

The RDOF Midterm Report:

Multiple Pathways to Success

Presented By:



Sponsors:



DECEMBER 5, 2024



Opening Remarks

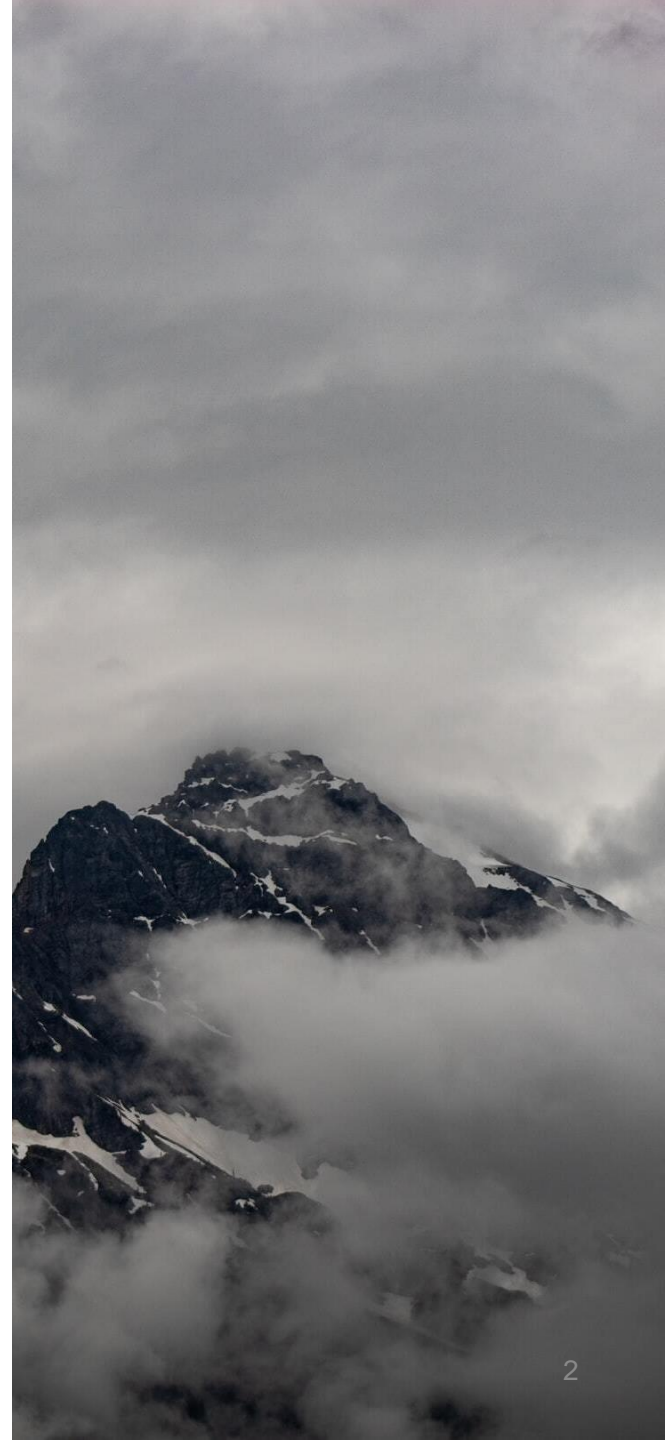


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Special Considerations and Opportunities as Midterm Approaches



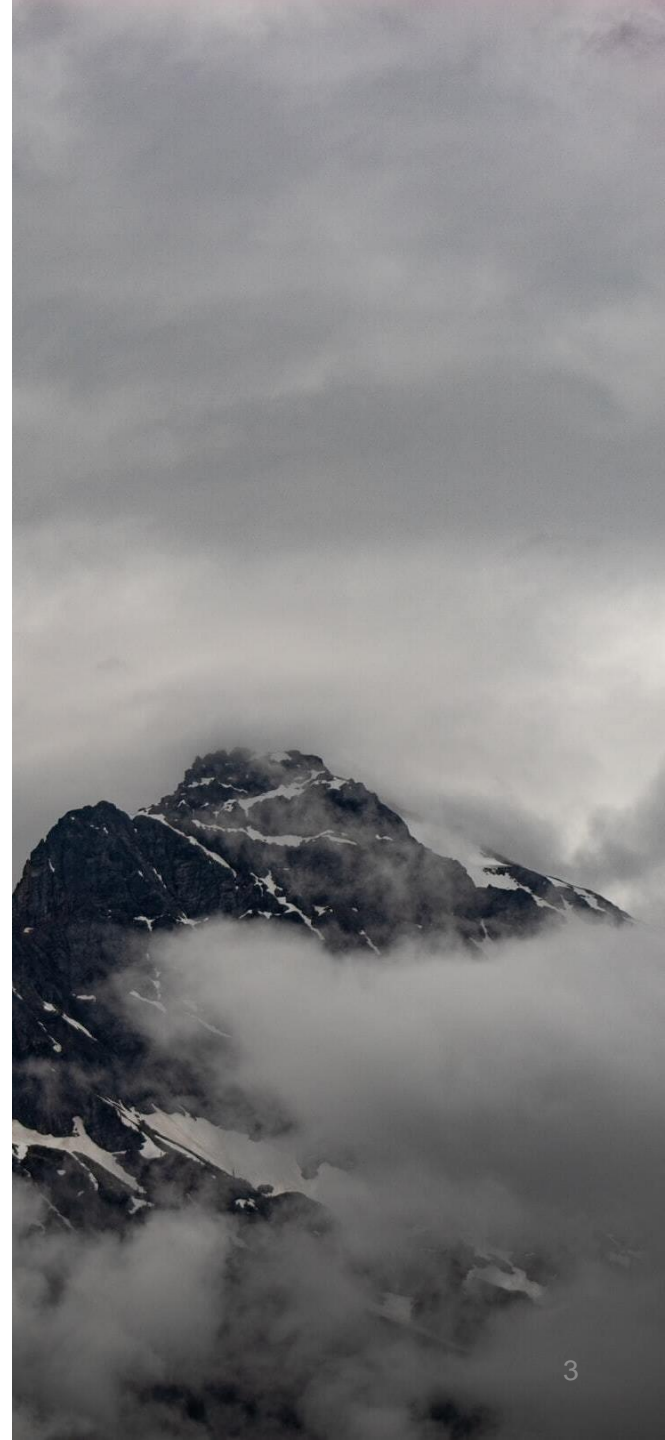
Steve Coran is chair of **Lerman Senter's** Broadband, Spectrum, and Communications Infrastructure practice group. He represents broadband providers, private equity firms, equipment and technology companies, and new technology firms, serving their policy, transactional, compliance, and licensing needs. He also actively represents a trade association before the FCC, Congress, and other federal agencies in matters involving spectrum policy, Internet regulation, the Universal Service Fund, and other proceedings affecting wireless broadband service providers and other wireless technology interests.

