Internap Corporation Presentation 4th Quarter 2016 Earnings Results

Peter D. Aquino
Chief Executive Officer

Robert M. Dennerlein
Chief Financial Officer

March 9, 2017

Forward-looking Statements

This presentation contains forward-looking statements. These forward-looking statements include statements related to our cost reductions, improved profitability, our ability to refinance our indebtedness; our strategy to align into pure-play businesses and our expectations for full-year 2017 revenue, Adjusted EBITDA and capital expenditures. Our ability to achieve these forward-looking statements is based on certain assumptions, including our ability to execute on our business strategy, leveraging of multiple routes to market, expanded brand awareness for high-performance Internet infrastructure services and customer churn levels. These assumptions may prove inaccurate in the future. Because such forward-looking 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 factors include our ability to execute on our business strategy and drive growth; our ability to maintain current customers and obtain new ones, whether in a cost-effective manner or at all; the robustness of the IT infrastructure services market; our ability to achieve or sustain profitability; our ability to expand margins and drive higher returns on investment; our ability to sell into new and existing data center space; the actual performance of our IT infrastructure services; our ability to correctly forecast capital needs, demand planning and space utilization; our ability to respond successfully to technological change and the resulting competition; the availability of services from Internet network service providers or network service providers providing network access loops and local loops on favorable terms, or at all; failure of third party suppliers to deliver their products and services on favorable terms, or at all; failures in our network operations centers, data centers, network access points or computer systems; our ability to provide or improve Internet infrastructure services to our customers; and our ability to protect our intellectual property; market conditions and the terms of any issuance of equity or debt securities or the refinancing or amendment of our indebtedness; risks related to our indebtedness, including our substantial amount of debt, our ability to incur debt and increases in interest rates or in our borrowing margins; our ability to meet the financial and other covenants contained in our credit agreement; as well as other factors discussed in our 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 actual results. We undertake no obligation to update, amend or clarify any forward-looking statement for any reason.

Non-GAAP Financial Measures

In addition to results presented in accordance with GAAP, this presentation includes non-GAAP financial measures. The Company believes these non-GAAP financial measures provide additional information that is useful to investors in helping to understand our underlying performance and trends.

Non-GAAP financial measures have inherent limitations, which are not required to be uniformly applied. Readers should be aware of these limitations and should be cautious with respect to the use of such measures. To compensate for these limitations, we use non-GAAP financial measures as comparative tools, together with GAAP financial measures, to assist in the evaluation of our operating performance or financial condition. Our method of calculating these non-GAAP financial measures may differ from methods used by other companies. These non-GAAP financial measures should not be considered in isolation or as a substitute for those financial measures prepared in accordance with GAAP.

As required by SEC rules, we have provided in this presentation reconciliations of the non-GAAP financial measures included in this presentation to the most directly comparable GAAP financial measures. Reconciliations of non-GAAP financial measures are also available in the attachment to our fourth quarter 2016 earnings press release available on our website at www.ir.Internap.com.

INAP's New Leadership in Execute Mode

✓ The new INAP SoTPs = Colo + Cloud Business Units

✓ Identified Key Areas for Operational Improvements:

- Hired new senior management team / ReOrg
- Re-established 2016 / 2017 Financial Targets
- Initiated Cost Reductions – Phase I of III complete
- Rebuilding Sales & Marketing for Profitable Growth

✓ Locked in Amended Credit Agreement with $43M of equity from current investors…on to Refinancing

