

# LodgeNet Interactive Corporation

## Craig-Hallum

### Alpha Select Investment Conference

October 6, 2010

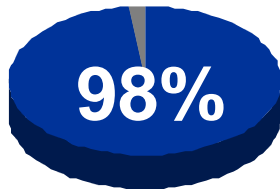


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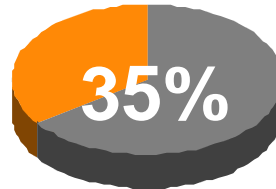


# LodgeNet Interactive Overview

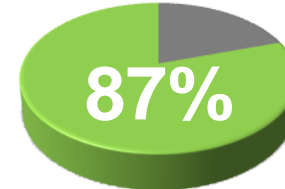
- **World's Largest Provider of Media & Connectivity Services to Hospitality Businesses**
  - 1.9 Million Rooms
  - Top 10 Multiple System Operator (“MSO”) Equivalent
  - 85% Share of VOD-Served Market
- **Connect, Inform, & Entertain Over 500 Million Travelers**
  - Highly Interactive Audience



Guests Turn on Television



“Go Interactive”



“Log On” to the Internet\*

- Powerful Guest “Touch Points” in High-Definition TV & Internet

- **Leveraging Hospitality Expertise to Establish Presence in Healthcare**

\* Source: 2008 Zoomerang Survey



# LodgeNet: Investment Highlights

## **I. Largest Provider with 85% VOD Market Share**

- Recurring Revenue Based on Long-Term Contracts
- Strategic Relationships with Hotels and Content Providers
- Highest-Quality Entertainment Experience

## **II. Solid Growth Strategy**

- High Definition TV Systems Producing Attractive Economics
- Increasingly Diversified Revenue Streams
- Next Generation TV Apps Scheduled for 2011 rollout

## **III. Strong Free Cash Flow Generation**

- Proven Ability to Delever



# Hospitality Revenues (in millions, LTM 6/30)



**\$279.4**

## Guest Entertainment

- Pay-Per-View Entertainment Content Sold to Hotel Guests in 1.9 Million Rooms
- Movies, Music, Games, Subscription Sports, and More



**\$133.7**

## Hotel Services

- Cable Television Programming Sold to Hotels, Serving 1.1 Million Rooms
- Internet Access Services Sold to Hotels, Serving Over 200 Thousand Rooms



**\$36.9**

## System Sales & Related

- Domestic and International Sales of VOD, FTG, and Internet Access Systems
- Professional Solutions for Professional Design, Project Management, and Installation Services



**\$8.4**

## Advertising

- Traveler Targeted Advertising in More Than 1 Million Hotel Rooms



# LodgeNet Healthcare



## Interactive System Sales to Hospitals

53 Hospitals Installed – 60 Under Contract (as of 6/30/10)

### Healthcare Drivers:

- ◆ Patient Education
- ◆ Patient Safety
- ◆ Patient Satisfaction

### Healthcare Economics:

- Interactive System Sale Per Bed
- Recurring Revenue Per Bed Per Month
- Gross Profit Margin

