

# Third Quarter 2013 Earnings Conference Call

October 24, 2013

***INTERNAP***<sup>®</sup>

IT | IQ

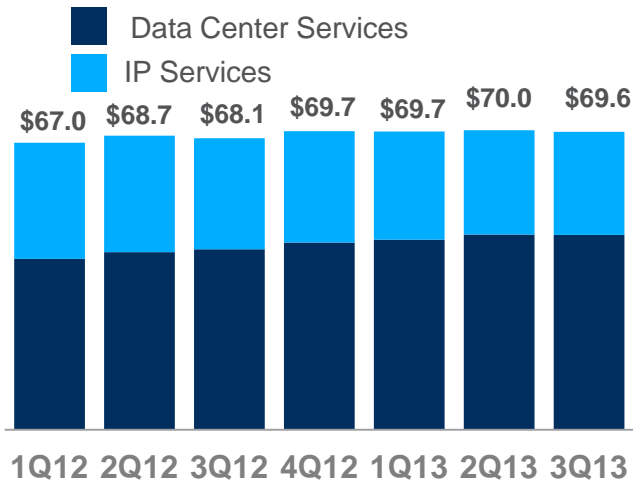
Connectivity | Colocation | Hosting | Cloud

## Forward-looking Statements

This presentation contains forward-looking statements. Because such statements are not guarantees of future performance and involve risks and uncertainties, there are important factors that could cause Internap's actual results to differ materially from those in the forward-looking statements. These include statements related to our expectations regarding performance of our IT infrastructure services and the benefits we expect our customers to receive from them, our ability to execute our strategy, deliver growth and generate cash, our ability to leverage data center expansions and continue to build positive operating leverage in the business model and ability to sell into available data center capacity. Internap discusses these factors in its filings with the Securities and Exchange Commission. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of future results. Internap undertakes no obligation to update, amend, or clarify any forward-looking statement for any reason.

# Financial Summary: Revenue, Segment Profit and Segment Margin

## Revenue (in millions)



## Revenue growth 2% Y/Y

- Growth in data center services partially offset by decline in IP services
- Company-controlled colocation, hosting and cloud services drives revenue increase

## Segment Profit (in millions)



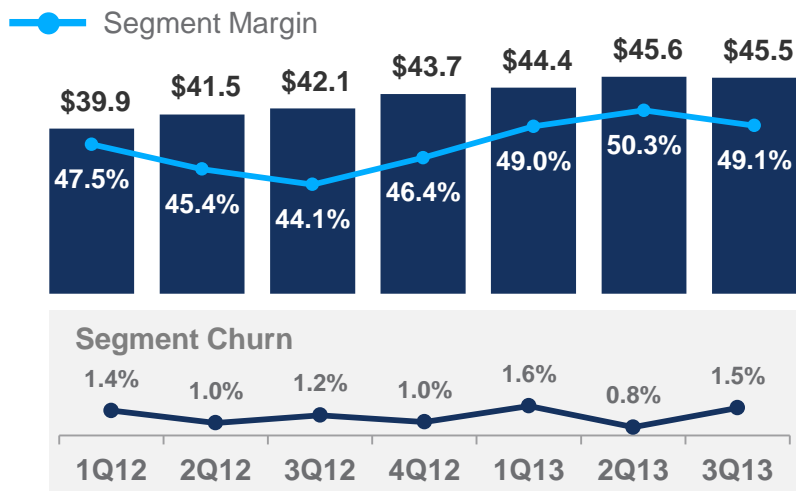
## Segment profit and segment margin improve Y/Y

- Strategic product shift delivers Y/Y improvement
- Lower IP revenue and higher seasonal power costs impact segment profit Q/Q

Segment profit and segment margin are non-GAAP measures. Segment profit is segment revenues less direct costs of network, sales and services, exclusive of depreciation and amortization. Segment profit does not include direct costs of customer support, direct costs of amortization of acquired technologies or any other depreciation or amortization associated with direct costs. Segment margin is segment profit as a percentage of segment revenues. A presentation of segment profit and segment margin can be found in the attachment to our third quarter 2013 earnings press release, which is available on our website and furnished to the Securities and Exchange Commission.