Positioning 2017 as a New Baseline

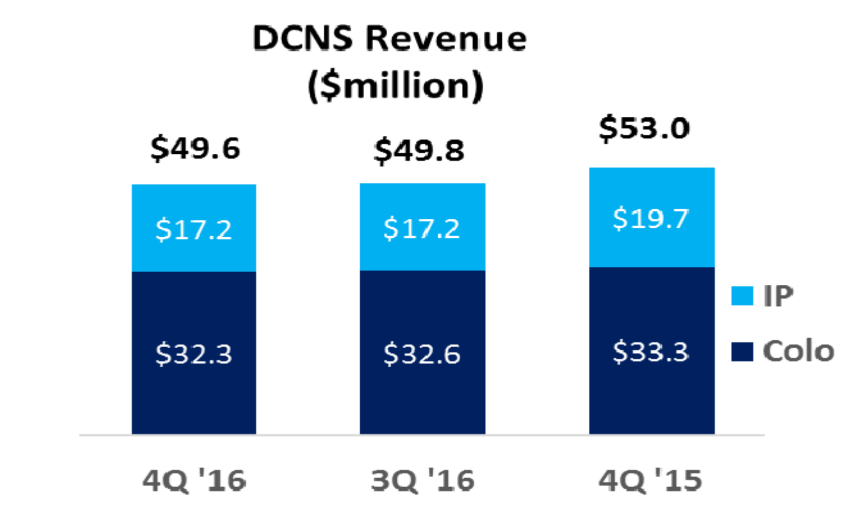
Consolidated Earnings Summary

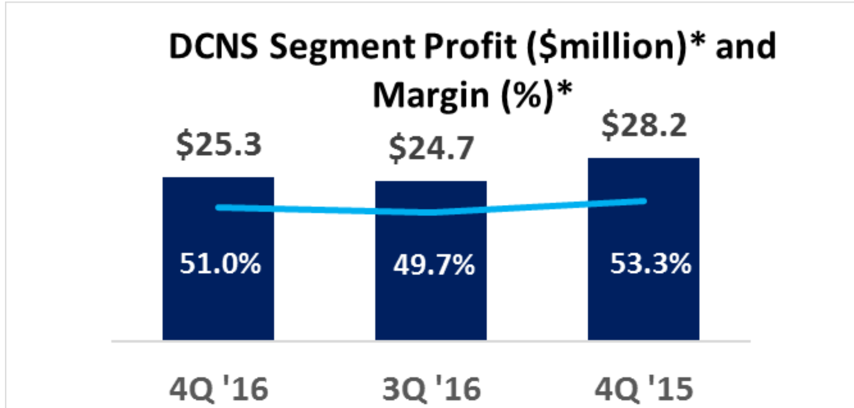
(million, except %)	4Q '16	3Q '16	4Q '15
Total Revenue	$74.1	$73.9	$78.8
Operating Expenses*	$79.1	$157.3	$85.5
GAAP Net Loss*	$(13.1)	$(91.3)	$(11.3)
Minus goodwill impairment and other items*	$7.6	$83.6	$3.9
Normalized net loss (non-GAAP)**	$(5.5)	$(7.7)	$(7.4)
Adjusted EBITDA (non-GAAP)**	$21.6	$19.8	$22.8
Adjusted EBITDA Margin (non-GAAP)**	29.1%	26.8%	29.0%
Capital Expenditures (CapEx)	$6.3	$12.8	$14.7
Adjusted EBITDA less CapEx**	$15.3	$7.0	$8.1

* Operating Expenses and reported GAAP Net Loss for 4Q '16 included a non-cash goodwill impairment of $1.9 million.

Data Center / Network Services Revenue & Segment Profit (non-GAAP)* and Margin (non-GAAP)*

- 4Q '16 DCNS Y/Y revenue decrease primarily due to continued decline in IP connectivity pricing and churn impact from one large Colo customer
- 4Q '16 IP Y/Y revenue decline reflects the continued decline in IP connectivity pricing
- 4Q '16 Colo Y/Y revenue decline reflects the churn of one large customer partially offset by Company Controlled Colo growth
- 4Q '16 DCNS Y/Y segment profit decrease driven by lower revenue; Q/Q segment profit increase due to favorable power cost seasonality