\$1,000 - \$1,500

\$25 - \$35

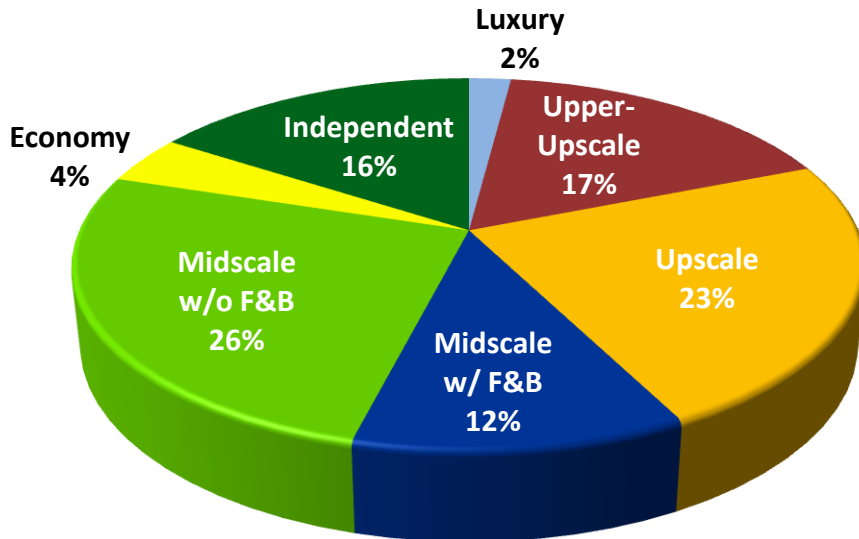
40%+

**LTM 6/30 Revenue: \$7.1 Million**



# World's Largest Provider of Media & Connectivity Services to the Hospitality Industry

## 1.9 Million Rooms

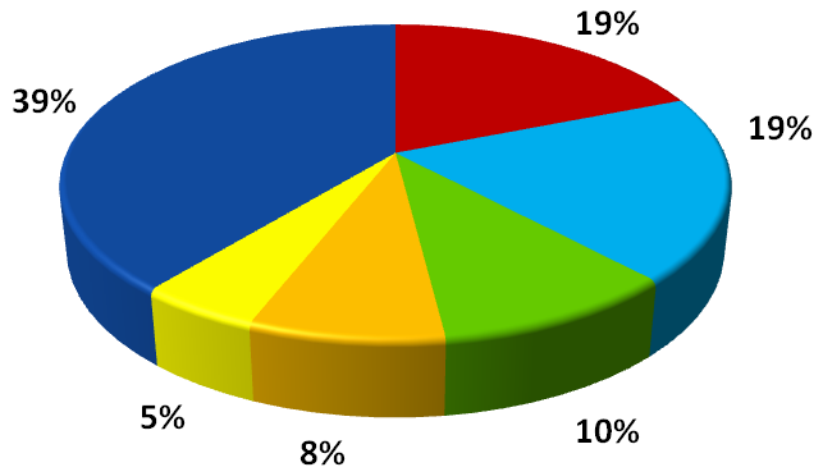


(as of 12/31/09)



# Broad & Diversified Customer Base

Focused by Brand...Diversified by Decision



- Marriott
- Hilton
- Intercontinental
- Starwood
- Hyatt
- Other

(Based on Number of Rooms)



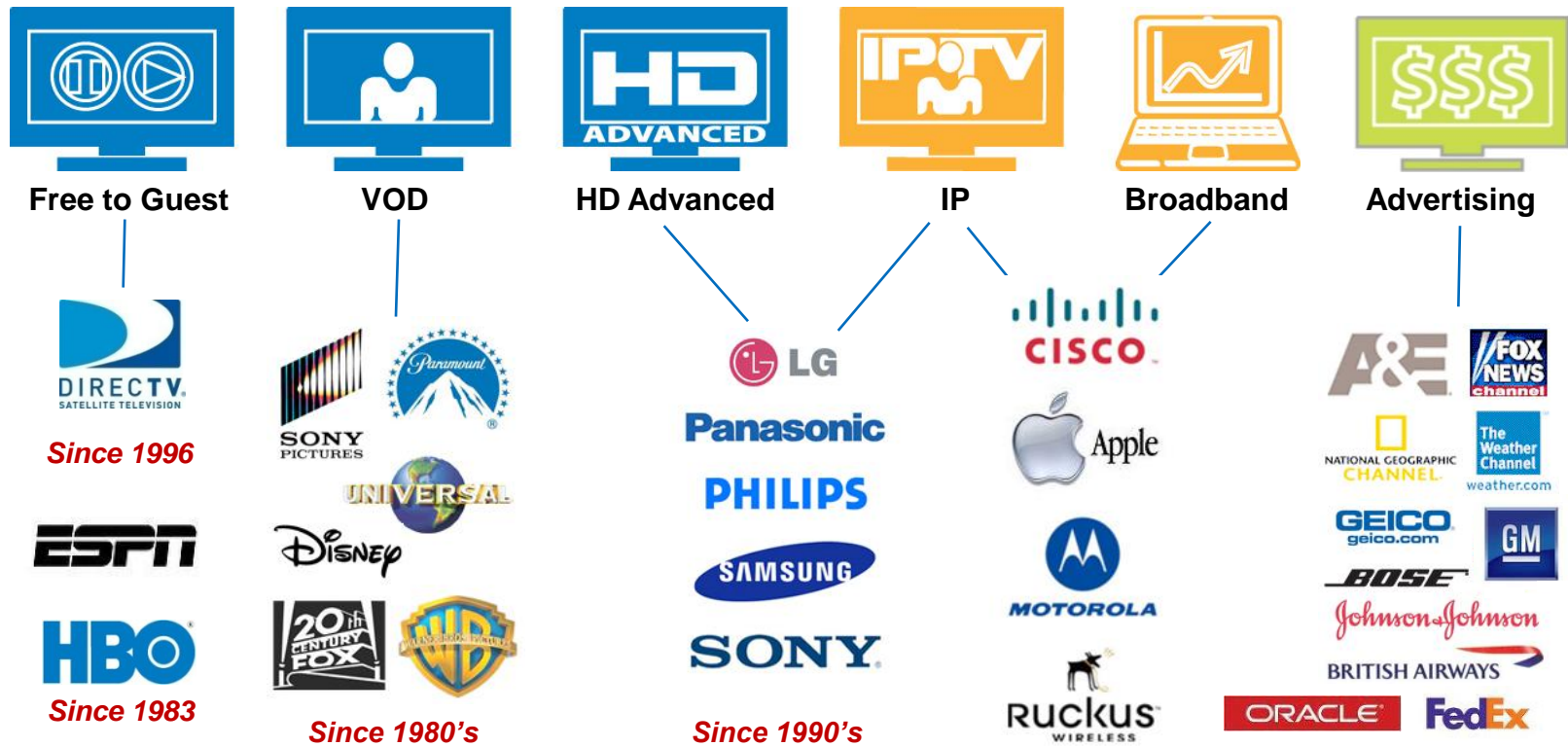
**Over 9,000 Property Level Agreements**

