Tri-State Telecommunications Conference
Sun Valley Idaho

Business Planning Done Right

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December 2018 Report & Order

Takeaways – Federal Support

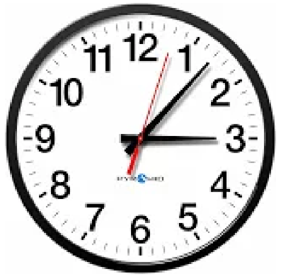
- Strategic Takeaways from the Order
  - There is more money designed to ensure sufficient, predictable support for rate-of-return incumbent eligible telecommunications carriers
  - Order reverses preceding trend of support erosion, creating a more robust and predictable foundation aimed at a more substantive level of broadband.
  - Creates a precious window of opportunity where revenues are stable and robust to plan our pivot away from reliance on support revenues.

Defining What's Intended / Desired Financially

At Risk Revenues Per Line - JSI Peer Group - 2,500-4,000:	**$ 1,181**
Assumed Lines:	**3,500**
Annual Support Revenues:	**$ 4,133,500**
Assumed EBITDA Margin:	**35%**
New Revenues Required to Replace Support Margin:	**$ 11,810,000**

$90 ARPU			
Desired Support Revenue Hedge			
25%	50%	75%	100%
2,461	4,923	7,384	9,846

$300 ARPU			
Desired Support Revenue Hedge			
25%	50%	75%	100%
738	1,477	2,215	2,954



Short-Term Revenue trends are quite positive

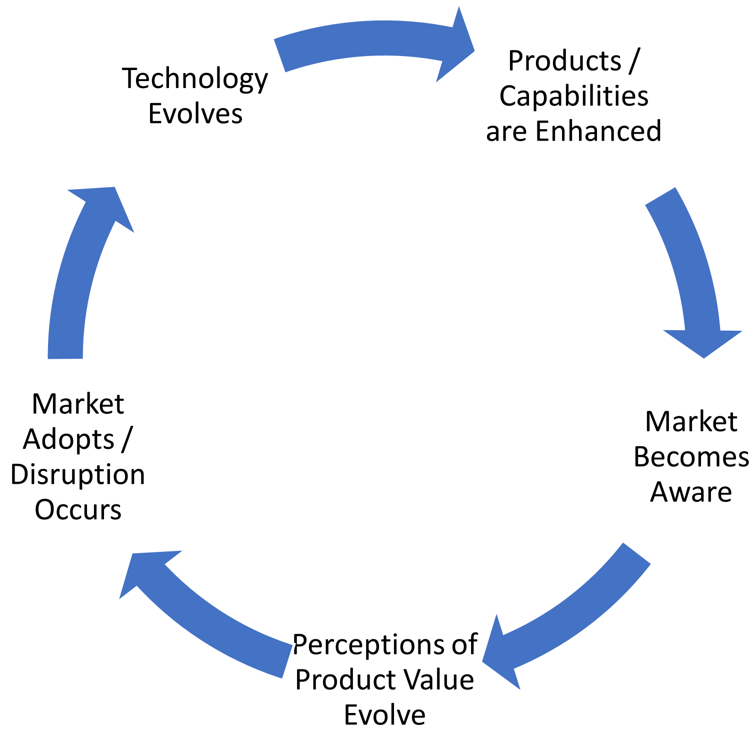
Mid-Term Revenue trends are considerably more hazy:

Year 11 of ACAM?

The Circle of Life, and for the Less Diligent – Death.

Everyone in this room is in the business of delivering technology-based solutions, and the pace of technological change is only accelerating.

As providers of technology-based solutions we must continually reshape ourselves to remain relevant.



The Impact of Technology and Digital Disruption

- In 1958, corporations listed in the S&P 500 had an average stay of 61 years.
- By 1980, the average stay had declined sharply to 25 years.
- By 2011, the average tenure dropped to 18 years.
- At the present rate of churn, estimates are that three-quarters of today’s S&P 500 will be replaced by 2027.

