A Meridian Capital white paper looks at the future for WISPs and Fiber Network Providers

"The Best is Good Enough for Me!"

My job as a young financial analyst in 1980 was to review companies that were of interest to the investment bankers at **Daniels & Associates.** Founder **Bill Daniels** was known as the "*Father of the Cable Television Industry.*" The headline quote at the top of this article sums up Bill's personal philosophy. He encouraged everyone in the Cable-TV industry to go beyond the comfortable and give their best.

Starting in the 50's, Bill earned his title through decades of proselytizing about the cable business to heavy hitting business entrepreneurs, banks, insurance companies, manufacturers, programmers, the FCC and many others.

In 1980 the cable industry was at a critical crossroads. The evolution from rural mom and pop cable systems to multi-billion dollar enterprise businesses was in full swing. At Daniels, I had a bird's eye insider view of the creativity and strategies that transformed thousands of sleepy rural Community Antenna Television Systems (CATV) into the powerful media empires we know today.

In 2019, there are parallels with the WISP and fiber network industries. New technology, increasing demand for bandwidth and speed,

government subsidies, IoT and unlimited demand for content, voice, video and data services are coming together to fuel an opportunity-rich growth environment for these alternative service providers.

This white paper explores the challenges facing these providers. Using comparisons with Cable's earlier days this paper will sift through the real and imagined dangers and opportunities that lie ahead.

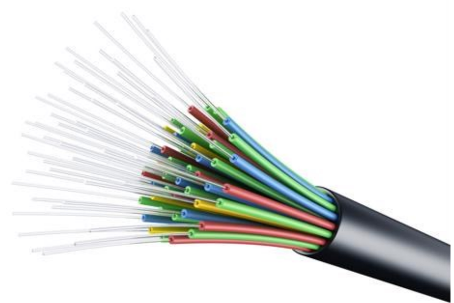
Competition

Henny Penny of childhood fable fame, ran around proclaiming "the sky is falling!" I listen to operators, investors and lenders fret over the possibility that 5G technology, especially via the CBRS band, will allow **AT&T, Verizon**, **T-Mobile, Sprint** and others to march in and pilfer WISP and fiber customers. These giant potential competitors must enter the realm of fixed wireless installations in order to develop the revenue streams necessary to support the roll out of 5G.

There were similar concerns about the cable-TV industry. In 1980 the industry and its supporters worried that **Ma Bell** would overtake the industry and utilize its far greater resources to overwhelm it. And Ma Bell executives made lots of noise indicating that was exactly what they had in mind.

I could dedicate a paper to the hundreds of millions lost by the Bell companies in the failed attempt.

Basically, Bell management did not understand the business of video delivery. Where they went ahead and overbuilt cable systems, cable marketers reacted and knocked them on their corporate keisters.



When they developed the technology to deliver "cable TV" via twisted pair copper lines, cable operators continued to add customers. In the 1980's the Bell companies even tried deploying the first direct-to-home satellite service, only to shut it down less than a year after launch.

Cable companies, sharpened by decades of battles in the courts, with the FCC, with Hollywood and the broadcasting industry had become a model of what is called "coopetition." They competed ruthlessly with each other for lucrative franchises (licenses to build systems) in cities across the land. And they cooperated to develop technology and programming which were exclusive to any and every cable TV operator.

The industry funded a non-profit technology development company, **CableLabs**. CableLabs continues to this day, developing proprietary technology for the industry. Cable companies partnered to invest in numerous programming channels – **CNN, MTV, A&E, C-Span** to name a few. Cooperatively, they gave themselves the edge in all areas – technology, content, marketing and finance. More on finance later…

Rural Competition

In 1980, most rural towns and small cities had cable TV service. By and large, these were older systems, mostly built in the 60's and often hanging together with very little upgrades. The standard in modern systems then was 36 channel capacity, requiring significant plant rebuild. Most rural systems were delivering 3-12 channels at the time.

Henny Penny might think this was an opening for larger cable companies, with deep pockets and better service, to waltz in and take out rural operators. Never happened. Overbuilding was a dirty word in the cable-TV culture. Further, the comparatively weaker economics of reaching customers in rural and already well served areas made overbuilding generally unattractive.

There is a wonderful twist to the story. As major cable operators grew larger and fatter, the acquisition market became red hot for a long period. A rising tide raises all ships and many mom and pop operations in rural America were the beneficiaries.

"I completely expect that the big four wireless operators will eventually push hard into the acquisition market, driving up investor interest and valuations."

One deal I worked on in 1980 comes instantly to mind. Jim and Ida (not their real names) owned a number of small town cable operations in Ohio. Jim had been a pole climber for the local phone company in the 50's and early 60's. He saw an opportunity to build a cheap three channel cable system in his home town to import the broadcast signals from Cleveland. With a little success, an equipment manufacturer provided extended terms and they went ahead and built more systems in more towns.

My firm took their business to market. The systems were all old and in need of full rebuild. Administration, billing, accounting, support & customer service systems were all home built. Their little company was purchased by a very large cable operator for *fifty million dollars.* Adjusted for inflation, today that would be $150 million. Nice retirement nest egg for Bill and Ida!