(as of 12/31/09)



# Strategic Partners

## Long-Standing Industry Relationships



# LodgeNet's Competitive Advantage

## ▪ Premium Viewing Experience

- Large TV Screens and HD Displays Allow for Higher Quality Experience than Portable Devices
- Better Picture Quality Than Internet-Based Content; No Bandwidth Restrictions
- Easily Accessible and Readily Available Entertainment

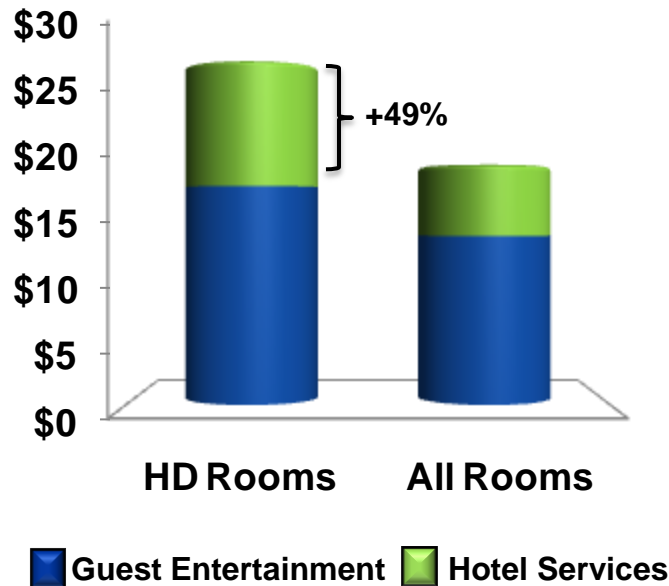


## ▪ High Quality Content

- Alternative to the Theater: First-Run Movies 6-9 Weeks Prior to DVD Distribution
- Relationships and Contracts with Studios Gives Access to Widest Assortment of Content
- Studios Rely on LodgeNet's Secure Network and Broad Distribution Capabilities
- Select On-Demand Television Programming Including Hotel SportsNet via DirecTV Sporting Event Coverage Away from Home Markets

# Attractive High Definition System Economics

Monthly Revenue per Room  
Prior Three Quarters



- **HD Rooms = 49% More Revenue**
  - 42% More Guest Entertainment
  - 61% More Hotel Services (TV Programming)
- **HD Room Revenue Up 1.2%** (vs. prior quarters)
  - Guest Entertainment Up 1.7%
  - Compare: Guest Entertainment Down (7.2)%
- **Solid Return on Capital Investment**
  - \$175 to \$245 Investment per Room
  - Capital Returned within 18 to 24 Months
  - New 5-7 Year Contracts Upon Signing / Renewal