- Since 2000, 52 percent of companies in the Fortune 500 have either gone bankrupt, been acquired, or ceased to exist as a result of digital disruption/technological change.

Revenue Trends – Mid Term…Reliant on Adaptation

- There is an inexorable link between margin potential and product relevance/value
- Growth in our margin is directly tied to:
  - The intrinsic value in the products we offer to the marketplace
  - Our ability to breed awareness of what we have to offer and to actively sell our solutions

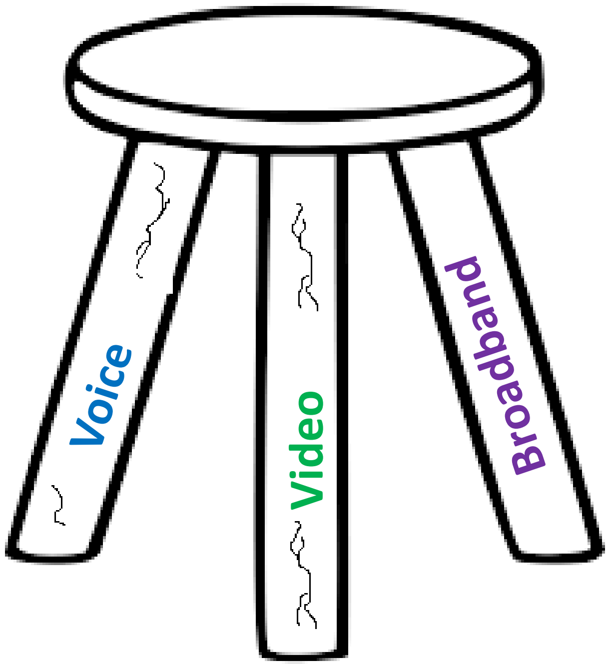
Relevance to the Customer

Not that long ago, the summit of customer relevance was the Triple Play bundle

Increasingly, our three-legged stool of relevance is being undermined by shifting customer preferences

