Financial Benchmarks for Broadband Utilities - Past Trends and Future Opportunities

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The Sunday “BB Trends” Comic Strip

In my day, 10 megabits per second was considered fast.
<table>
<thead>
<tr>
<th>Service Categories</th>
<th>Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential-High</td>
<td>$16.95</td>
</tr>
<tr>
<td>Residential-Low</td>
<td>$9.40</td>
</tr>
<tr>
<td>Residential-Average</td>
<td>$12.50</td>
</tr>
<tr>
<td>Business-High</td>
<td>$31.25</td>
</tr>
<tr>
<td>Business-low</td>
<td>$11.99</td>
</tr>
<tr>
<td>Business Average</td>
<td>$21.53</td>
</tr>
</tbody>
</table>
Service Rates-Video

- Basic-High       $35.99
- Basic-Low        $12.95
- Basic-Average    $21.96
- Expanded-High    $60.50
- Expanded-Low     $26.95
- Expanded-Average $52.24
- Base-Digital-Ave $62.04
<table>
<thead>
<tr>
<th>Speed</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>7/1 Mbps</td>
<td>$39.95</td>
</tr>
<tr>
<td>4Mbps/768k</td>
<td>$44.99</td>
</tr>
<tr>
<td>6/1 Mbps</td>
<td>$49.95</td>
</tr>
<tr>
<td>10/3Mbps</td>
<td>$55.99</td>
</tr>
<tr>
<td>15/2 Mbps</td>
<td>$68.95</td>
</tr>
<tr>
<td>50/5 Mbps</td>
<td>$89.95</td>
</tr>
</tbody>
</table>
Total Subscribers by Service

- Basic Cable: 6,267
- Expanded Cable: 12,754
- Voice-Res: 8,053
- Voice-Bus: 3,466
- Internet-Res: 17,074
- Internet-Bus: 2,121

*Excl largest respondent
Revenues by Service

- Video $15,923,103
- Voice $6,430,119 **
- Internet $10,981,503

** Projected to decline
Ave. Monthly Revenue/Sub

- Video $69.76
- Voice $46.52 **
- Internet $47.68

** projected to decline
Direct Cost of Service

- Video: $12,843,569
- Voice: $1,807,616
- Internet: $2,551,505
Ave. Monthly Direct Cost/Sub

- Video $56.27
- Voice $13.08
- Internet $11.08
Other Cost of Service

- Video: $2,418,646
- Voice: $121,000
- Internet: $2,338,930
- Non-allocated: $10,720,354
Ave. Monthly Total Cost/Sub

- Video: $66.87
- Voice: $13.95
- Internet: $21.23
- Non-allocated: $17.96
Profit Margin by Service & Total Service Profit Margin

– Excluding Non-allocated cost

• Video  $660,888
• Voice  $4,501,503 (will decline)
• Internet  $6,091,068

sub-total  $11,253,459 (profit margin)

Non-allocated  $10,720,354 (cost)

Total  $533,105 (profit margin)
Profit per sub/month

– Excluding Non-allocated cost of $17.96/sub

• Video $2.90
• Voice $32.57
• Internet $26.44
# and proportion of Employees by Job Function

<table>
<thead>
<tr>
<th></th>
<th>#</th>
<th>%</th>
<th>REV/Empl</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Service/Billing</td>
<td>35</td>
<td>28%</td>
<td>$946k</td>
</tr>
<tr>
<td>Technicians</td>
<td>46</td>
<td>36%</td>
<td>$717k</td>
</tr>
<tr>
<td>Marketing</td>
<td>16</td>
<td>13%</td>
<td>$2.1m</td>
</tr>
<tr>
<td>Admin</td>
<td>25</td>
<td>20%</td>
<td>$1.3m</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>127</td>
<td></td>
<td>$263k</td>
</tr>
</tbody>
</table>

*Excl largest respondent*
# Competition

<table>
<thead>
<tr>
<th></th>
<th>Video</th>
<th>Phone</th>
<th>Internet</th>
</tr>
</thead>
<tbody>
<tr>
<td>MediaCom</td>
<td>10</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>CenturyLink</td>
<td>1</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Windstream</td>
<td>1</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Frontier</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Rural Tel</td>
<td>1</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Satellite</td>
<td>7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
We Could Make Money if Only Our Competition Would Stop Their Money Losing Promotions

The City of San Francisco switches from cable cars to satellite dish at a cost of only $79.99 a month for the first six months.
Audience Survey

- How many have seen telephone subscriptions declining
- How many have witnessed telephone subscriptions starting to level off?
- How many have seen cable subscriptions declining
- How many believe cable cord cutting will intensify and when
- How many are seeing Internet Subscriptions increasing
- How many are seeing an increase in demand for Internet speeds
Observations
Negative Trends

• Cable Revenue Versus Cable Cost
• Cable Content/Programming cost increasing more than the market can absorb or provider willing to pass onto the consumer
• Cable Revenue in many cases covers programming but not enough to cover other labor costs associated or allocated to cable/video
Dissatisfied Consumers

• According to the latest American Customer Satisfaction Index (ACSI):
  – 65/100 for pay television (cable/satellite)
  – 63/100 for Internet service providers (ISP)
  – Large provider scores are among the lowest

• The **lowest satisfaction scores of all 43 industries** surveyed...and trending down!

• Wireless service satisfaction only better than pay tv, ISP and airline scores!!
The Consumer is Unhappy with Their Bill, We’re Unhappy with Lack of Profit Margin. There Has to Be a Better Option

“Cable’s not so expensive if you pro-rate the 180 channels we never watch.”
Observations
Negative Trends

• Voice Revenue decline caused by multiple reasons
• Line loss/wireless voice and texting/email substitution
• Universal service identical support elimination
• Terminating access rate decline caused by FCC rules
• Access minute/revenue decline
• LD carrier billing disputes/refusal to pay
Observations
Positive Trends

• Broadband Internet Access revenue stable and growing
• Broadband Internet Access margins stable and growing
  Revenues increasing due to desired increase in speeds/devices/applications/Internet of things/extreme video and gaming applications.
• bandwidth cost stable or declining per Mbps
Fascination with the Internet helps Increase its Internet Service Revenue
Another Cause for Internet Demand Growth
Observations
Positive Trends

• Industry discussion on move from traditional cable model intensifying helped by:
  – Perpetual cable programming cost increases
  – Increases in Internet speeds
  – Increase in Over-the-Top Video Service options
Considerations Moving Forward

• Do you hasten the trend?
• Do you educate public on over-the-top options?
• Do you provide training or in-house set-up?
• Do you increase cable rates to match programming cost increases as well as cover additional labor costs?
• Do you change billing?
  – Bill for facilities/line item for facility connection/loop
  – Bill for each additional service or add-on
Conclusions

• Maintaining the status quo most likely not an option
• Determine where you fit relative to peers and competition on pricing
• How price sensitive are your consumers?
• Determine where you fit relative to peers on cost structure/potential cost sharing arrangements