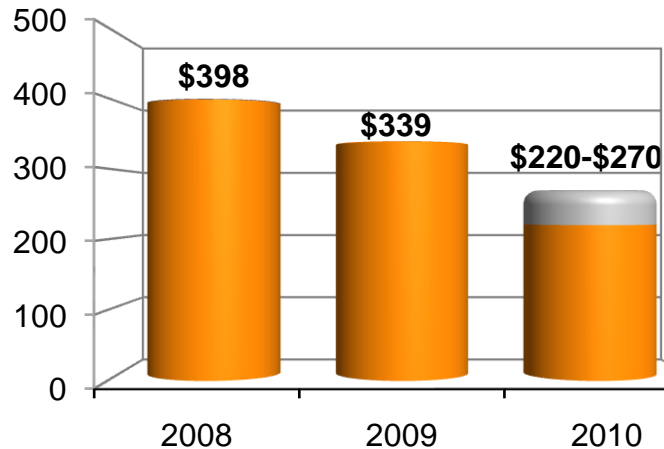
**HD Systems Now in 246,000 Rooms (Only 14% of Room Base)**

Significant Revenue Opportunity as HD Penetration Increases

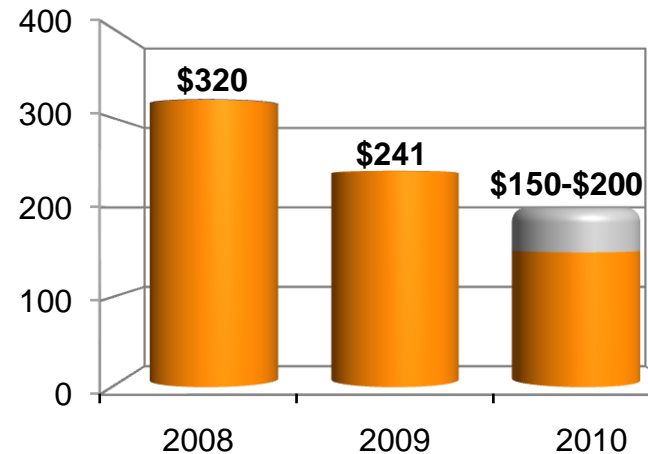
# High Definition Investment: Decreasing Per Room

Gains From Technology Advances and Business Model Changes

## New HD



## Renewal HD



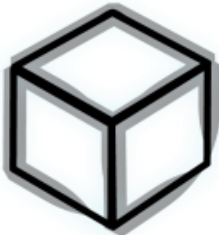
### ➤ Technology Advances:

- "Riding the Technology Cost Curve"
- TV Companies "Embedding" LodgeNet Technology into HDTV Sets