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Carol Matthey, founder of **Matthey Consulting LLC**, is a former FCC Deputy Chief of the Wireline Competition Bureau and policy advisor for the NTIA. Over the decades as a senior executive in the U.S. government, consultant, and lawyer, Carol has focused on cutting edge issues in communications public policy. During her FCC tenure, she led major reforms to the Universal Service Fund, creating the Connect America Fund. Today, Carol advises broadband providers and others active in the telecommunications industry on government funding strategy and execution, public policy advocacy, and how to comply with a complex and evolving communications regulatory environment.

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Midterm Strategic Options Overview

1

Continue to build out

2

Assign RDOF obligation to another provider (some or all locations)

3

Default now (some or all locations)

4

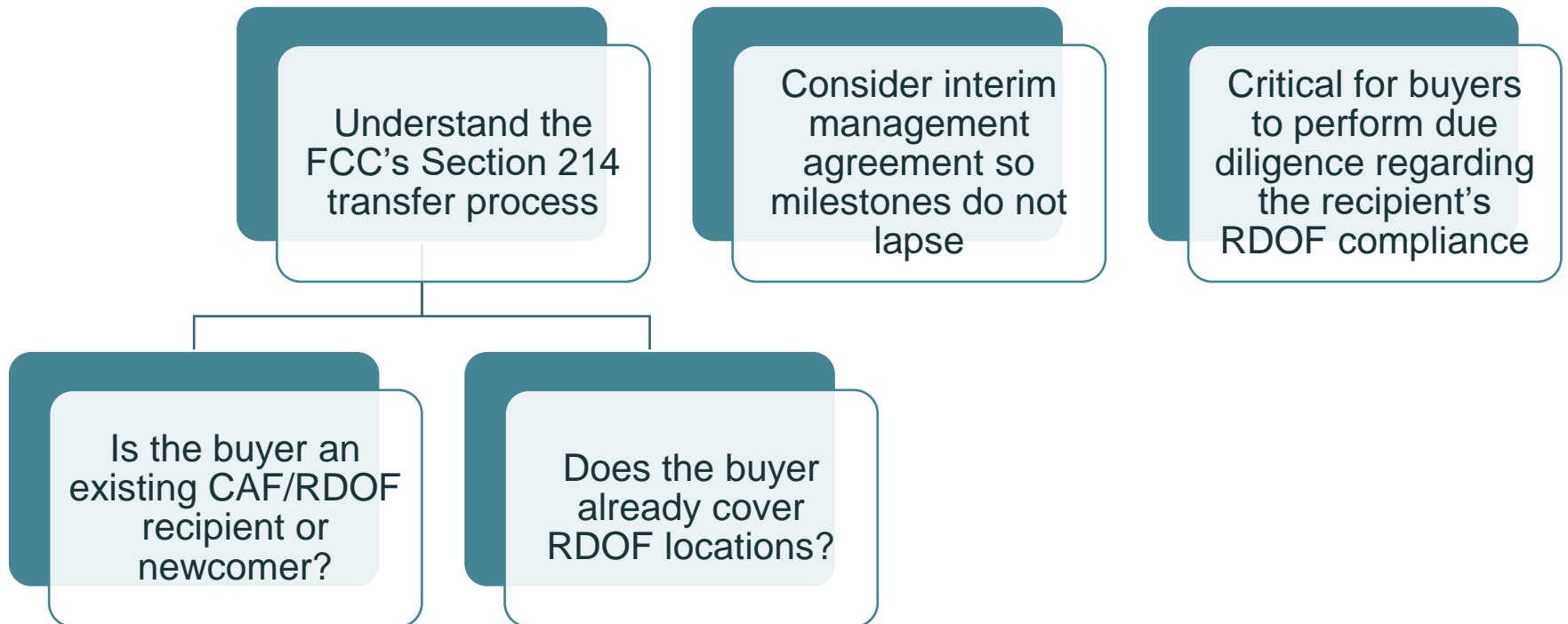
Wait until the end of the deployment term

Continue to Build

- Understand the location true-up
 - What does the Fabric say?
 - Will you need more time?
 - Will you be entitled to support adjustment?
- Best practices for HUBB reporting
- Understand the USAC verification process
- Steps to take if you're able to complete the project early
- Options for those very expensive locations

OPTION 2

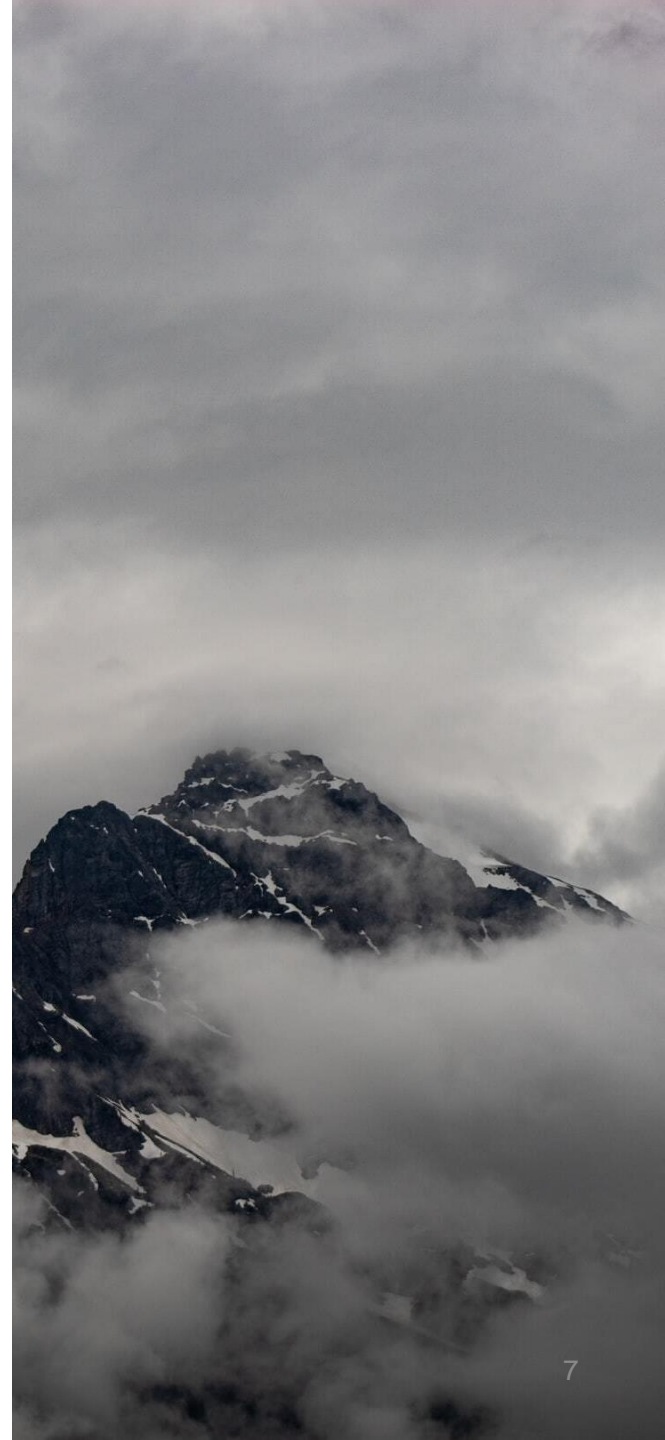
Assign RDOF Obligations to Another ISP (Some or All Locations)



