providers, we are taking steps to position our customers for over-the-top services.

Despite rising programming costs, which were 12% of our telecom segment costs for the quarter, we realized a 3% decrease in telecom expenses from a year ago, reflecting our ongoing effort to control and reduce expense in alignment with the revenue declines of this segment. This is the fourth year of telecom segment reductions in operating costs before depreciation and amortization.

Telecom operating income and net income in the first quarter increased 1%. And I will repeat that -- we increased telecom operating income by 1%. Our interest expense in the first quarter was $1 million, a 14% decrease from the $1.1 million of last year. This new level is lower than the $1.2 million of the fourth quarter of 2013 and $1 million represents more of a run rate for us now. Our new debt facility allows us lower interest rates and it provides us more flexibility.

Net income totaled $2.1 million in the first quarter, an increase of $447,000 or 27% over the prior year. Last year's asset impairment charge lowered net income approximately $380,000 after-tax or $0.03 per share.

First-quarter EBITDA was $12.1 million and is an 11% increase over the same quarter in 2013. EBITDA with asset impairment charge removed from last year increased approximately 5% year over year.

Current maturities in a long-term debt classification of debt on our balance sheet totaled $134.8 million at March 31, 2014. This year's debt balance is down $1.6 million compared with March 31, 2013. We have reduced debt by $7.1 million since the Company's acquisition of our Fargo operation just two years ago.

We held $12.2 million of cash in our balance sheet on March 31. March debt -- I'm sorry, net debt is a measure of financial balance sheet strength, which subtracts cash on hand from the total debt balance. Net debt was $122.6 million as of March 31, 2014, and is at the lowest level of net debt since our acquisition of our Fargo operation in March of 2012.

We continue to operate with a debt ratio of less than 3 times EBITDA as defined in our credit agreement. This ensures favorable terms for our credit agreement, which currently has a maximum leverage limit of 3.5 to 1. Our leverage ratio, which does not use a net debt concept and thus is more conservative, is a mere 2.8 times EBITDA. We feel we are conservatively leveraged and our credit facility will provide excellent financial support for our growth plans.

We are reaffirming our fiscal 2014 guidance as previously stated in our March earnings release and a recap of which you will see on slide 10. For revenue, we are targeting a range in 2014 of $189 million to $199 million. Net income is expected to be in the range of $6.4 million to $8.4 million.

EBITDA is expected to be in a range of $47 million to $49.5 million and capital expenditures are expected to be $24 million to $28 million. And we expect our success-based CapEx to represent approximately 60% of those CapEx totals.

And our 2014 year-end debt balance is expected to be in a range of $133 million to $135 million. Further details of our first-quarter 2014 earnings will be available on our SEC Form 10-Q, which we intend to file within a day.

And I will wrap by saying we had a solid first quarter. The plan we are employing is working well and we are very well positioned this year. With that, I would like to turn the call back over to John Finke. John?

John Finke - *HickoryTech Corporation - President and CEO*

Thank you, Dave. With a solid first quarter on the books, I think we are on track to achieve our 2014 objectives. We are excited about the new Enventis and the next step in our transformation as we become fully aligned under one brand. Enventis is a regional leader in business and broadband communication solutions.

Our commitment is to deliver simplified and reliable communication solutions to our customers and make it easy for them to do business with Enventis.

We continue to evolve, improve, and pursue opportunities to grow our Company. Being a fiber and communications provider for more than a century requires adaptability, stability, and commitment. We are well positioned to continue down our path of pursuing disciplined growth and building shareholder value.

We are focused on growing strategic business and broadband services and delivering strong cash flow. We will pursue growth in a disciplined manner by ensuring that we get a solid return on our investments.

We remain committed to providing return to our shareholders and building shareholder value. For more than 65 years, we've paid a quarterly dividend and we have increased our dividend the past four consecutive years. This reflects the confidence we have in our strategic direction and demonstrates our commitment to providing a dividend return to our shareholders.

Thank you for joining us on the call today. And at this time we'll take any questions. Karen, you may initiate them now.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Anya Shelekhin, Sidoti & Company.

Anya Shelekhin - *Sidoti & Company - Analyst*

Good morning, and thanks for taking my questions. So first, I was wondering has the Cisco Master Cloud Builder Specialization -- have you noticed that it has helped to improve the pipeline for the equipment segment? Have you noticed any benefits from it over the past quarter and maybe give some specific examples?