### ➤ Partners Program: Hotels Purchasing In-Room and FTG Equipment



# Next Generation Envision Platform



**envision™**

**Deployment Planned for 1H 2011**

## **New Subscription and Transactional Revenues Internet-Connected TV Platform**

### **Envision DV (Digital Video)**

Lower-Cost Solution

Most Scalable and Widely Deployable Option

### **Envision IP (Internet Protocol)**

High-end Solutions w/ Powerful Graphics Delivery

Future-Ready for Converged Networks

## **Advanced Applications**

### **eCompendium**

- Info App
- Survey App
- Promo App
- Events Channel App

### **eConcierge**

- Wakeup App
- Hotel Integrated Apps
- City Info App
- Restaurant Reservation

### **eConnect**

- News, Weather, Sports App
- Hometown News App
- Flight Info App

### **eConference**

- Group Event Channel
- Greeter App
- Group Event VOD

### **eBranding**

- Hotel Reservation App
- eCommerce App
- Vacation Club App



# Increasing Impact of Diversification Based on Revenue

## LodgeNet Will Continue to Grow its Hotel Services and Other Revenue Streams

### ▪ Hotel Services

- Increase Penetration of HDTV & Broadband Upgrades

### ▪ System Sales

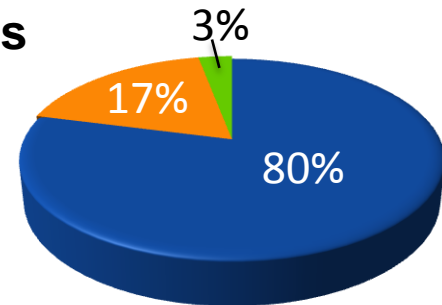
- Increase with improved Hotel Results

### ▪ Advertising Services (THN)

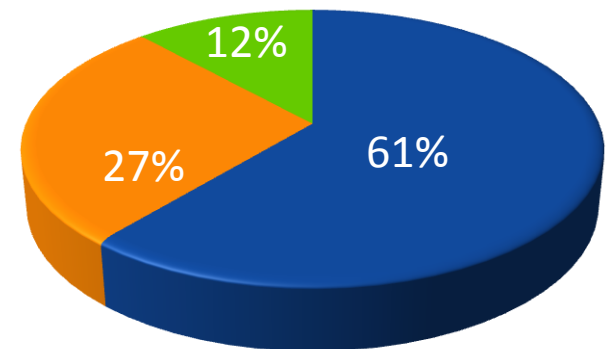
- Solid Growth Expected with Improving Economy
- Very Attractive Customer Demographic to National Advertisers