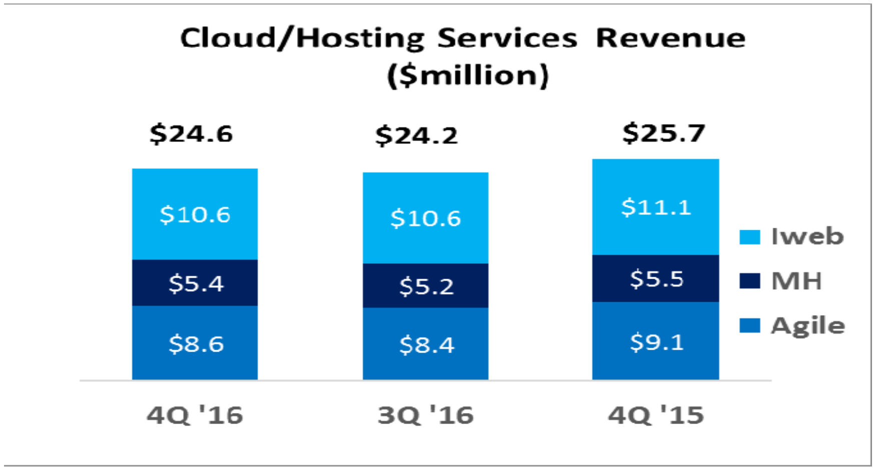


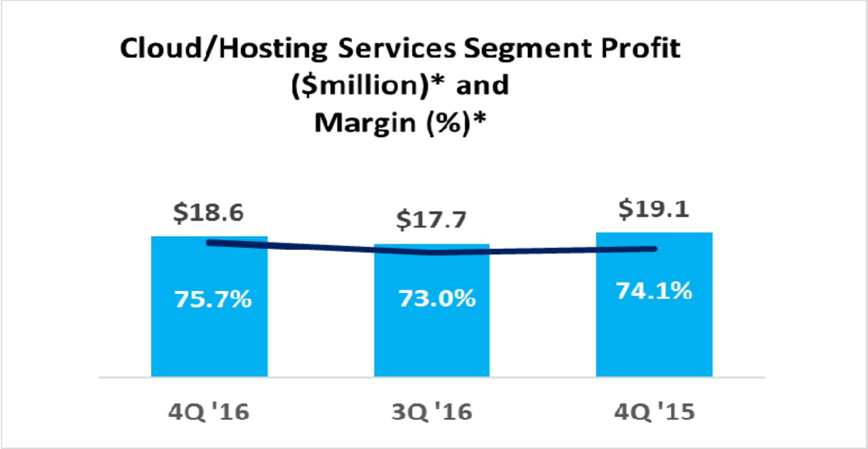


Approximately 25% of the Y/Y revenue decline is associated with a customer being acquired by a large social media company, with the remainder attributable to IP pricing declines.

Cloud/Managed Services Revenue & Segment Profit (non-GAAP)* and Margin (non-GAAP)*

- 4Q '16 Cloud/Hosting Y/Y revenue decline reflects continued negative impact of churn due to customer acquisition by large social media company
- 4Q '16 Agile Y/Y revenue decrease due to customer acquisition churn partially offset by revenue growth; Q/Q revenue increase reflects favorable revenue growth
- 4Q '16 Iweb Y/Y revenue declined due to lower BNOC
- 4Q '16 MH Y/Y revenue declined due to lower BNOC
- 4Q '16 Cloud/Hosting segment Y/Y segment profit decreased due to lower revenue; Q/Q segment profit reflects favorable power cost seasonality and cost reductions





Strengthening sequential performance in revenue generation and profitability.

Cash Flow and Balance Sheet Summary

($millions)	4Q'16	3Q'16	4Q'15	FY' 16
Net cash flows provided by operating activities (GAAP)	$ 10.2	$ 11.5	$ 17.8	$ 46.4
Capital expenditures:				
Maintenance capital	$ (1.8)	$ (1.9)	$ (3.5)	$ (7.4)
Growth capital	$ (4.5)	$ (10.9)	$ (11.2)	$ (38.8)
Free cash flow (non-GAAP)*	$ 4.0	$ (1.4)	$ 3.1	$ 0.3
Cash Interest	$ 7.6	$ 7.6	$ 6.7	$ 27.6
Unlevered free cash flow (non-GAAP)*	$ 11.6	$ 6.2	$ 9.8	$ 27.9
Balance Sheet				
Total Debt	$ 373.6	$ 375.1	$ 374.6	$ 373.6
Cash & cash equivalents	$ 10.4	$ 9.6	$ 17.8	$ 10.4

Transforming Balance Sheet

Financial Outlook

Expected Range ($ millions)	2016 Range and Actual	2017 Range
Revenue	$298 $297 $300	$275 to $285
Adjusted EBITDA (non-GAAP)*	$82 $81 $83	$84 to $87
Capital expenditures	$46 $47 $50	~$42

2016 Guidance Achieved; Reaffirming 2017 Outlook

*Reconciliation to GAAP on pages 11-15

Next Steps for the New INAP

- ✓ Continue to Rebuild Sales & Marketing Capabilities
- ✓ Reorient customers to INAPs growth products, and premier Tier 3-type data centers in 9 major markets.
- ✓ Launch Phase II and III of cost reductions:
  - Network optimization effort
  - Partner facilities evaluation
- ✓ Refinance Senior Debt in 2017
- ✓ Be Opportunistic in deal-making

Transforming INAP to Earn Peer-Group Multiples

Appendix

Reconciliation of Non-GAAP Financial Measures

Reconciliation of Non-GAAP Financial Measures

Normalized net loss is a non-GAAP measure. Normalized net loss is net loss plus exit activities, restructuring and impairments, stock-based compensation, strategic alternatives and related costs and organizational realignment costs.