OPTION 3

Default Now (Some or All Locations)

- Understand the consequences
 - No support for those locations
 - No immediate penalty – calculation occurs at end of deployment term
- Milestone default notification requirement
- Minimum geography for defaults:
census block group



OPTION 4

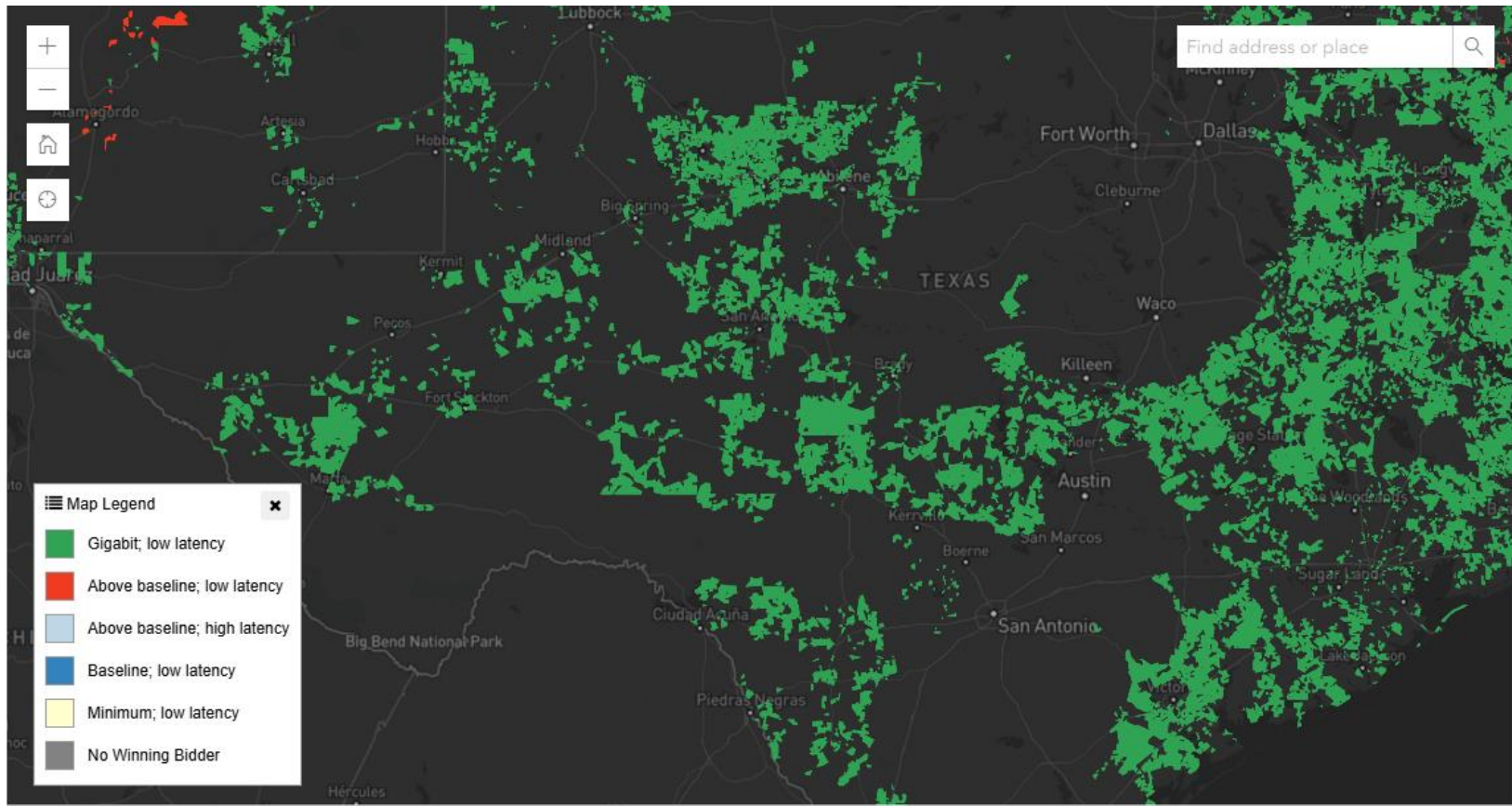
Wait to Default Until the End of the Deployment Term

Penalties calculated after the grace period for the sixth year or eighth year service milestone, depending on whether true-up increases or decreases number of locations the RDOF recipient is required to serve

More locations after true-up		Fewer locations after true-up	
95% but <100% of new location count	Average support/location received in the state	95% but <100%	1.25 times average/location
90% but <95% of new location count	1.25 times average/location received in the state	90% but <95%	1.5 times average/location + 5% of total RDOF authorized support
85% but <90% of new location count	1.5 times average/location + 5% of total authorized RDOF support	<90%	1.75 times average/location + 10% of total authorized RDOF support
<85% of new location count	1.75 times average + 10% of total authorized RDOF support		

- Understand the penalties
- Understand the location true-up
 - How many locations can you cover?
 - What does the Fabric say?
 - At what point does it make sense to pay the default penalty?
 - Proactive steps to reduce your penalty exposure