Competition Summarized

5G will deploy over the next five years. Each deployment will focus on the low hanging fruit – commercial and residential customers in high density areas who currently have inferior broadband service or are unhappy with their current provider.

During this time there will be zero incentive for the big guys to attempt to "overbuild" by going after rural or contracted commercial customers. Simply not enough revenue to justify the customer acquisition cost. By their nature, the major wireless carriers' administrative overhead will almost always assure their cost of customer acquisition, deployment, delivery and support will be higher than the independent guys. And they have a learning curve to master about selling and delivering broadband services.

Just as we saw in the past with cable systems, it is simply less risky and easier to avoid the fight and buy existing systems. I completely expect that the big four wireless operators will eventually push hard into the acquisition market, driving up investor interest and valuations.

Fueling Growth

Today, funding resources for WISPs and many fiber network operators is limited. Principal financing for system build-out comes from manufacturer advances and local bank relationships. SBA loans and personal guarantees are behind many smaller operators. Banks traditionally loan against hard assets. Asset Based Lending ("ABL") is secured by receivables, buildings, inventory and equipment.

Two key resources are currently out of range for most operators. First, widespread interest by investors like private equity firms and mezzanine lenders (mezzanine is flexible junior debt which is more costly than senior bank debt). As more such investors become interested, equity to support rapid growth will increase.

Second, cashflow loan facilities. A cashflow loan recognizes the value of customers who pay recurring monthly fees and rarely disconnect. The cashflow loan is usually made as a multiple of Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA"). A cashflow loan generally allows a higher loan amount than an ABL

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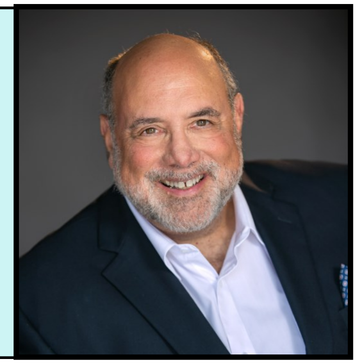
Pete Sokoloff has been providing investment banking services to the telecommunications industry for 40 years. During that time, he has represented major and minor cable TV operators, cellular providers, resellers, CLECs, software and service vendors. In 2018 Mr. Sokoloff merged his firm with Meridian Capital LLC, opening its telecommunications practice. Meridian is a FINRA licensed firm that provides debt and equity placement and M&A services to a variety of vertical industries. The company prides itself on its very strong domain expertise within each industry served.



loan.

These two factors will accelerate build-out and upgrade; and will also provide funds for acquisitions.

Another story…In 1982 I was assigned to raise a $10 million loan facility for a smaller cable operator. Every bank I talked to looked at this as an asset-based loan and couldn't see how they could lend the amount requested.

A VP at Citibank in New York asked me to come in and present the loan request to their entire loan committee. This is very unusual as bank loan committees are almost always closed-door affairs where the internal loan officer makes the pitch and the committee votes to approve (or disapprove) the loan.

I was terrific – explaining all the nuances of the cable industry and cashflow lending, handling every question with confidence, seemingly moving the doubters to my point of view. As you may guess, the committee did not approve the loan!

That same year, the Chairman of Citibank played golf with the president of Mexico and, on a handshake, agreed to lend the country $300 million. Mexico defaulted a few years later and Citibank had to write off the entire loan!

Thanks to a visionary loan officer at First National Bank of Maryland, I got our client's cashflow loan placed! And they easily repaid the loan in less than the five-year term the bank provided.

My point is that, even today, most bank lenders are not savvy to cashflow lending.

We have already had our first success with providing a cashflow loan facility to a mid-sized WISP and see this as an important growth option today for firms with needs above $20 million.

Each provider and the industry confront challenges - Accelerating rebuild and system upgrades. Encouraging and deploying viable and desirable services. Improving customer service. Banding together through their associations and cooperatively partnering to create better solutions.

Then and Now

The second largest trade show for cable was the Western. In 1980, it was held at the Disneyland Hotel. Like WISPAPALOOZA, it was a smaller affair, populated by folks who had known each other for years. Here and there signs of the increasing power of the industry were evident.

New programmers who wanted carriage on cable channels; hardware and service vendors who wanted to grab their share of cable's administrative, planning and construction activities; interactive software developers who exhibited possibilities, some far beyond cable's technology at the time.

In the air there was a sense of great and impending change. It was exciting. Every discussion I had with cable operators – from the largest to the small mom and pop, was about the future.

What were the right decisions about technology, marketing, programming, administration, finance?

What about the advertising and interactive service opportunities which were just starting to surface?

Who and what were the enemies that the industry needed to safeguard against? At the time, the biggest enemy was the off-air TV stations and their behemoth trade association, the **National Association of Broadcasters**. The Internet wasn't anywhere on the horizon then.

Similar questions and decisions face WISPs and fiber providers today. Each provider and the industry confront challenges - Accelerating rebuild and system upgrades. Encouraging and deploying viable and desirable services. Improving customer service. Banding together through their associations and cooperatively partnering to create better solutions.

This is an incredibly exciting time! Let's help each other reach for the stars!

Meridian Capital's team has experience guiding hundreds of transactions covering nearly every sector of telecommunications. We are well prepared to meet the complex requirements of achieving corporate development success for telecommunications firms in today's fast-paced and evolving business landscape.

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