John Finke - *HickoryTech Corporation - President and CEO*

I don't have any specific examples to give you related to that specialization in terms of customers, but what I would tell you is that what it has done for us internally is helped us be able to develop and build the cloud service offerings that we are going to be offering later this summer.

So it helps us both in the credibility we bring to the marketplace, but as importantly, or more importantly, helps us build on the service offerings that we are going to have for our customers.

Anya Shelekhin - *Sidoti & Company - Analyst*

Okay, and would you be able to provide any color on backlog for equipment orders?

John Finke - *HickoryTech Corporation - President and CEO*

Yes, we have had a couple of quarters here where we've had fluctuations in that equipment line of business, specifically on the hardware sales, and while that revenue is down, we have a very solid backlog and we also have a strong pipeline going forward. So we are very optimistic about the ability of that revenue to turn around throughout this year and expect it to be on pace of what we projected at the beginning of the year.

Anya Shelekhin - *Sidoti & Company - Analyst*

All right. Sounds good. And that backlog, is it possible that we could see some of that in that next quarter or maybe more towards the second half of the year?

John Finke - *HickoryTech Corporation - President and CEO*

Right now, I would tell you that it depends very heavily on a couple of very large projects. I would say that the second quarter will probably also be a little light, but more of it loaded to be back end of the year.

Anya Shelekhin - *Sidoti & Company - Analyst*

All right. Next, seems like you did a great job managing costs this quarter and I was hoping could you give some more specifics about some of the changes you made, especially in fiber and data? I think you touched on that a bit in the call. To help improve the margins there.

John Finke - *HickoryTech Corporation - President and CEO*

Yes, we were very happy with the way our quarter looked, especially on the cost side. We are spending a lot more time focusing in general on scaling the business as we continue to grow our revenue stream, and I will let Dave comment on maybe a couple of things specifically.

But in general, as we look forward, the continued effort to build out the local fiber access networks and to bring more customers directly on-net rather than using off-net circuits, we think is going to have an impact on the longer term. But there were some circuit adjustments that we had in terms of reducing some circuit costs and other things in the quarter, and I will see if Dave has anything to add to that.

David Christensen - *HickoryTech Corporation - SVP and CFO*

Yes. I think the two heroes are the fact that our -- all of our managers are learning to work with the workforce that we have and not add workforce before we have sales. And the other hero is the circuit grooming concept that John mentioned. We are working very hard to groom the circuits to be used as part of our cost structure when we are on a third-party vendor to get the best price and to minimize needless surplus capacity.

And so we are doing the same things to our costs that some of our customers are attempting to do as they take our services. It is working out very well on our margins.

Anya Shelekhin - *Sidoti & Company - Analyst*

Okay. Also, SG&A, there are improvements there. Could you talk about cost reductions in SG&A?

David Christensen - *HickoryTech Corporation - SVP and CFO*

The SG&A line is mostly influenced by PeopleCo and the commissions that they earn and overheads being minimized. So I don't have any specific examples of, like I just alluded to, of any heroes, but it's -- we are happy if it is holding flat or growing at a very modest pace [with regard of] scale of the business along with revenue growth.

Anya Shelekhin - *Sidoti & Company - Analyst*

All right. And final question -- are you currently looking to make any acquisitions in the near-term, maybe through the end of 2014?

John Finke - *HickoryTech Corporation - President and CEO*

You know, Anya, we continue to look at opportunities and I think, as we talked about, maybe on the last call or one other time, is that we are focused on looking at the opportunities both in the fiber space as well as in hosted and managed services or cloud-based services.

We don't have anything to talk about right now. That's something that we continue to work on and look at opportunities, but it is generally something that we don't talk about until after the fact.

Anya Shelekhin - *Sidoti & Company - Analyst*

Okay. Thank you. That's all for me.

Operator

That concludes our question-and-answer session for today. I would like to turn the conference back to John Finke for any concluding comments.

John Finke - *HickoryTech Corporation - President and CEO*

Thank you, Karen. If you joined us after the call began or you would like a replay of the call, please visit our website at enventis.com. A replay of this call will be available beginning at noon today. Again, thank you for joining us and we look for to talking to you again on our next call.

I'd also invite you to give Jennifer, David, or myself a call if you have any additional questions. Have a great day.

Operator

Thank you. Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program and you may now disconnect. Everyone, have a good day.
