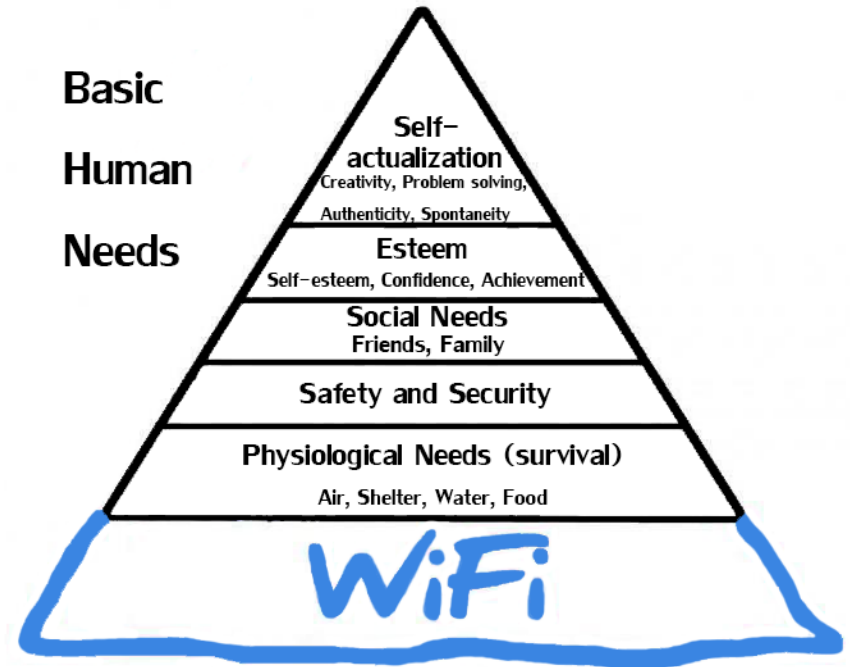
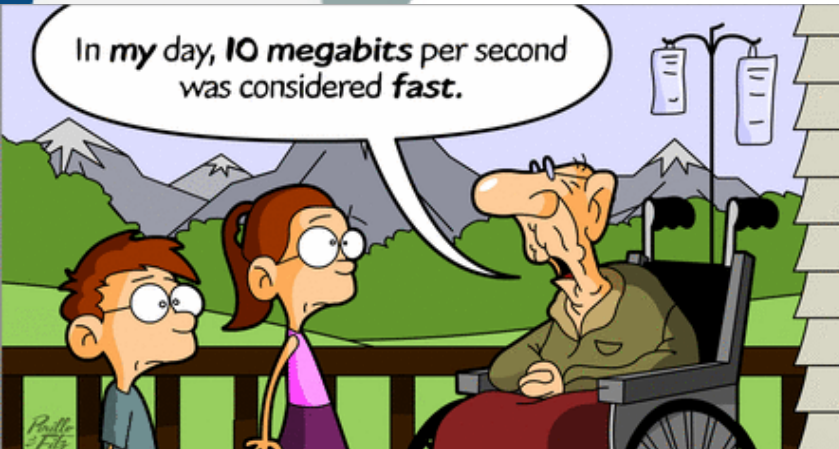


Financial Benchmarks for Broadband Utilities - Past Trends and Future Opportunities

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The Sunday “BB Trends” Comic Strip



Service Rates-Voice

Residential-High \$16.95

Residential-Low \$9.40

Residential-Average \$12.50

Business-High \$31.25

Business-low \$11.99

Business Average \$21.53

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

Service Rates-Broadband Internet Access

7/1 Mbps	\$39.95
4Mbps/768k	\$44.99
6/1 Mbps	\$49.95
10/3Mbps	\$55.99
15/2 Mbps	\$68.95
50/5 Mbps	\$89.95

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

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	<u>\$6,091,068</u>
sub-total	\$11,253,459 (profit margin)
Non-allocated	<u>\$10,720,354 (cost)</u>
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

	#	%	REV/Empl
• Customer Service/Billing	35	28%	\$946k
• Technicians	46	36%	\$717k
• Marketing	16	13%	\$2.1m
• Admin	25	20%	\$1.3m
• Other	4	3%	
• Total	127		\$263k

*Excl largest respondent

Competition

	Video	Phone	Internet
• MediaCom	10	8	10
• CenturyLink	1	7	7
• Windstream	1	3	3
• Frontier	1	1	1
• Rural Tel	1	2	2
• Satellite	7		

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



Search ID: cwln5196

"Cable's not so expensive if you pro-rate the 180 channels we never watch."