Impact on BEAD on RDOF projects

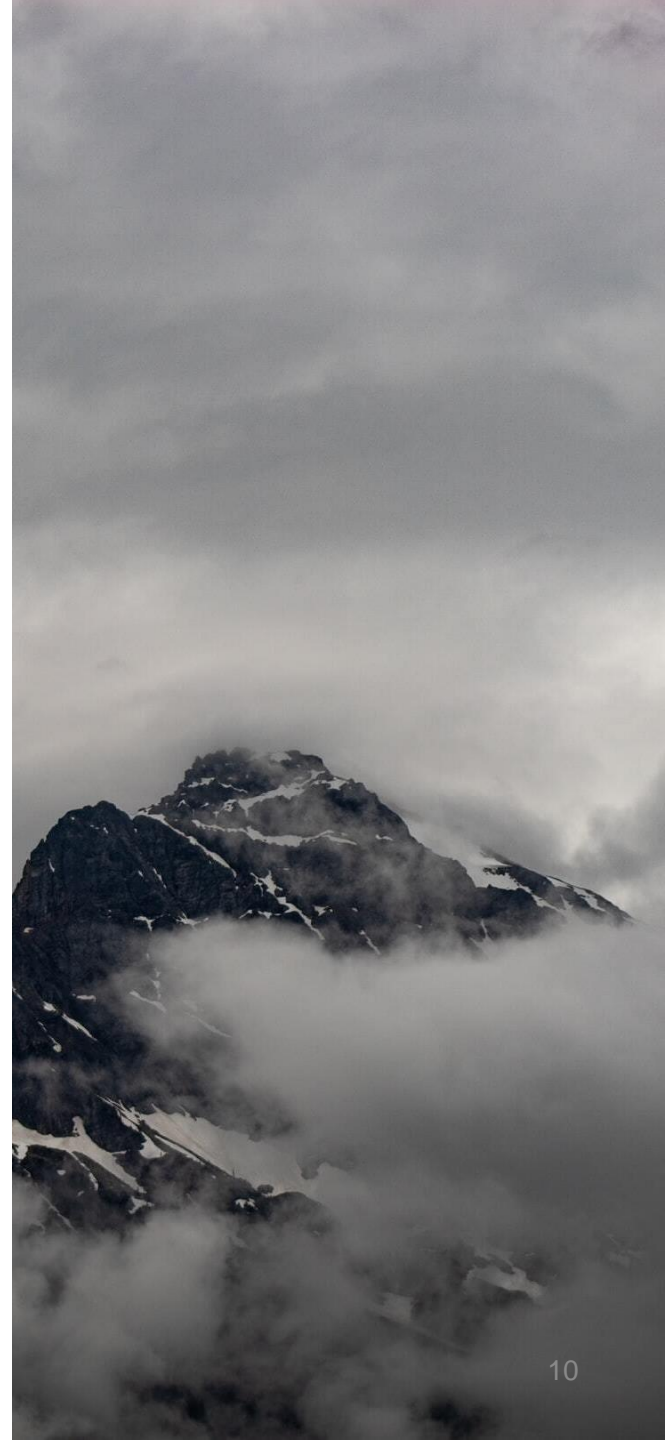


Challenges for RDOF Recipients: How the Business Case Has Changed Since 2020



Jim Stegeman is the President/CEO of **CostQuest Associates**. He has testified before Congress multiple times and is a recognized expert behind the development of the latest generation economic cost models and data used across telecommunications companies and governments for broadband deployment analysis and valuation. Jim leads the design and implementation of the Fabric locational data adopted by the FCC for the National Broadband Mapping effort, which is driving the allocations for NTIA's BEAD program. Jim provides his expertise on the utilization of the Fabric to develop national fiber to the premise costs for NTIA.

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Overview

RDOF – Key Measures for Your Business Case

- Units
- Competition
- Cost to Build

Updating Your Business Case

- Impacts on take rates and ARPU
- Impacts of Cost to Build
- Impacts of BEAD

The Current Landscape and the Request for Relief

Communities and Stakeholders

Do some communities prefer BEAD over RDOF?

- RDOF-awarded areas are not eligible for BEAD
- Funding based on 2010 Census Data vs Broadband Service Locations
 - Accuracy issues led to the creation of the Fabric
 - Fabric established through the Broadband Data Act

RDOF defaults can leave communities behind

RDOF Winners Petition for Relief (**DENIED**)*

- Supplementary funding
- Relief from letter of credit requirements
- Accelerate RDOF payments
- Amnesty period to relinquish grants without forfeiture or penalties
- Intervening builds through other grant programs
- Costs have increased significantly
 - Relies on CostQuest's Cost Models to support cost assumptions

What the Fabric Tells Us About RDOF Areas: Etheric Networks Example

■ Etheric Networks

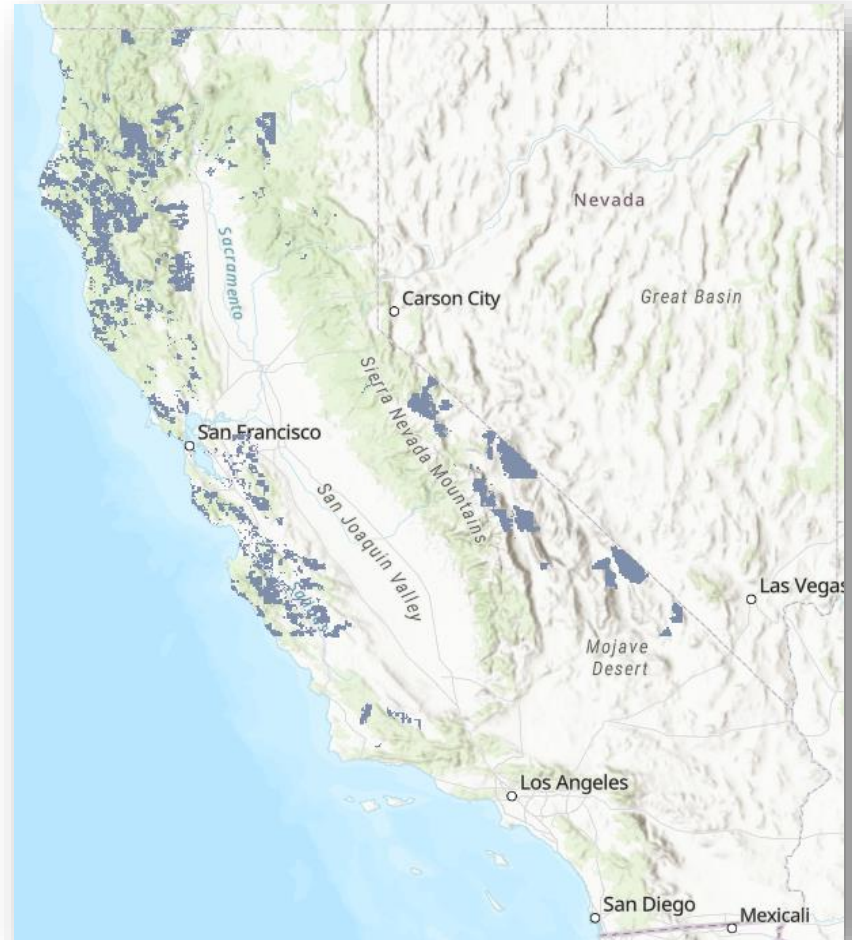
- Winning Bidder: Dec 7, 2020
- Default: May 23, 2023* (Did not Receive any Funds)
- Reason: not qualified as an Eligible Telecommunications Carrier in California (ETC)
- Technologies: Fixed wireless and Fiber