### ▪ Healthcare

- Significant Revenue Opportunity in Underserved Market



FY 2006 Revenue:  
**\$288.2M**

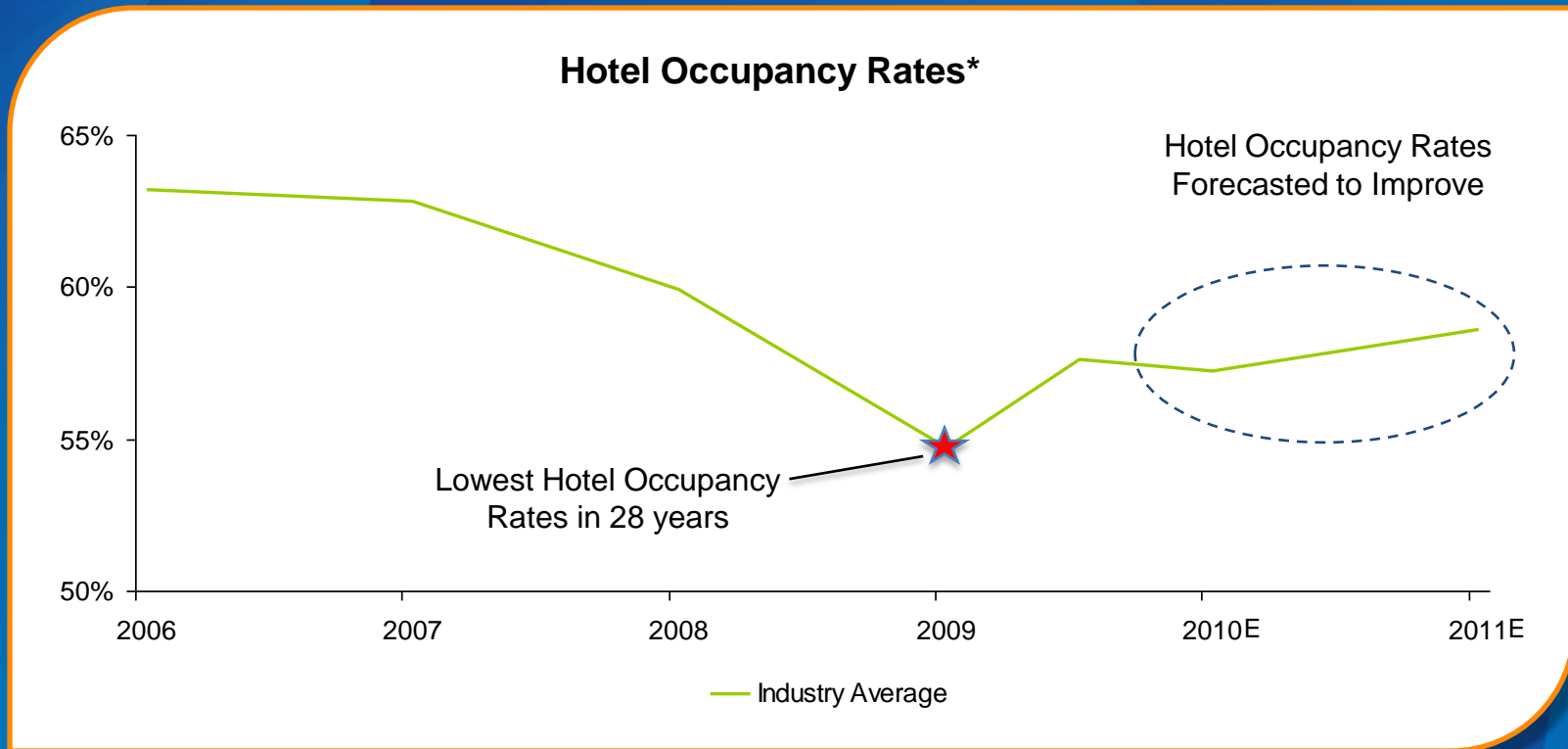


FY 2009 Revenue:  
**\$484.5M**

■ Guest Entertainment   ■ Hotel Services   ■ System Sales, THN & Healthcare



# Positioned to Capitalize on Economic Recovery



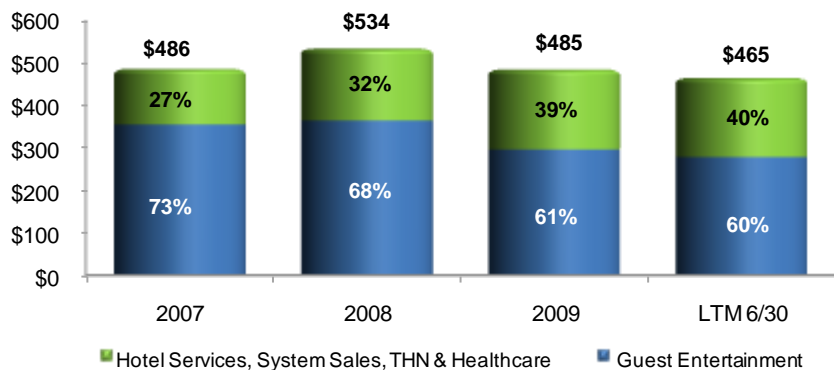
- Recent Occupancy Trends Show Steady Recovery Throughout Lodging Industry
- Long-Term Opportunity as Industry Returns to More Normalized Occupancy Levels