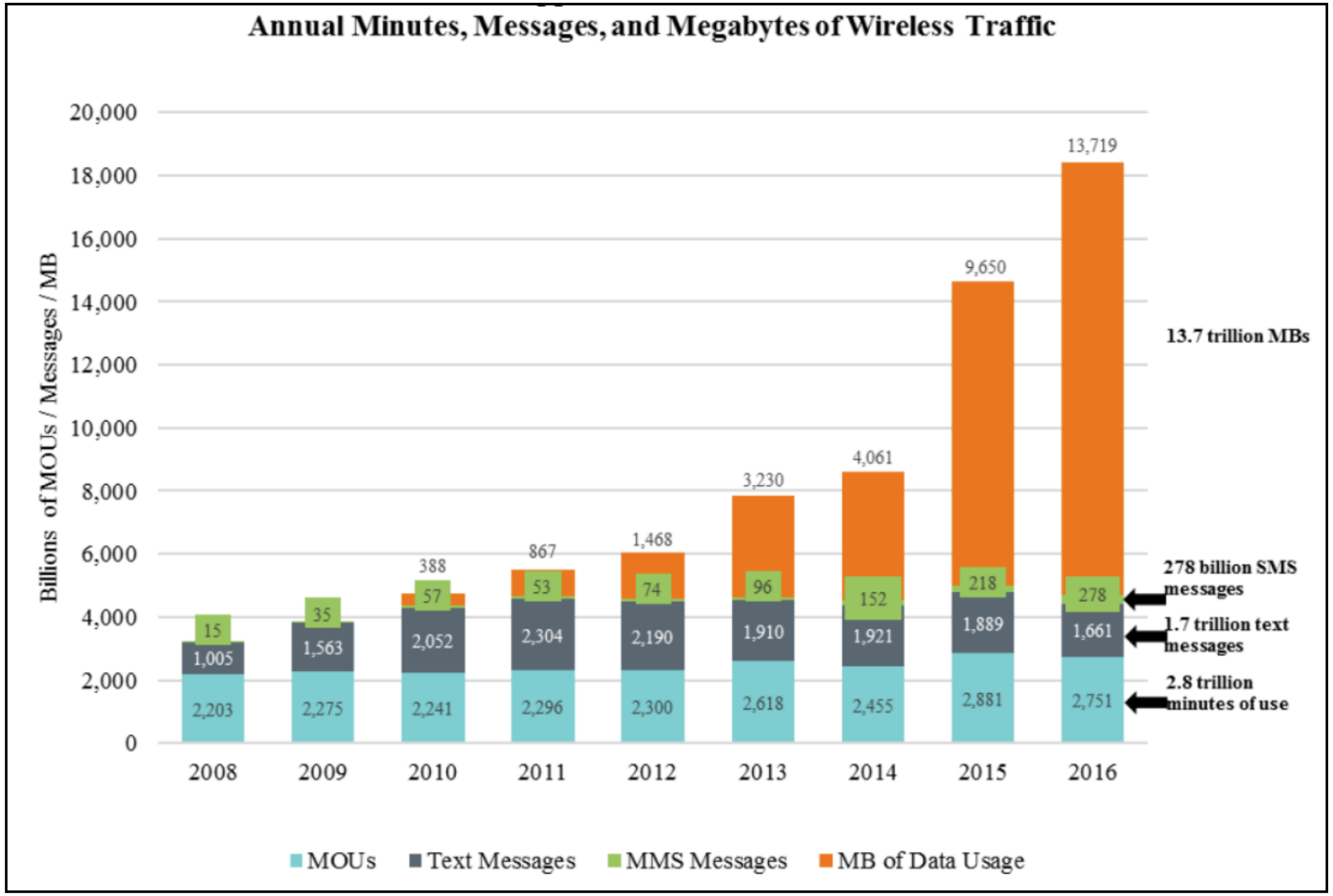
This exaggerates the incline relative to the transformation we are all attempting to engineer

- We must also address the prospect of broadband commoditization
- **We must carefully evaluate where we can inject ourselves to enrich our value proposition to both business and residential communities**