■ Total Support:

- \$218,641,793
- 64,463 Locations**

■ Major Changes From Funding:

- Locations
- Competition
- Costs



*FCC 23-104

** The RDOF program was based on locations. The equivalent term in the Fabric is Units and not the BSL

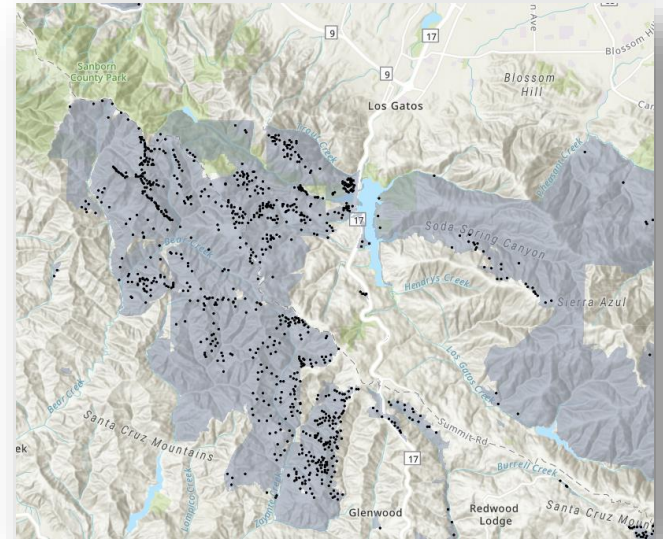
Locations Count – Census Blocks to Fabric

Comparing Available Locations

RDOF = 64,463

Fabric = 56,830

- **7,633 less locations (12% drop)**
- **NTIA Status: 30,534 Served / 4,872 Underserved / 21,424 Unserved**
 - 15,555 Unserved locations eligible for BEAD



Changes in Competition – Fiber and Cable

BDC Data Service Quality Scores	Fiber	Cable	Fixed Wireless
1 Served	4,901	10,370	21,324
2 Underserved	48	21	4,396
3 Unserved	51,881	46,439	31,110
Average Technology Competitive Score	2.70 (Low)	2.38 (Low)	1.40 (High)

Fiber and Cable Deployments

- 10,370 Locations are now covered by Fiber and Cable Providers
- The majority are served by incumbent telco and cable companies

Competition

- The most competitive technology is FW
 - Fiber and cable is still not a primary competitor in the market

Competition and Locations Changes on Revenue

5 Year Revenue Impacts of 7,633 Less Locations						
	Take Rate					
ARPU	FCC Benchmark 70%	65%	60%	55%	50%	45%
FCC Benchmark \$ 75.00	(24,043,950)	(25,761,375)	(27,478,800)	(29,196,225)	(30,913,650)	(32,631,075)
\$ 70.00	(25,646,880)	(27,249,810)	(28,852,740)	(30,455,670)	(32,058,600)	(33,661,530)
\$ 65.00	(27,249,810)	(28,738,245)	(30,226,680)	(31,715,115)	(33,203,550)	(34,691,985)
\$ 60.00	(28,852,740)	(30,226,680)	(31,600,620)	(32,974,560)	(34,348,500)	(35,722,440)
\$ 55.00	(30,455,670)	(31,715,115)	(32,974,560)	(34,234,005)	(35,493,450)	(36,752,895)

Take Rate and ARPU are affected by competition and units.

Changing Cost – COVID, Inflation, and Labor Cost

Etheric Networks RDOF Support:

- 10-Year Reserve Price = \$ 437,283,586.00
- 50% Requested Support = \$ 218,641,739

Recalculating Under Fabric:

- **Equivalent 10-year Reserve Price = \$802,930,140**
 - Calculated using the Fabric Build Cost, Cap Ex and Operating Cost
 - Increase of **83%** from the original RDOF reserve price
 - The **15,555** unserved units represent **38%** of the reserve price
- Updating based on the Fabric Cost Model; the requested support would only be **27%**

CostQuest's Fabric Cost Data: Current Build Cost & NPV

	FTTP	FW
Greenfield	\$ 841,776,496 Per Unit = \$ 14,812	\$ 641,283,529 Per Unit = \$11,284
Net Present Value	\$ (1,224,711,231)	\$ (2,625,791,595)