\* Source: PricewaterhouseCooper and Smith Travel Research

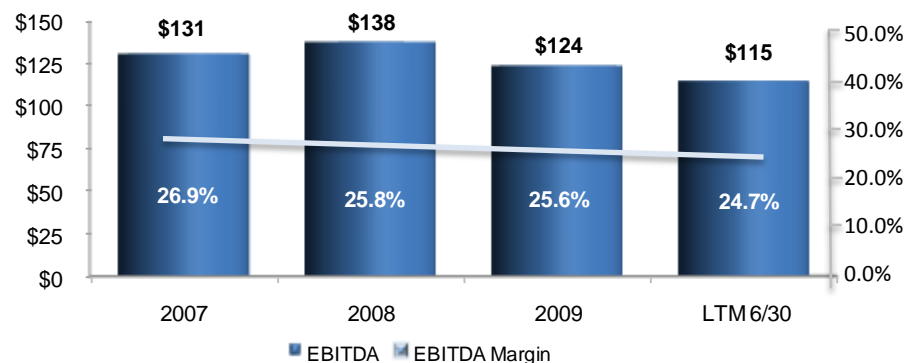


# Historical Financial Performance (in millions)

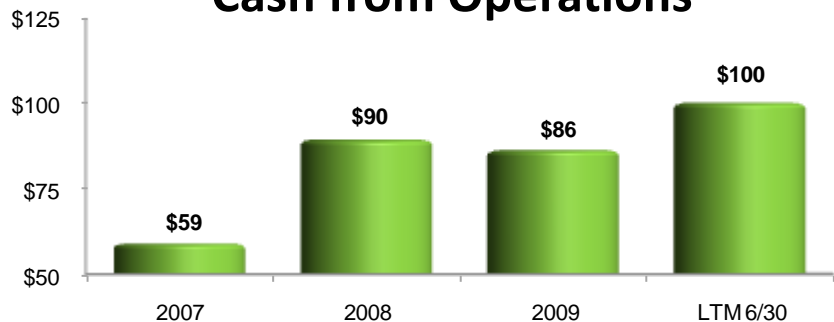
## Revenues



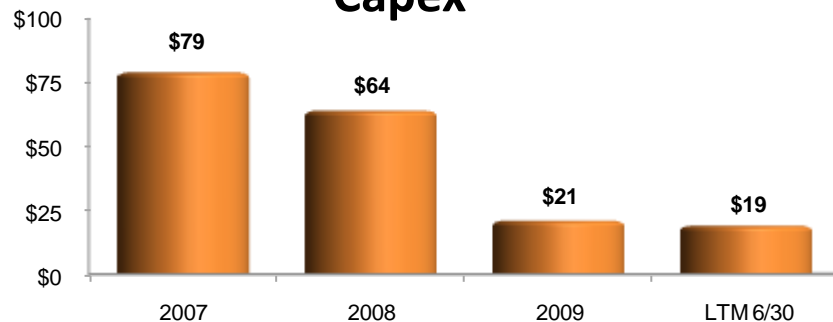
## EBITDA



## Cash from Operations

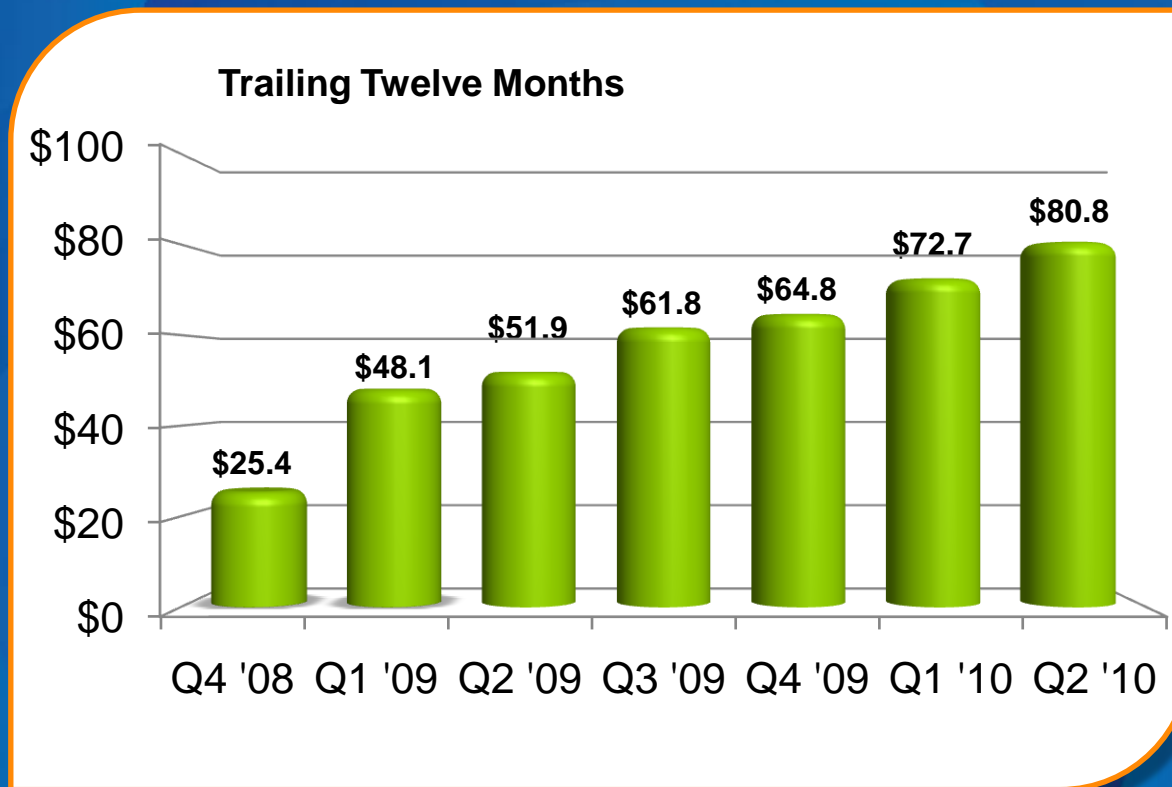


## Capex



# Free Cash Flow\* Generation (TTM \$ in millions)

## Consistent Ability to Generate Free Cash Flow

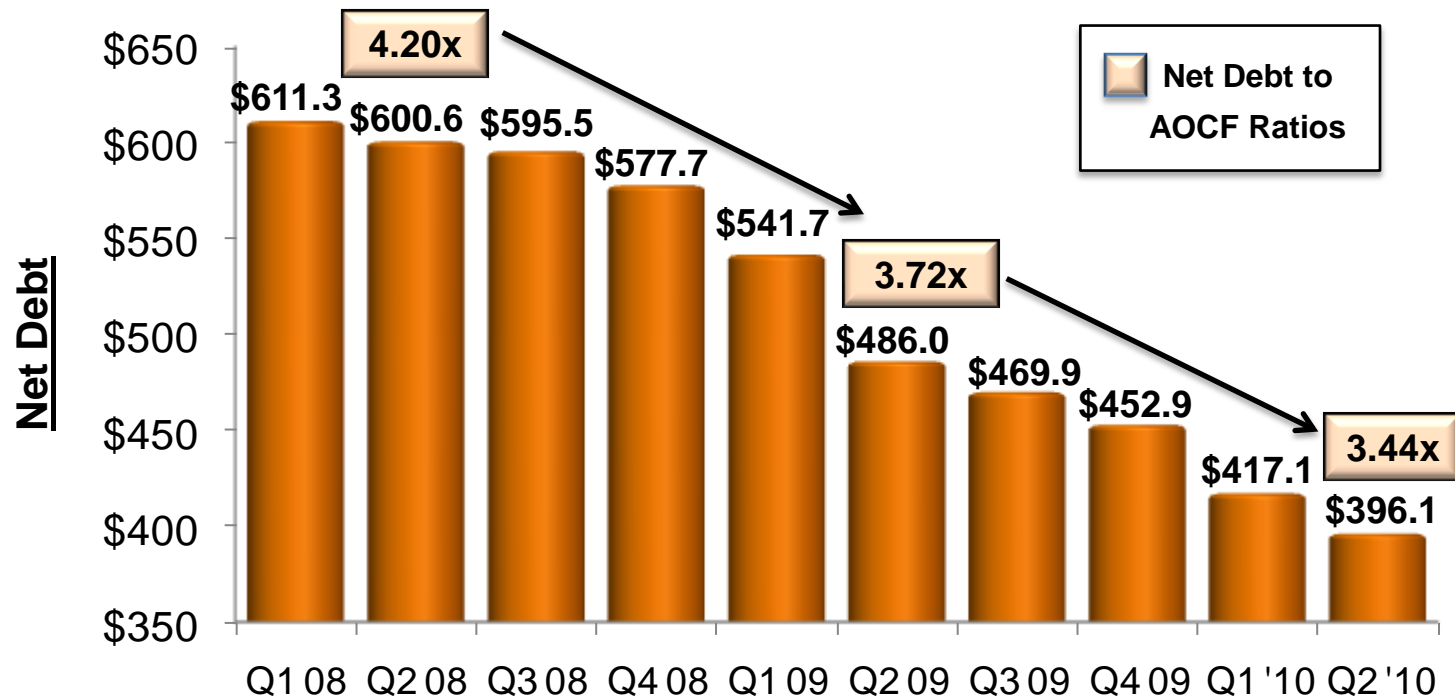


- Lower Capex Due to Fewer Installations and Lower Costs Per Room
- Management of Working Capital
- Lower Interest Expense

\* Adjusted Operating Cash Flow Definition - see slide 20



# Proven Ability to Reduce Leverage (in millions)



- LodgeNet Continues to Reduce Leverage and Comply With All Financial Covenants
- Company Recently Explored Potential of Refinancing Bank Debt to Reduce or Remove Maintenance Covenants - Terms of Refinancing Options Not Acceptable



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# Reconciliation of Operating Income to Adjusted Operating Cash Flow

Operating Income

Plus: Depreciation and Amortization

Plus: Amortization of Purchased Intangibles

Plus: Restructuring/Organization Charges and Integration Expenses

Plus: Share-Based Compensation

Plus: Impairment Charge

Less: Insurance Proceeds

Equals: Adjusted Operating Cash Flow

# Reconciliation of Free Cash Flow

Cash from Operations

Less: Cash Used for Investing Activities, including Growth-Related Capital

Equals: Free Cash Flow