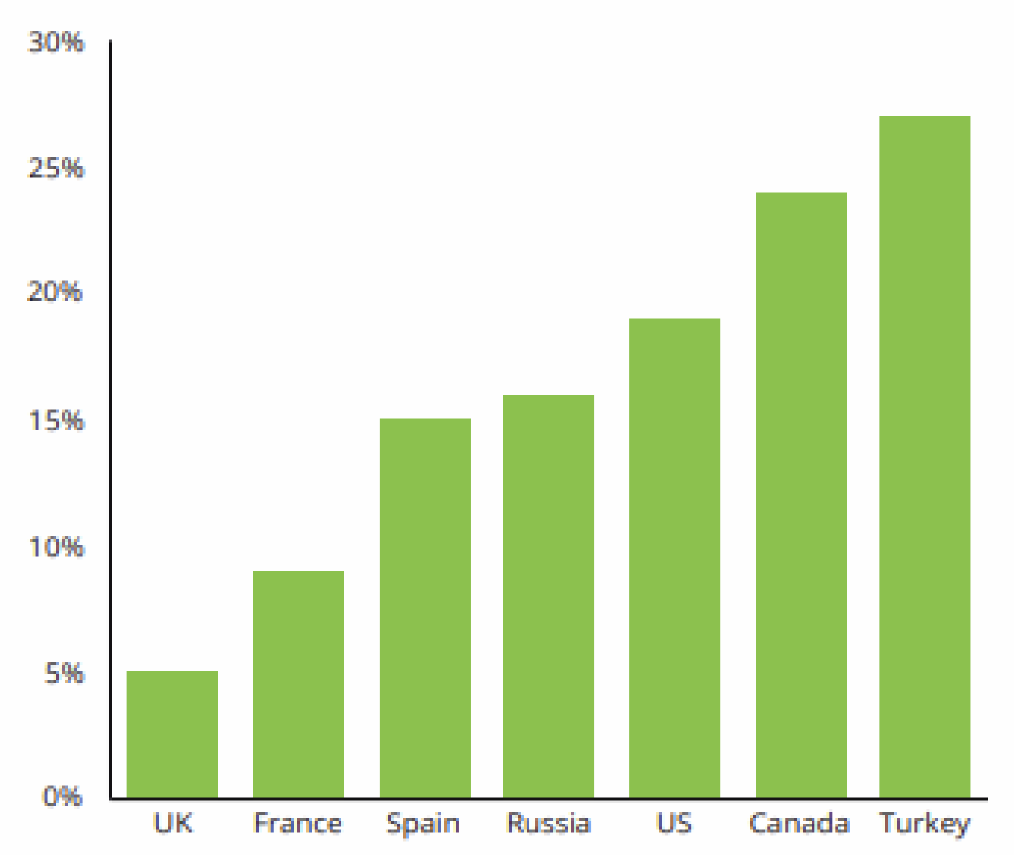


Revenue Trends in the Mid-Term – It Depends…

Mobile Usage Trends



Mobile Only Broadband Users



Musk's Grand Vision

- Star Link
  - LEO constellations
  - 4,425 satellites – Initial 60 launched on May 23rd, target 1,800 within next 2 years (authorized for 12,000).
  - Initial 800 deployment will provide coverage to United States.
  - Target 1 Gig at low latency less than 20 ms
  - Estimated ARPU $62.50
  - Enterprise customer delivery of 10Gbps
  - Starship – estimated to be capable of 440 satellites per launch. Availability 2022-2023.

Projecting Steady State…

Present 2025 2029

In light of the uncertainty in the mid-term:

- Competitive threats posed by evolving technology
- Evolving technology changing the way customers perceive value
- Impact of possible recovery changes…..

Our revenue trends and outlook will be directly predicated on our ability to:

- **Define strategically and competitively where we need to be not next year or year after, but where we need to be, financially and competitively, when these alternative technologies are in full commercial bloom, and when financial risk will be presenting itself.**

The Importance of Pragmatism and Planning

- Effective – Producing the desired or intended results
- First and foremost – we must define our intentions or what we want to occur:
  - Financially
  - Operationally
  - Competitively / brand position
- These definitions are divided into declarations of:
  - Strategy
  - Specific data points / metrics illustrating progress / realization towards strategic goal

Planning/Management & Data Metrics Lifecycle

Metrics / Dashboards constructed without an underlying set of strategic goals are like a map without a defined destination

Evaluation of tactical alternatives / options without a thoughtfully constructed longer-term vision can create a disjointed set of actions that may not reconcile well or gel to form a cogent thoughtful path

A strategy and thoughtful set of tactics may be undermined by a lack of execution not anchored in a precise understanding of the relative performance of metrics that underpin your objectives

Defining Foundational Vision

2025 Strategic Vision

Once the vision is established – Your approach to analytics can begin to be constructed in a way that is relevant to your strategic focus, and to the tactics you construct to realize your company’s vision

Example:

- Replace 35% of regulated support revenue over the next 6 years, and 75% over the next 10
- Be the #1 provider of technology solutions and IT-based services in every market we operate in
- Deliver a world class, objectively verifiable customer experience

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Foundational Data Elements

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How much revenue do you need?

How efficiently do you produce resulting cash flow?

Capital, An Essential Asset – What's Your Capital Capacity?