# Segment Summary

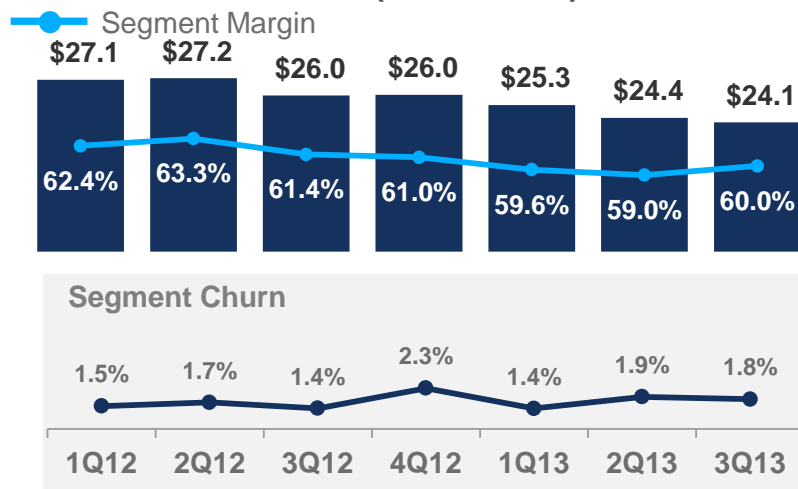
## Data Center Services Revenue (in millions)



## “Core” data center services drive Y/Y growth

- Data center revenue up 8% Y/Y and flat Q/Q
- Data center segment profit increased 20% Y/Y; decreased 3% Q/Q
- Higher seasonal power costs for 3Q13 impacted segment margin Q/Q
- Increased churn in partner data center sites

## IP Services Revenue (in millions)



## IP services revenue decline

- Solid profitability and cash generation
- IP segment profit decreased 9% Y/Y; flat sequentially
- Lower network costs drive Q/Q segment margin expansion

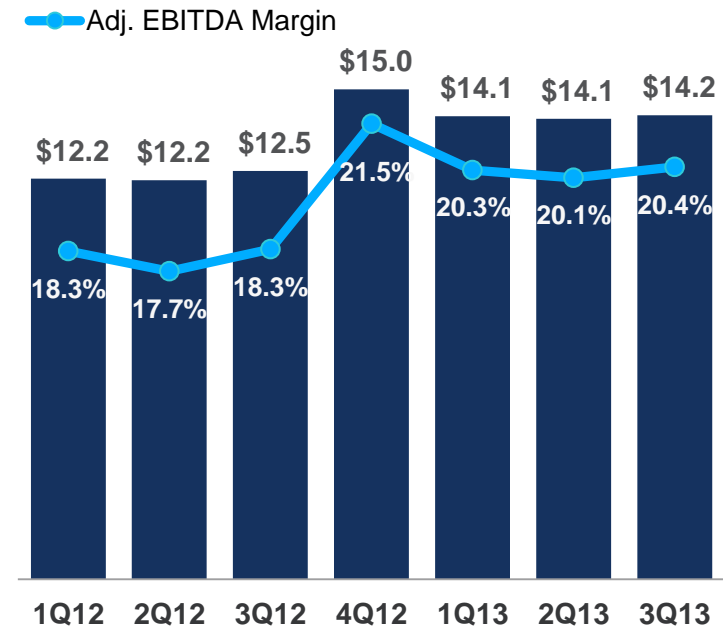
Core data center services defined as company-controlled colocation, hosting and cloud services.

# Financial Summary: Adjusted EBITDA

## Solid Adjusted EBITDA results

- Increased 14% Y/Y and 1% Q/Q
  - Adjusted EBITDA margin expanded 210 basis points Y/Y and 30 basis points Q/Q reflecting positive operating leverage
  - Positive results driven by favorable product mix shift toward data center services

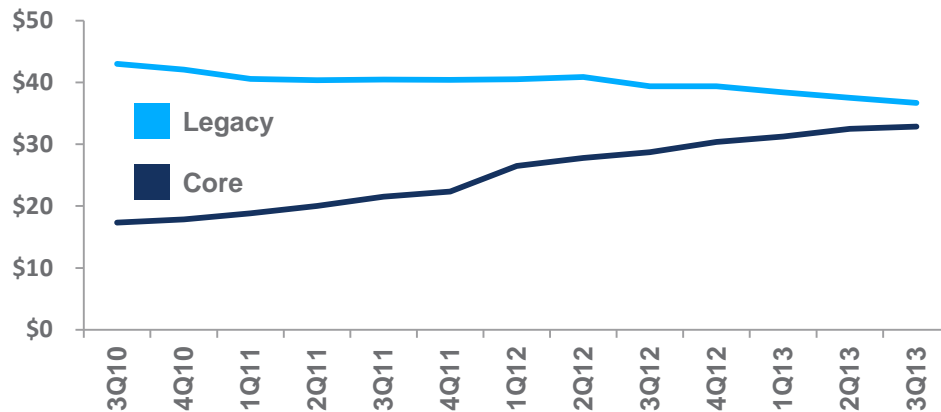
## Adjusted EBITDA (in millions)



Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP measures. Adjusted EBITDA is (loss) income from operations plus depreciation and amortization, gain (loss) on disposals of property and equipment, exit activities, restructuring and impairments and stock-based compensation. Adjusted EBITDA margin is Adjusted EBITDA as a percentage of revenues. A reconciliation of Adjusted EBITDA to GAAP loss from operations can be found in the attachment to our third quarter 2013 earnings press release, which is available on our website and furnished to the Securities and Exchange Commission.

# Strategic Mix Shift Engine for Growth

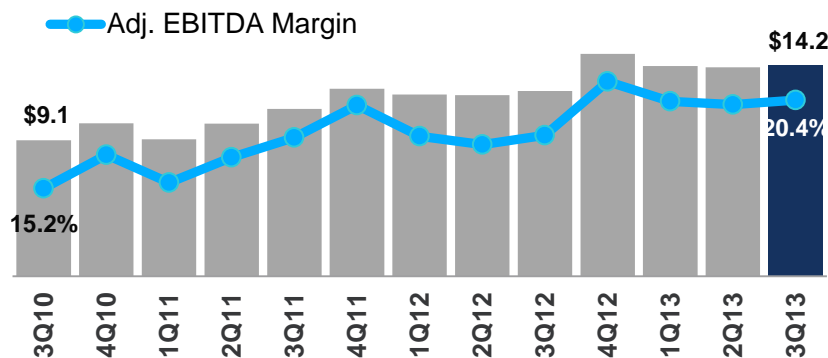
## Favorable Revenue Mix



## Core Data Center Services Drive Growth

- 24% 3-Year CAGR on core data center services thru 3Q13
- Core represents 47% of consolidated revenue, up from 29% 3-years ago

## Profitable Growth



## Strong Adj. EBITDA Growth and Margin Expansion

- 16% 3-Year Adj. EBITDA CAGR
- Adjusted EBITDA margin expanded 520 basis points over the same time-frame

\$ in millions. Legacy revenues defined as IP services and partner data center services. CAGR is compound annual growth rate.

## Competitive Differentiation

**1** Performance

Higher throughput/speeds than similar virtual cloud configurations

**2** Cost Efficiency

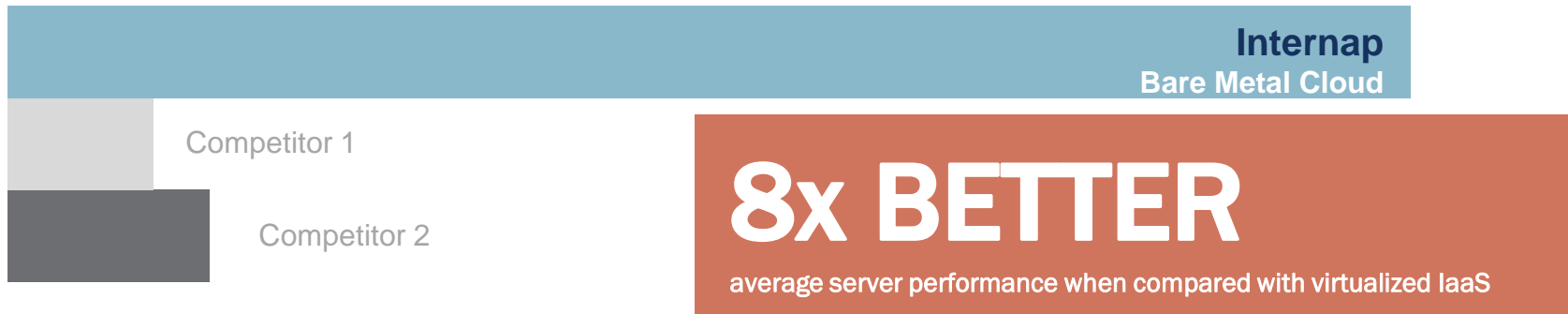
Higher input/output operations per second (IOPS), lower cost