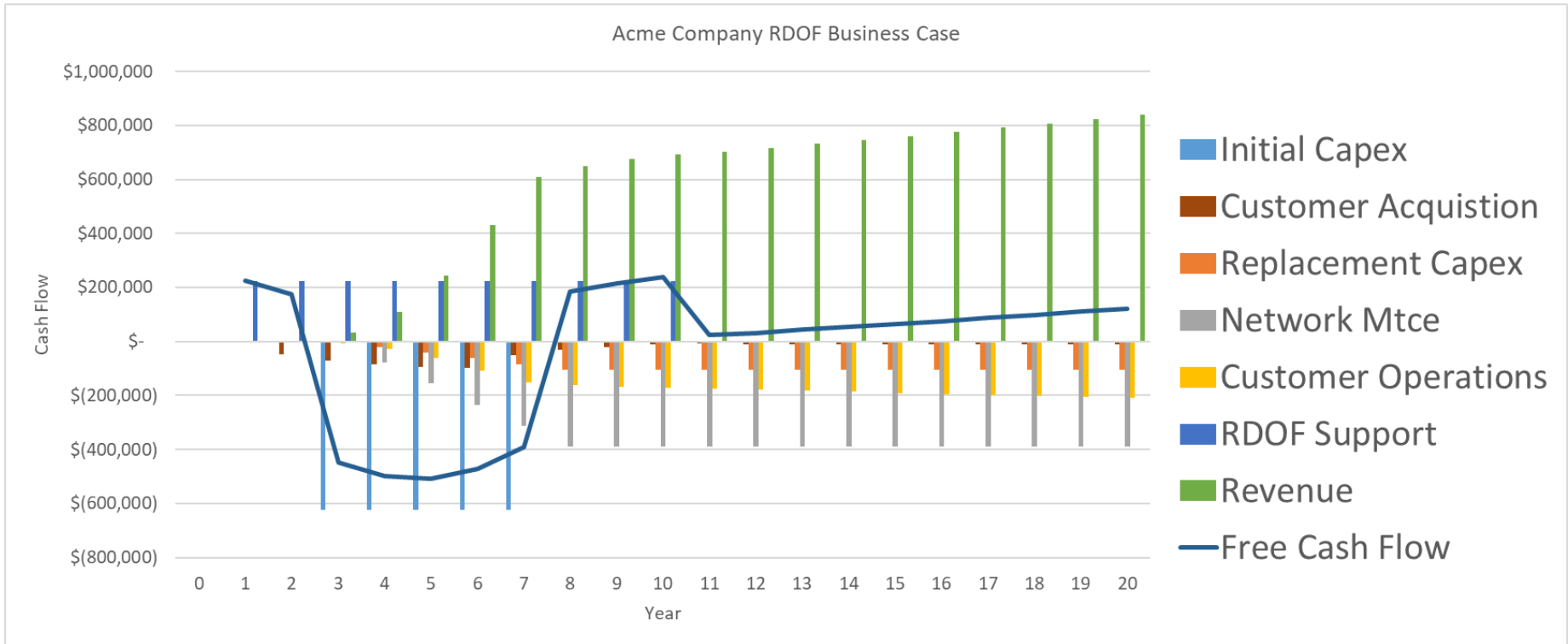
Understanding the Impacts of BEAD



- RDOF Census Block use as the geographic unit of award suffers from the issue that Census Blocks typically align with roads as their boundaries
- This can result in the left side of the street being funded under RDOF with the right side available in BEAD
- Creates the opportunity to pursue BEAD awards that complement RDOF grants
- Creates a threat that the BEAD grant goes to another provider.

CHALLENGES FOR RDOF RECIPIENTS: HOW THE BUSINESS CASE HAS CHANGED SINCE 2020

Impacts of the Different Components on Cash Flows and Valuation



“Keys to Success” for Finishing the Build and/or M&A Efforts

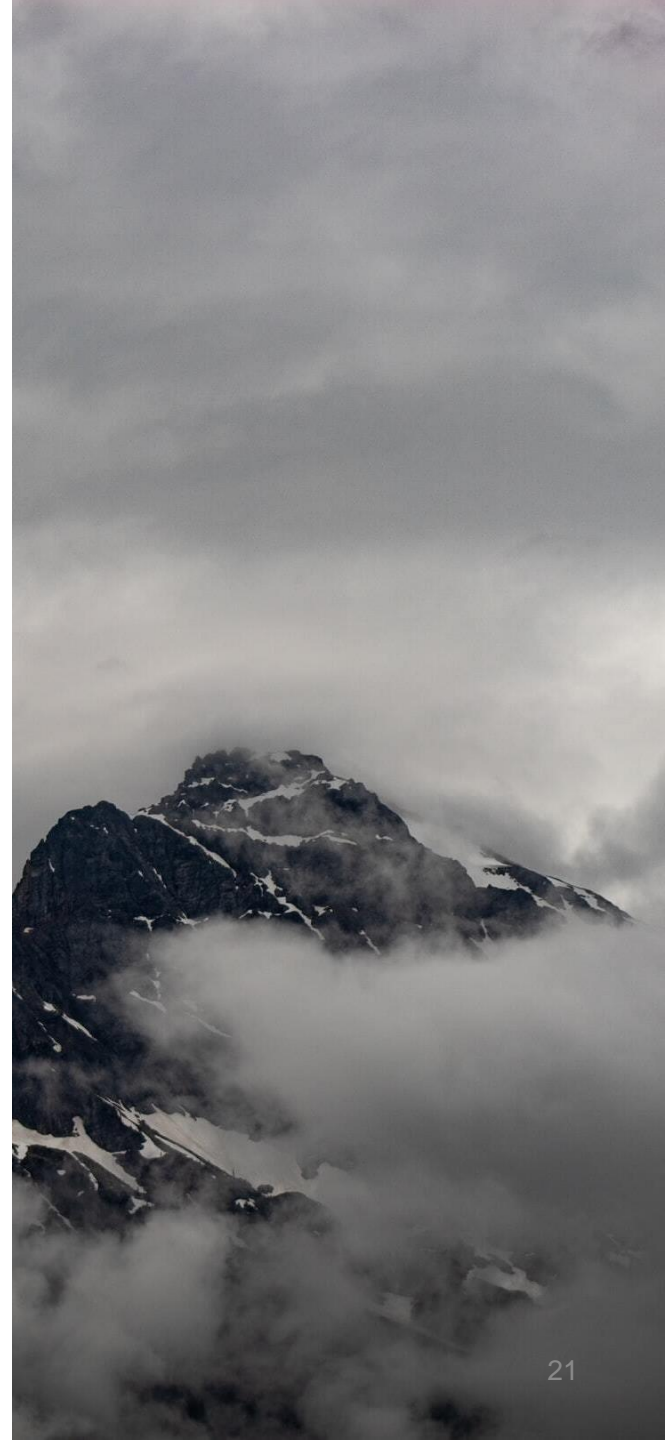
Initial Capex	Revenue	Ongoing Costs & Capex	BEAD	Business Case
<ul style="list-style-type: none">• Estimate the Cost to finish Building out locations• Using knowledge of existing deployment,• Identify what locations have been completed (Latest Fabric)• Identify what locations need to be built to (Verify against or source from the awarded RDOF CBs)• Identify the status of the under-construction areas. (Company books or estimate from Broadband funding map)	<ul style="list-style-type: none">• Assess how competition has changed and what that means for take rates and ultimately what it means to the expected revenue• Incorporate the revenue forecast from take rate analysis, include non-RDOF locations that could be served incrementally from the network deployed for the RDOF locations• RDOF Support<ul style="list-style-type: none">• Understand that RDOF funds are limited in timeframe (only 5-6 years left)	<ul style="list-style-type: none">• Incorporate all Operation costs:<ul style="list-style-type: none">• Customer acquisition• Customer Operations• Network Mtce• Ongoing Capex<ul style="list-style-type: none">• Replacement capex• Success-based capital (recognizing churn)• Drops and customer connections	<ul style="list-style-type: none">• What does the map look like?• What's the impact of new competitors?• Are there opportunities in BEAD participation	<ul style="list-style-type: none">• Rerun the business case starting from today.• How do all these factors affect future cashflow

RDOF's Impact on the Telecom M&A Market



Pete Sokoloff is Senior Advisor for Telecommunications at Meridian Capital. During a career spanning some 44 years, Pete has advised many major telecom companies across a broad spectrum of the industry. As an investment banker, he has concluded transactions with many of the largest industry service providers, software vendors, hardware manufacturers and, professional services firms globally. As an operator, Pete has owned rural cable systems serving 112,000 subscribers in multiple states. In his role with Meridian, Pete provides expert insights and strategies to the firm's telecom clients, including deep experience with CAF II, RDOF and BEAD.