- Debt to EBITDA Ratio: Relationship between total debt and consolidated EBITDA
  - Optimal Level 3.5
  - Top Level 4.5-5.0
- Debt Service Coverage Ratio: Relationship between cash flow and debt services
  - Threshold Level 1.25
- Equity to Asset Ratio: What percentage of a company's assets do investors own
  - Threshold Level 0.5
- Current Ratio: Relationship between current assets and liabilities – liquidity ratio
  - Threshold Level 1.0

Practical Implication of Financial Ratios

Assets

Current Assets	
Cash	
Total Cash	2,929,119.65
Accounts Receivable	
Total Accounts Receivable	353,889.85
Total Inventory	418,323.64
Total Prepayments	56,628.64
Total Current Assets	3,757,961.78
Non-Current Assets	
Total Other Investments	4,864,344.27
Total Telephone Plant Under Construction	576,528.54
Total Prefunded Assets	687,231.18
Total Deferred Compensation	15,702.50
Total Non-Current Assets	6,143,806.49
Total Fixed Assets	38,699,205.98
Depreciation and Amortization	
Total Depreciation and Amortization	(20,887,959.31)
Total Assets	27,713,014.94

Liabilities & Equity

Liabilities	
Total Accounts Payable	184,621.44
Total Customer Deposits	21,700.00
Total Accrued Liabilities	432,952.50
Total Notes Payable	900,000.00
Total Deferred Compensation	15,702.50
Total Liabilities	1,554,976.44
Equity	
Total Membership and Capital Certificates	74,290.00
Total Patronage Capital Credits	9,512,385.89
Total Retained Earnings or Margins	16,627,843.79
Total Equity	26,158,038.50
Total Liabilities & Equity	27,713,014.94

Assumed EBITDA = $3.2M

Initial Capital Capacity		
Debt to EBITDA Ratio of 5.0	$	16,000,000
Capital Capacity @ DSC of 1.25	$	20,000,000
Asset to Equity Ratio @.5	$	24,000,000
Current Ratio	$	22,500,000

Efficient Use of Capital is Essential

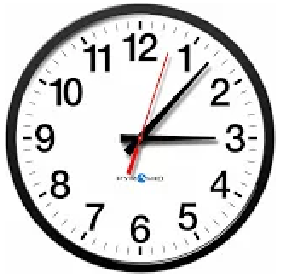
Tactical Steps and Specific Goals Underwriting Vision Achievement

- Now that we understand our financial target, the timing of its desired achievement, and a basis for understanding capital available to underwrite its pursuit, how do we assess the attractiveness of alternatives?
- More Data!

Employing an Analytical Decision Making Process

- Strategic Plan / Vision
  - Available Opportunities/ Strategic Paths
    - Acquisition Opportunity / Path 1
    - Acquisition Opportunity / Path 2
    - Optimization Initiative 1
    - Optimization Initiative 2
    - Organic Expansion Market 1
    - Organic Expansion Market 2

Finite 

Finite 

Finite 

Insightful Metrics

- **<u>Net Present Value (NPV)</u>**: Is the value of all future cash flows (positive and negative) of an investment discounted to the present as forecasted over a defined period

- Basic use is to determine the financial value of a business, investment or initiative – will it generate a greater return than other alternatives with a defined or assumed return?

$$NPV_{XYZ} = \frac{Z_1}{1+r} + \frac{Z_2}{(1+r)^2} - X_0$$

Z_1 = Cash flow in time 1
Z_2 = Cash flow in time 2
r = Discount rate
X_0 = Cash outflow in time 0 (*i.e.*, the purchase price / initial investment)

Just use the Excel formula…

Insightful Metrics

- **<u>IRR</u>**: Internal rate of return equals the annualized return over the model period examined which would return a net present value of $0
- Both IRR and NPV are insightful metrics that are particularly useful in examining the efficiency
  of capital return between multiple investment alternatives
  - Different build alternatives
  - Acquisition versus organic expansion
  - Differing acquisitions