**3** Utility and Automation

Spin up/down as needed through portal

## Superior Price-Performance

General Server Performance (Score)



Graph compares a dedicated Internap AgileSERVER (4 Core, 8GB RAM, 120GB SSD) with comparable virtual cloud instances from two-leading cloud providers. Benchmarks conducted by Cloud Spectator from 10/10/2013 – 10/15/2013 and published in a Cloud Spectator report, "Performance Analysis: Benchmarks of Bare-Metal & Virtual Clouds". 8x difference in the figure on the graph shown contrasts Internap's bare-metal server performance with an average of the two virtual cloud results.



Onavo provides mobile data analytics

## Customer Need and Context

---

Increase performance without sacrificing automation and flexibility

Predictable cost structure with guaranteed uptime

Provide low latency and highly-reliable performance for rapidly-growing mobile customer base

## Internap Solution

---



Bare Metal Cloud



Performance IP<sup>™</sup>

Scale on-demand to support global users

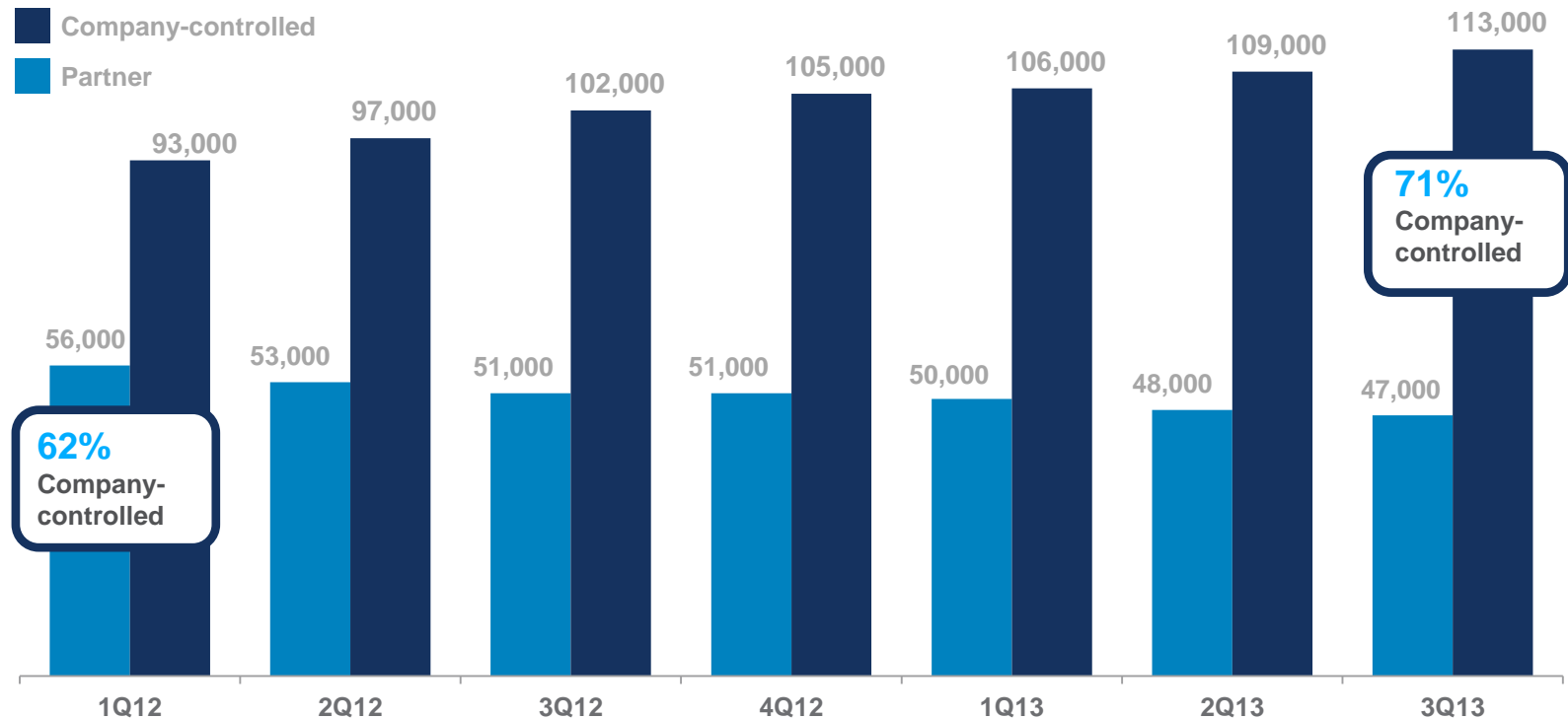
SLA supports 100% network availability

Performance IP<sup>™</sup> results in lower latency with built-in redundancy



## Data Center Occupancy Trend (1Q12 – 3Q13)

Increasing proportion of higher-margin company-controlled space



\* Square footage data changes from time to time as we undertake periodic audits in addition to day-to-day systems tracking. The figures above represent our most recent estimates of occupancy.

## Income Statement Summary (in millions)

	3Q13	2Q13	3Q12
<b>Total Revenue</b>	\$69.6	\$70.0	\$68.1
<b>Total Segment Profit</b>	\$36.8	\$37.3	\$34.6
<i>Total Segment Margin %</i>	52.9%	53.3%	50.7%
<b>Cash Operating Expense</b>	\$22.6	\$23.3	\$24.1
<i>Cash Opex %</i>	32.5%	33.2%	35.3%
<b>Adj. EBITDA</b>	\$14.2	\$14.1	\$12.5
<i>Adj. EBITDA %</i>	20.4%	20.1%	18.3%
<b>GAAP Net Loss</b>	\$(4.0)	\$(3.7)	\$(2.5)
<i>Loss per fully-diluted share</i>	\$(0.08)	\$(0.07)	\$(0.05)
<b>Normalized Net Loss</b>	\$(2.1)	\$(1.3)	\$(1.0)
<i>Loss per fully-diluted share</i>	\$(0.04)	\$(0.03)	\$(0.02)