Observations

Negative Trends

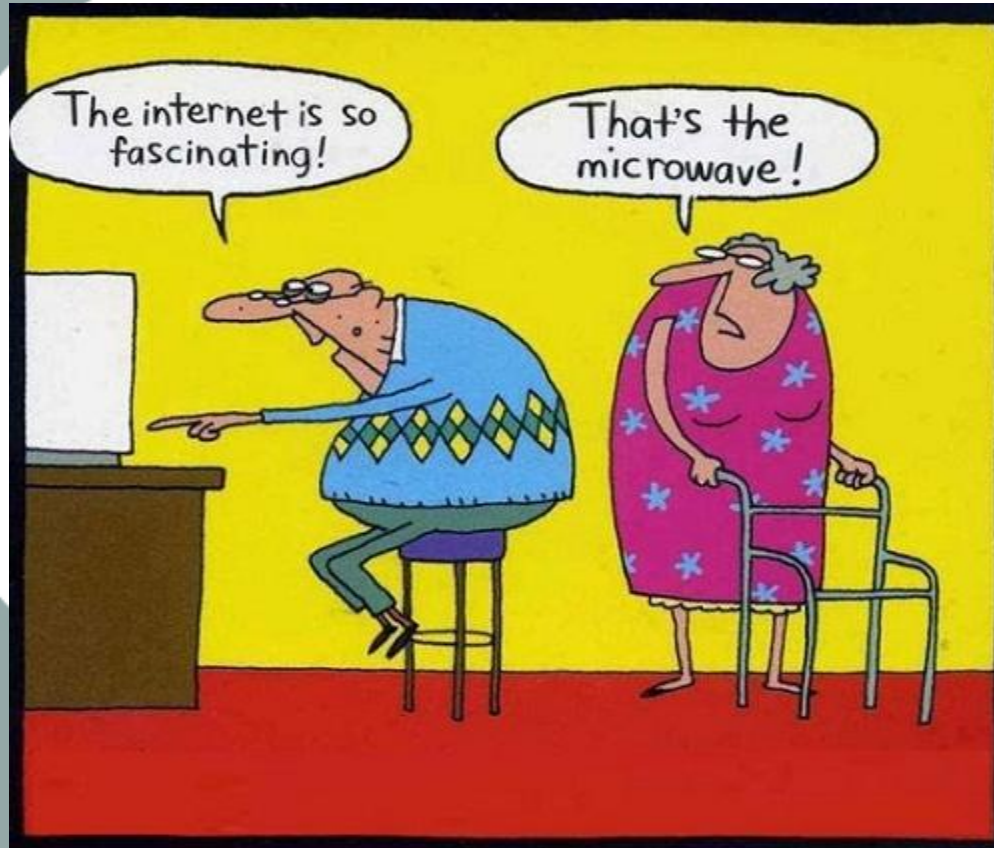
- Voice Revenue decline caused by multiple reasons
- Line loss/wireless voice and texting/email substitution
- Universal service identical support elimination
- Terminating access rate decline caused by FCC rules
- Access minute/revenue decline
- LD carrier billing disputes/refusal to pay

Observations

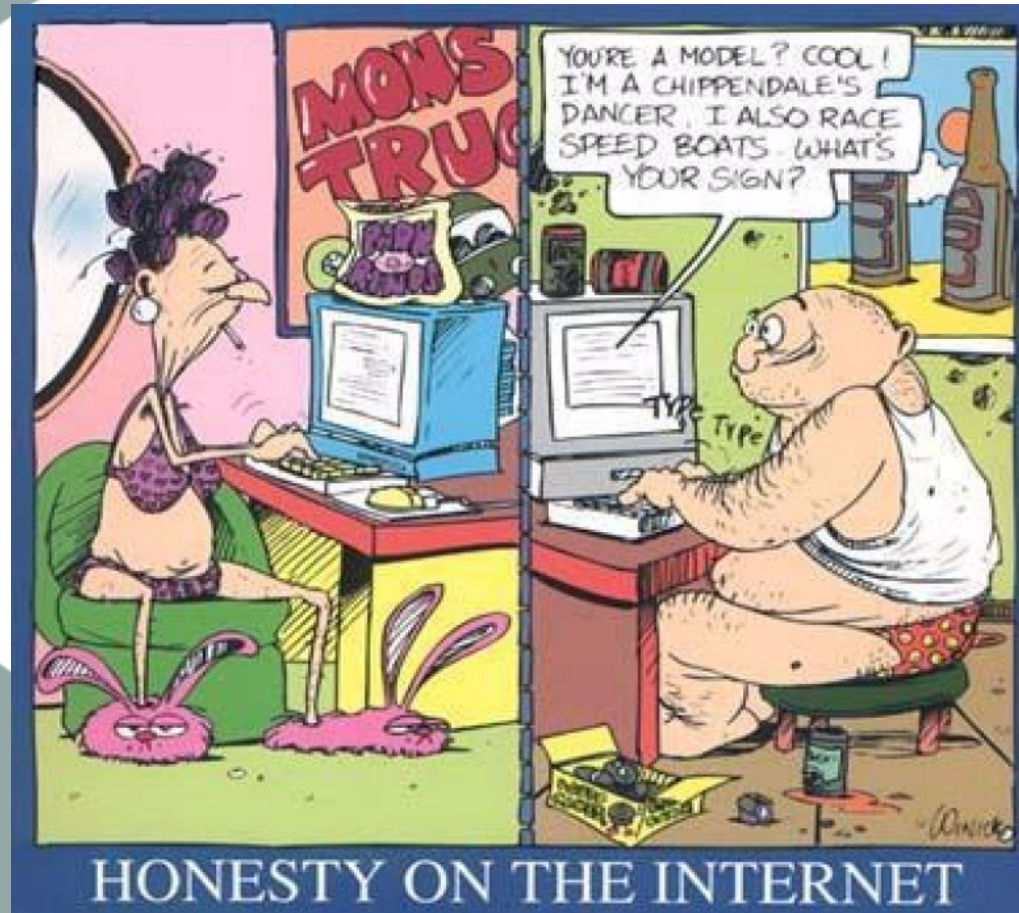
Positive Trends

- Broadband Internet Access revenue stable and growing
- Broadband Internet Access margins stable and growing>>Revenues increasing due to desired increase in speeds/devises/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