Insightful Metrics

- <u>Return on Capital Employed (ROCE)</u> – a metric for examining profitability and efficiency with which capital is being employed

$$\text{ROCE} = \frac{\text{EBIT}}{\text{Capital Employed*}}$$

Capital Employed = Total Assets – Current Liabilities

ROCE is another metric that provides an objective means by which to assess capital efficiency, allowing companies one key data point by which to assess performance of multiple affiliates or alternative acquisitions

Efficiency

Efficiency of Action – Time and Return

- **<u>Average Capital Cost Per Acquired Customer (ACCAC)</u>** Capital expended to bring on a customer
  - Cost to acquire
  - Capital investment devoted to bring on a customer
- Can target 2025 revenue / margin be achieved / financed via market expansion at a realistic ACCAC?
  - (Have you integrated your tactical plan into a long-term forecast? Do you have the capital to underwrite your plan?)
- Are you adding customers at your target ACCAC?

Value of Metrics to Decision Making

A Case in Point – CBOL Optimization

Company Size	3,500
Access Line Market Share	55%
Total Market	6,364
Broadband % of Access Lines	70%
Total Broadband Lines	2,450

Available Market - No Data Subscription	3,914
Target Re-Capture	15%
Target Customers	587

Average CBOL Rate	$	70.00
EBITDA Margin		50%
Monthly EBITDA Per Custo	$	35.00

Theoretical Campaign Parameters		
12 Month Marketing Campaign	$	60,000
1/2 Fully Loaded Marketing FTE	$	40,000
Monthly Churn Rate		1.5%
Target %		15%

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Marketing Costs Inc. FTE	$ 8,333	$ 8,333	$ 8,333	$ 8,333	$ 8,333	$ 8,333	$ 8,333	$ 8,333	$ 8,333	$ 8,333	$ 8,333	$ 8,333
CBOL Adds		49	49	49	49	49	49	49	49	49	49	49
Cumulative CBOL Adds		49	98	147	196	245	294	343	392	441	490	539
Churn - Per Month												
Adds in Billing			49	98	147	196	245	294	343	392	441	490
New Service Margin	$ -	$ -	$ 1,715	$ 3,430	$ 5,145	$ 6,860	$ 8,575	$ 10,290	$ 12,005	$ 13,720	$ 15,435	$ 17,150
Margin Net of Costs	$ (8,333)	$ (8,333)	$ (6,618)	$ (4,903)	$ (3,188)	$ (1,473)	$ 242	$ 1,957	$ 3,672	$ 5,387	$ 7,102	$ 8,817

	Month 13	Month 14	Month 15	Month 16	Month 17	Month 18	Month 19	Month 20	Month 21	Month 22	Month 23	Month 24
Marketing Costs Inc. FTE	$ 8,333	$ 8,333										
CBOL Adds	49											
Cumulative CBOL Adds	588	588										
Churn - Per Month	9	9	9	8	8	8	8	8	8	8	8	7
Adds in Billing	530	570	562	553	545	537	529	521	513	505	498	490
New Service Margin	$ 18,556	$ 19,963	$ 19,663	$ 19,368	$ 19,078	$ 18,792	$ 18,510	$ 18,232	$ 17,959	$ 17,689	$ 17,424	$ 17,162
Margin Net of Costs	$ 10,223	$ 11,629	$ 19,663	$ 19,368	$ 19,078	$ 18,792	$ 18,510	$ 18,232	$ 17,959	$ 17,689	$ 17,424	$ 17,162

	Month 25	Month 26	Month 27	Month 28	Month 29	Month 30	Month 31	Month 32	Month 33	Month 34	Month 35	Month 36
Marketing Costs Inc. FTE												
CBOL Adds												
Cumulative CBOL Adds												
Churn - Per Month	7	7	7	7	7	7	7	7	7	6	6	6
Adds in Billing	483	476	469	462	455	448	441	435	428	422	415	409
New Service Margin	$ 16,905	$ 16,651	$ 16,402	$ 16,156	$ 15,913	$ 15,675	$ 15,439	$ 15,208	$ 14,980	$ 14,755	$ 14,534	$ 14,316
Margin Net of Costs	$ 16,905	$ 16,651	$ 16,402	$ 16,156	$ 15,913	$ 15,675	$ 15,439	$ 15,208	$ 14,980	$ 14,755	$ 14,534	$ 14,316

And the Answer is…

	Year 0	Year 1	Year 2	Year 3
Net Margin	$ (100,000)	$ 94,325	$ 222,395	$ 186,933

NPV	$ 302,222
IRR	128%

What are the measurable impacts?