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Internet Service Providers Valuation Matrix

Valuation is a result of cumulative, weighted factors

EV / EBITDA:	Lowest Multiple	5.0x	10.0x	15.0x	20.0x+	Highest Multiple
Company Size	<\$3M EBITDA					\$500M+ revenue, \$75M+ EBITDA
Revenue Growth	Flat to declining					Demonstrated history of high growth and actionable future revenue opportunities with clearly predictable visibility
Retail vs. Wholesale	Short term, low margin wholesale contracts					Long-term, contracted commercial and very low churn retail customer base with strong gross margins. High Average Revenue Per Unit (ARPU).
Facility vs. Non-Facility Based; Copper vs Fiber	Non-facility based; twisted pair copper plant					100% state-of-the-art owned fiber FTTH, including middle mile transport.
Other Construction Cost Variables	High cost of construction per unit passed					Low cost of construction per unit passed. High unit density per mile, cost efficient against other factors such as aerial vs. underground, costs of rights of way, permitting, bridge crossings, tower leasing, etc.
Pricing Elements	Low-income residential customers					High-income areas with commercial buildings and low competition generate more income per unit and provide many opportunities for upgrades and new services.
Area Growth	Flat or declining population					Growing areas that gain new homes and businesses create additional customer opportunities, resulting in incremental opportunities for revenue & profit growth.
Strategic Importance	Of no interest to other providers					E.g., A national provider lacking footprint in the Pacific NW is likely to pay a premium in valuation for this geography. Conversely, a network in an overbuilt area with heavy competition would have less value.

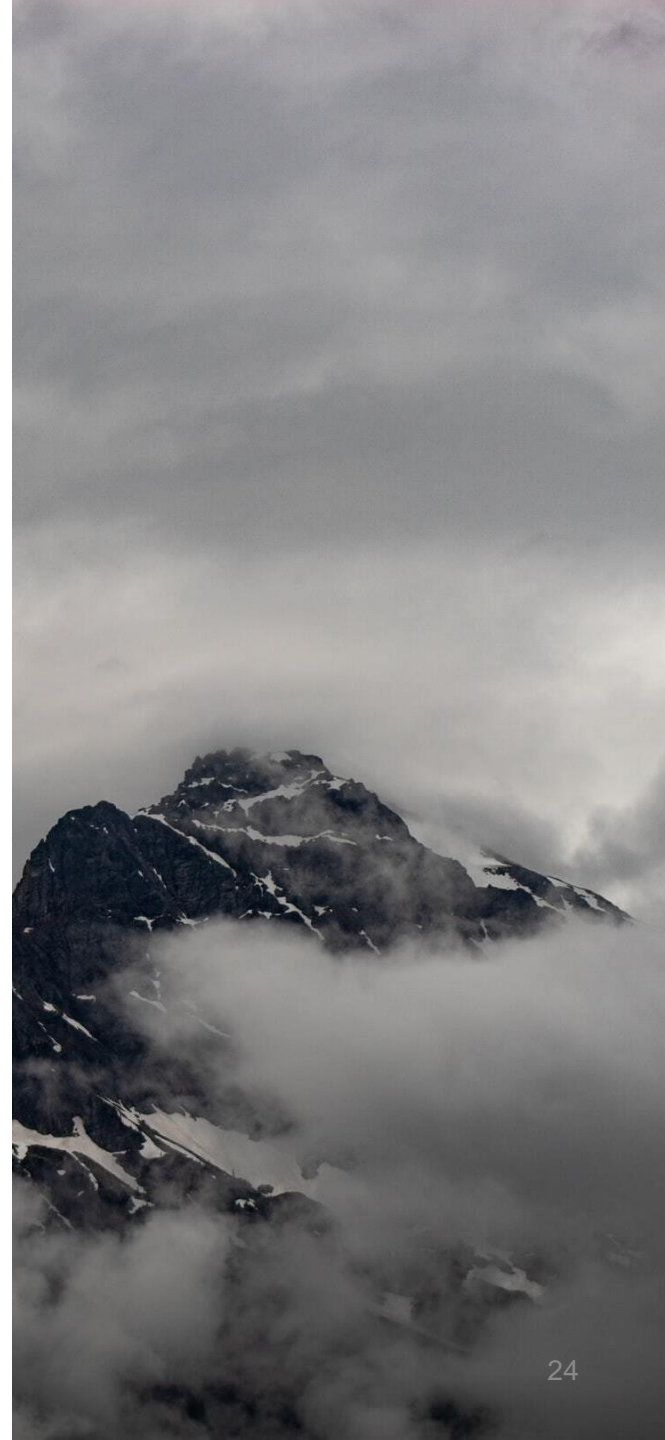
Internet Service Providers Valuation Matrix

Government grant funding is one more factor.

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Strategic Importance	Of no interest to other providers					E.g., A national provider lacking footprint in the Pacific NW is likely to pay a premium in valuation for this geography. Conversely, a network in an overbuilt area with heavy competition would have less value.
Future Grant Funds	Grant fund obligation is greater than future funds to be received					High degree of certainty that the final build budget will be less than future grant funds to be received, leaving funds available for upgrades, consolidation of other grant areas and future network improvements.