(in thousands)

	Three Months Ended		
	December 31, 2016	September 30, 2016	December 31, 2015
Net loss (GAAP)	$ (13,110)	$ (91,297)	$ (11,269)
Exit activities, restructuring and impairments, including goodwill impairment	7,149	79,839	1,033
Stock-based compensation	280	1,253	2,582
Strategic alternatives and related costs	(136)	1,121	245
Organizational realignment costs	320	1,403	-
Normalized net loss (non-GAAP)	$ (5,497)	$ (7,681)	$ (7,409)

Reconciliation of Non-GAAP Financial Measures

Segment profit and segment margin are non-GAAP measures. Segment profit is segment revenues less direct costs of sales and services, exclusive of depreciation and amortization. Segment profit does not include direct costs of customer support or depreciation or amortization associated with direct costs. Segment margin is segment profit as a percentage of segment revenues.

(dollars in thousands)	Three Months Ended		
	December 30, 2016	September 30, 2016	December 31, 2015
Revenues:			
Data center and network services:			
Company-controlled	$ 22,561	$ 22,710	$ 23,310
Partner	9,751	9,837	9,955
IP connectivity	17,249	17,220	19,745
Total data center and network services	49,561	49,767	53,010
Cloud and hosting services	24,556	24,173	25,746
Total	74,117	73,940	78,756
Direct cost of sales and services, exclusive of depreciation and amortization:			
Data center and network services:			
Company-controlled	10,072	10,266	9,728
Partner	7,060	7,517	7,280
IP connectivity	7,154	7,259	7,760
Total data center and network services	24,286	25,042	24,768
Cloud and hosting services	5,960	6,520	6,666
Total	30,246	31,562	31,434
Segment Profit:			
Data center and network services			
Company-controlled	12,489	12,444	13,582
Partner	2,691	2,320	2,675
IP connectivity	10,095	9,961	11,985
Total data center and network services	25,275	24,725	28,242
Cloud and hosting services	18,596	17,653	19,080
Total	$ 43,871	$ 42,378	$ 47,322
Segment Margin:			
Data center and network services			
Company-controlled	55.4%	54.8%	58.3%
Partner	27.6%	23.6%	26.9%
IP connectivity	58.5%	57.8%	60.7%
Total data center and network services	51.0%	49.7%	53.3%
Cloud and hosting services	75.7%	73.0%	74.1%
Total	59.2%	57.3%	60.1%

Reconciliation of Non-GAAP Financial Measures

Adjusted EBITDA, adjusted EBITDA margin and adjusted EBITDA less CapEx are non-GAAP measures. Adjusted EBITDA is GAAP net loss plus depreciation and amortization, interest expense, provision (benefit) for income taxes, other expense (income), loss (gain) on disposals of property and equipment, exit activities, restructuring and impairments, stock-based compensation, strategic alternatives and related costs and organizational realignment costs. Adjusted EBITDA margin is adjusted EBITDA as a percentage of revenues. Adjusted EBITDA less CapEx is Adjusted EBITDA less capital expenditures.

	Three Months Ended					
	December 31, 2016		September 30, 2016		December 31, 2015	
Reconciliation of GAAP Net Loss to Adjusted EBITDA:	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Total Revenue	$ 74,117	100.0%	$ 73,940	100.0%	$ 78,756	100.0%
Net Loss (GAAP)	$ (13,110)	-17.7%	$ (91,297)	-123.5%	$ (11,269)	-14.3%
Add:						
Depreciation and amortization	19,021	25.7%	19,597	26.5%	25,250	32.1%
Interest expense	7,964	10.7%	7,878	10.7%	6,984	8.9%
Provision (benefit) for income taxes	236	0.3%	95	0.1%	(1,938)	-2.5%
Other expense (income)	(88)	-0.1%	(74)	-0.1%	(530)	-0.7%
(Gain) loss on disposal of property and equipment, net	(75)	-0.1%	25	0.0%	453	0.6%
Exit activities, restructuring and impairments, including goodwill impairment	7,149	9.6%	79,839	108.0%	1,033	1.3%
Stock-based compensation	280	0.4%	1,253	1.7%	2,582	3.3%
Strategic alternatives and related costs	(136)	-0.2%	1,121	1.5%	245	0.3%
Organizational realignment costs	320	0.4%	1,403	1.9%	-	0.0%
Adjusted EBITDA (non-GAAP)	$ 21,561	29.1%	$ 19,840	26.8%	$ 22,810	29.0%

Reconciliation of Non-GAAP Financial Measures

Adjusted EBITDA less CapEx is a non-GAAP measure. Adjusted EBITDA less CapEx is adjusted EBITDA less capital expenditures with Adjusted EBITDA for this non-GAAP measure defined as net cash flow provided by operating activities plus cash paid for interest, cash paid for taxes, cash paid for exit activities and restructuring, cash paid for strategic alternatives and related costs, cash paid for organizational realignment costs, payment of debt lender fees and other working capital changes less capital expenditures.