- Meaningfully accretive cash flow, particularly if churn can be managed
- At 1.25 DSC ratio, $1.4 million dollars in additional debt capacity
- Higher capital efficiency ROCE as EBIT increases with no capital investment

Another Example – Incremental Broadband Edge Out

Initiative Name	Apple Pie Way
Initiative Investment Made (Year)	2019
Cost Developed By	John Hancock
Total Cost of Project - Hardware & Placement	$ 80,692.47
Cost To Acquire Per Subscriber	$ 50.00
Incremental Cost Per Res Sub - Capital Costs	$ 1,476.93
Incremental Cost Per Bus Sub - Capital Costs	$ 1,765.37
Cost of Capital	5.50%
Tax Rate (net of NOLs)	
Homes Passed	60
Businesses Passed	-
Residential ARPU	$ 69.45
Business ARPU	$ -
Operating Margin	85.00%
OSP Depreciation Rate	0.410%
COE Depreciation Rate	1.25%
CPE Depreciation Rate	1.25%
Calculated Composite Dep. Rate	0.52%

Residential ARPU		
Package	**Price**	**Package Take Rate %**
50 Mbps	$ 59.95	55.00%
250 Mbps	$ 69.95	25.00%
500 Mbps	$ 79.95	15.00%
Gig	$ 99.95	5.00%
Managed Wi-Fi	$ 9.99	20%
Composite ARPU	$ 69.45	100%

Calculated % of OSP Elements	86.36%
Calculated % COE & ONT Elements	11.41%
Calculated % CPE Elements	2.23%

Another Example – Incremental Broadband Edge Out

Expansion Initiative Name	Apple Pie Way
Initial Investment	$ 80,692.47
Discount Rate / Cost of Capital	5.5%
Tax Rate	0%
Annual Depreciation	423.32
Operating Margin	85%

Year 0 Cash Flow	$ (80,692.47)

		Operating Year							
Business Plan Year		1	2	3	4	5	6	7	
Year		2019	2020	2021	2022	2023	2024	2025	Total
Revenue		12,500.64	22,501.15	25,001.28	27,501.41	30,001.54	30,001.54	30,001.54	$177,509.09
Operating Expenses & Incremental Capital / Activation Costs		2,625.10	21,698.35	8,330.99	8,706.01	9,081.02	4,500.23	4,500.23	$59,441.92
Depreciation Expense		423.32	423.32	423.32	423.32	423.32	423.32	423.32	$2,116.62
Operating Income		9,875.54	802.80	16,670.29	18,795.40	20,920.51	25,501.31	25,501.31	$67,064.56
Tax Rate		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	$0.00
Cash Flow	$ (80,692.47)	$ 10,298.87	$ 1,226.13	$ 17,093.62	$ 19,218.73	$ 21,343.83	$ 25,924.63	$ 25,924.63	$121,030.43
Present Value of Cash Flows		$ 9,761.96	$ 1,101.62	$ 14,557.16	$ 15,513.68	$ 16,330.90	$ 18,801.73	$ 17,821.54	$93,888.58
Residential Customers		15	27	30	33	36	36	36	
Business Customers		-	-	-	-	-	-	-	
Total Customers		15	27	30	33	36	36	36	
Average Capital Cost Per Customer		$ 5,379.50	$ 3,645.02	$ 2,837.44	$ 2,579.49	$ 2,364.54	$ 2,241.46	$ 2,241.46	

NPV	**$ 13,196.12**
IRR	**9.03%**
Actual Cost of Capital	**5.5%**
Delta - IRR vs. Actual Cost of Capital	**3.53%**

Metrics in our Daily Lives

Operating KPIs

Once the strategy is set…

The tactics and options selected…

The time for operational metrics has arrived!