\*Cash Operating Expense and Normalized Net Loss are non-GAAP measures. Cash operating expense is GAAP operating expense less direct cost of network and sales, depreciation and amortization, impairments and restructuring and stock-based compensation. Normalized Net Loss is net loss plus exit activities, restructuring and impairments and stock-based compensation. A reconciliation to GAAP total operating costs and expenses can be found in the attachment to our third quarter 2013 earnings press release, which is available on our website and furnished to the Securities and Exchange Commission.

## Cash Flow Summary (in millions)

	3Q13	2Q13	3Q12
<b>Adj. EBITDA</b>	\$14.2	\$14.1	\$12.5
Less: Capital Expenditures	9.9	14.9	25.1
Less: Capital Lease Payments	1.2	1.2	0.9
<b>Adj. Cash Flow</b>	<b>\$3.1</b>	<b>\$(2.0)</b>	<b>\$(13.5)</b>

## Balance Sheet Summary (in millions)

	3Q13	2Q13	3Q12
<b>Cash &amp; Cash Equivalents</b>	\$34.4	\$26.7	\$ 26.4
Less: Capital Leases	54.8	55.9	49.5
Less: Debt (net of discount)	112.9	103.7	88.1
<b>Equals: Net (Debt) Cash</b>	<b>\$(133.3)</b>	<b>\$(133.0)</b>	<b>\$(111.2)</b>
<i>Net Debt to Adj. EBITDA (LQA)*</i>	<i>2.4x</i>	<i>2.4x</i>	<i>2.2x</i>
<b>Days Sales Outstanding</b>	<b>27</b>	<b>28</b>	<b>28</b>

\* LQA = Last Quarter Annualized

## Solid Results Reflect Focused Execution

---

### Results:

- **Strategic product shift delivering results**
  - Core data center services revenue delivers 24% 3-year CAGR
- **Solid Y/Y Results**
  - Data center segment profit increased 20% and data center segment margin expanded 500 basis points
  - Demonstrated positive operating leverage → 2% Revenue growth delivers 14% Adjusted EBITDA growth and 210 basis points expansion of Adjusted EBITDA margin

### Looking forward:

- **Execute strategy**
  - Deliver growth from high-performance, hybridized IT infrastructure services
  - Sell into available data center capacity
- **Maintain focus on operational excellence**
  - Continue to build positive operating leverage in the business model