Reconciliation of GAAP Net Cash Flows Provided by Operating Activities to Adjusted EBITDA less CapEx:	Three Months Ended December 31, 2016	Three Months Ended September 30, 2016	Three Months Ended December 31, 2015	Year Ended December 31, 2016
Net Cash Flows provided by operating activites:	$ 10,185	$ 11,464	$ 17,815	$ 46,449
Add :				
Cash paid for interest	7,604	7,601	6,715	29,561
Cash paid for income taxes	22	11	21	165
Cash paid for exit activities and restructuring	1,229	776	859	3,584
Cash paid for strategic alternatives and related costs	512	187	-	3,876
Cash paid for organizational realignment costs	1,664	913	-	1,716
Payment of debt lender fees	-	-	-	1,716
Other working capital changes	345	(1,112)	(2,600)	(5,106)
Adjusted EBITDA (non-GAAP)	$ 21,561	$ 19,840	$ 22,810	$ 81,961
Less:				
Capital Expenditures (CapEx)	$ 6,250	$ 12,860	14,738	46,192
Adjusted EBITDA less CapEx (non-GAAP)	$ 15,311	$ 6,980	$ 8,072	$ 35,769

Reconciliation of Non-GAAP Financial Measures

Free cash flow and unlevered free cash flow are non-GAAP financial measures. Free cash flow and unlevered free cash flow are non-GAAP measures. Free cash flow is net cash flows provided by operating activities minus capital expenditures. Unlevered free cash flow is free cash flow plus cash interest expense.

(in thousands)

	Three Months Ended			
	December 31, 2016	September 30, 2016	December 31, 2015	FY'16
Net cash flows provided by operating activities	$ 10,184	$ 11,464	$ 17,815	$ 46,449
Capital expenditures:				
Maintenance capital	(1,717)	(1,935)	(3,472)	(7,270)
Growth capital	(4,533)	(10,925)	(11,266)	(38,922)
Free cash flow (non-GAAP)	3,934	(1,396)	3,077	257
Cash Interest Expense	7,604	7,601	6,715	27,575
Unlevered free cash flow (non-GAAP)	$ 11,538	$ 6,205	$ 9,792	$ 27,832

Adjusted EBITDA and forward looking projected adjusted EBITDA are non-GAAP measures. Adjusted EBITDA is GAAP net loss plus depreciation and amortization, interest expense, provision (benefit) for income taxes, other expense (income), loss (gain) on disposals of property and equipment, exit activities, restructuring and impairments, stock-based compensation, strategic alternatives and related costs and organizational realignment costs. The table below sets forth adjusted EBITDA for the full year 2016 and a forward looking projected adjusted EBITDA range for full-year 2017.

	Year Ended December 31, 2016		2017 Full-Year Guidance			
			Low		High	
	Amount	Percent	Amount	Percent	Amount	Percent
Total Revenue	$ 298	100.0%	$ 275	100.0%	$ 285	100.0%
Net Loss (GAAP)	$ (125)	-41.9%	$ (6)	-2.2%	$ (4)	-1.4%
Add:						
Depreciation and amortization	77	25.8%	71	25.8%	71	24.9%
Interest expense	31	10.4%		0.0%		0.0%
Provision for income taxes	1	0.2%		0.0%		0.0%
Other expense (income)	0	0.1%		0.0%		0.0%
(Gain) loss on disposal of property and equipment, net	(0)	0.0%		0.0%		0.0%
Exit activities, restructuring and impairments, including goodwill impairment	87	29.3%	7	2.5%	6	2.1%
Stock-based compensation	5	1.7%	8	2.9%	10	3.5%
Strategic alternatives and related costs	1	0.5%	2	0.7%	2	0.7%
Organizational realignment costs	4	1.5%	2	0.7%	2	0.7%
Adjusted EBITDA (non-GAAP)	$ 82	27.5%	$ 84	30.5%	$ 87	30.5%
Capital Expenditures (CapEx)	46.2	15.5%				
Adjusted EBITDA less CapEx	35.8	12.0%				