- The benefit of monitoring business performance goes beyond creating a diagnostic picture of the business
- It will naturally incite optimization / improvement in the metrics monitored

Financia
l KPIs

What	Definition	Why
EBITDA	Earnings Before Interest, Taxes, Depreciation, Amortization	Represents basis for value attribution, and debt capacity
Free Cash Flow	EBITDA minus taxes and capital expenses	Represents the cash produced by the business that can be used to enable income diversfication
ARPU	Average Revenue Per User	Average billed revenue from customers for a particular service
NPV & IRR	Rate of Return	Provides a meaningful measure of relative return produced by a business opportunity over a defined period of time/discounted to present value dollars
Average Capital Per Acquired Customer	Total Capital Expended to Acquire a Customer	Captures true impact on available capital associated with bringing on a customer
Debt Ratios	Ratios attendant to traditional loan covenants. DSC, Debt to EBITDA, Current Ratio, Equity to Asset etc.	Will be one of the key guardrails governing what you can and can't do financially
Earnings Per Employee	EBITDA / Employees	Relative efficiency in producing earnings
Customer Cost to Acquire	The cash expended to aqcuire a customer - promotions, marketing/PR, service order costs, negative margin on installs etc.	Represents the costs attendant to growing the business separate and distinct from underlying investment

Customer Experience KPIs

What	Definition	Why
Net Promoter Score	Measures customer experience of your brand by calculating an index in response to a basic question - would your subscriber recommend your services to a friend/colleague or relative?	Succinct way to clearly understand how your customers feel about you and the products you sell
Churn & Churn Rate	The relative number and percent of customers dropping subscription to a particular service	Leading indicator to product relevancy and customer satisfaction
First Call Resolution Rate	Measures ability of your customer support organization to resolve an issue the first time	Succinct way to assess effectiveness in addressing customer issues, efficiency of process, and a leading indicator to direction NPS could take

Sales KPIs

What	Definition	Why
Sales Queue - Potpourri	Number of Visits, Number of Proposals, Number of Wins, Resulting Conversion Rates	What is the velocity of new opportunities being worked, how efficiently are you converting them, and what's the ROI on sales assets?

Operational Efficiency KPIs

What	Definition	Why
Fully Loaded Labor Rate - Technicians	Tech costs including all benefts	Input to understand costs of activity versus outsourcing. Input to developing external rates leveraging these assets
Tech Installs Per Day	Number of installs per day	Baseline understanding of productivity, cost per install, and foundation for future forecasting
Non-Install Truck Rolls to Install Truck Rolls	Ratio of revenue generating tech activity to non-revenue generating activity.	Insight into relative utilization of tech costs
Cost Per Truck Roll	Average cost to roll a truck	Baseline KPI useful for a number of purposes - setting activation/install costs, assessing internal vs contractor utilization
MTTA and MTTR	Mean Time to Accept and Mean Time To Repair	Baseline illustration of responsiveness and effectiveness to resolve an issue. Also often required if SLAs are in place
Book to Bill - Days	Time between a sale and billing of the sold product	Reflects efficiency in turning sales into revenue and margin

- Our business is rapidly changing
  - Financial Systemic Risk
  - Technological Change
  - Changing Consumer Preferences
- We must manage our key finite assets efficiently
  - Time
  - Capital
  - Strategic Operational Assets
- Data is an indispensable tool
  - The truly successful companies will be those that create a culture around consistent and inquisitive identification, examination, and socialization of performance data

Questions
?