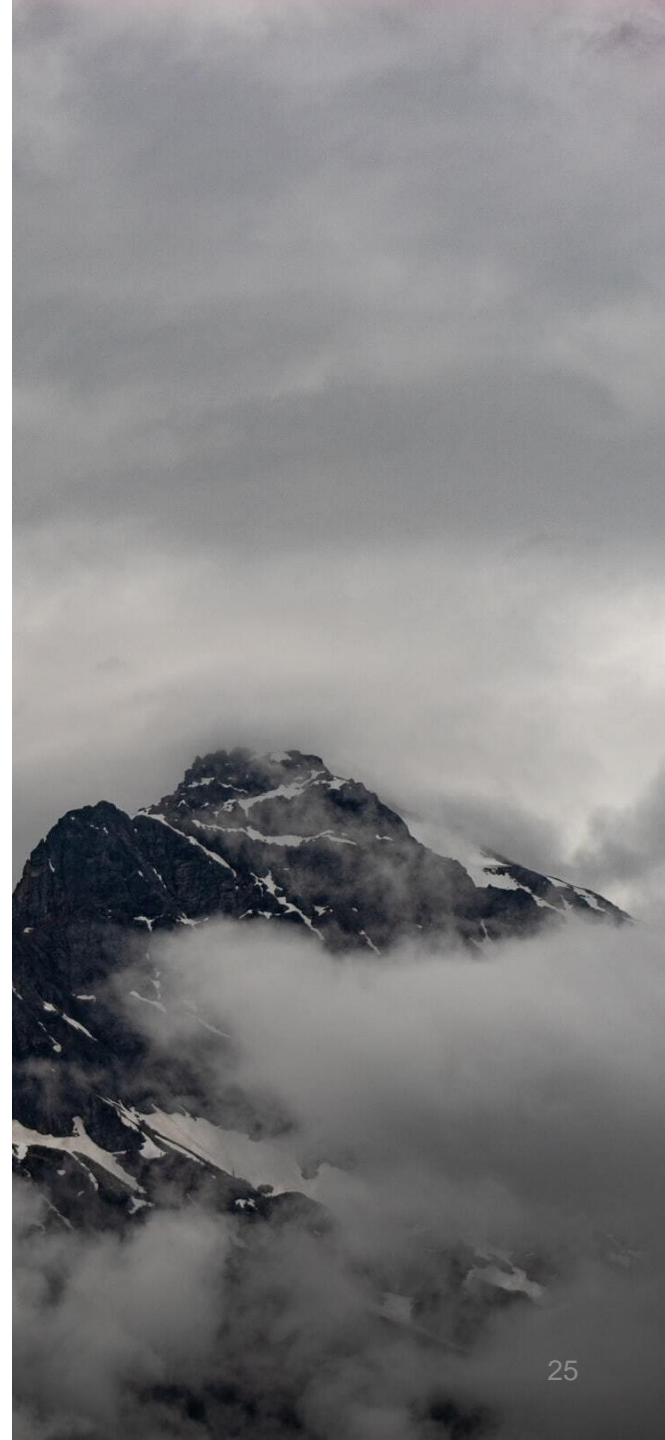
Historic Attempts to Value Government Grant Funding

- According to GAAP
- Discounted Value of Remaining Years of Government Funding
- Growth Forecast
- Net CapEx
- Residual Funds Post-Build
- Seller Hype



Future RDOF Value: *Seller vs. Buyer Perspective*

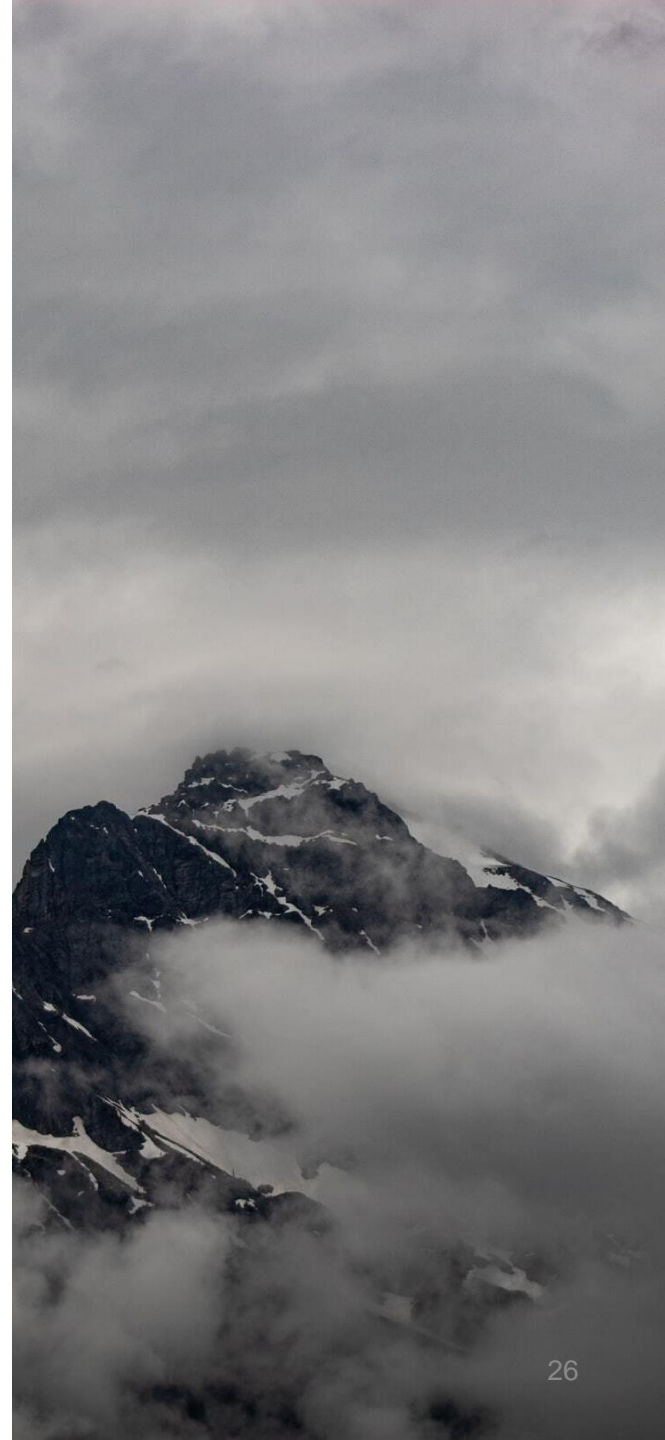
- **Seller:** All Good! No Problem! Look at our Forecast!
- **Buyer:** We Don't Want to Risk Expensive Penalties and Don't Believe Your Forecast
- **Seller & Buyer:** Carefully, and with a high level of mutual confidence, calculate the financial and strategic benefits that can be shared by both sides



Key to RDOF Valuation: *The Need for Outcome Certainty*

- Seller and/or Buyer: Develop a **Solid Plan** Based on Both Internal Data and Reliable Third-party Expertise
- Create a “**Quality of RDOF**” Report, to be shared with Buyers, Investors and Lenders

*Like a “Quality of Earnings”
Report Used Widely in M&A*

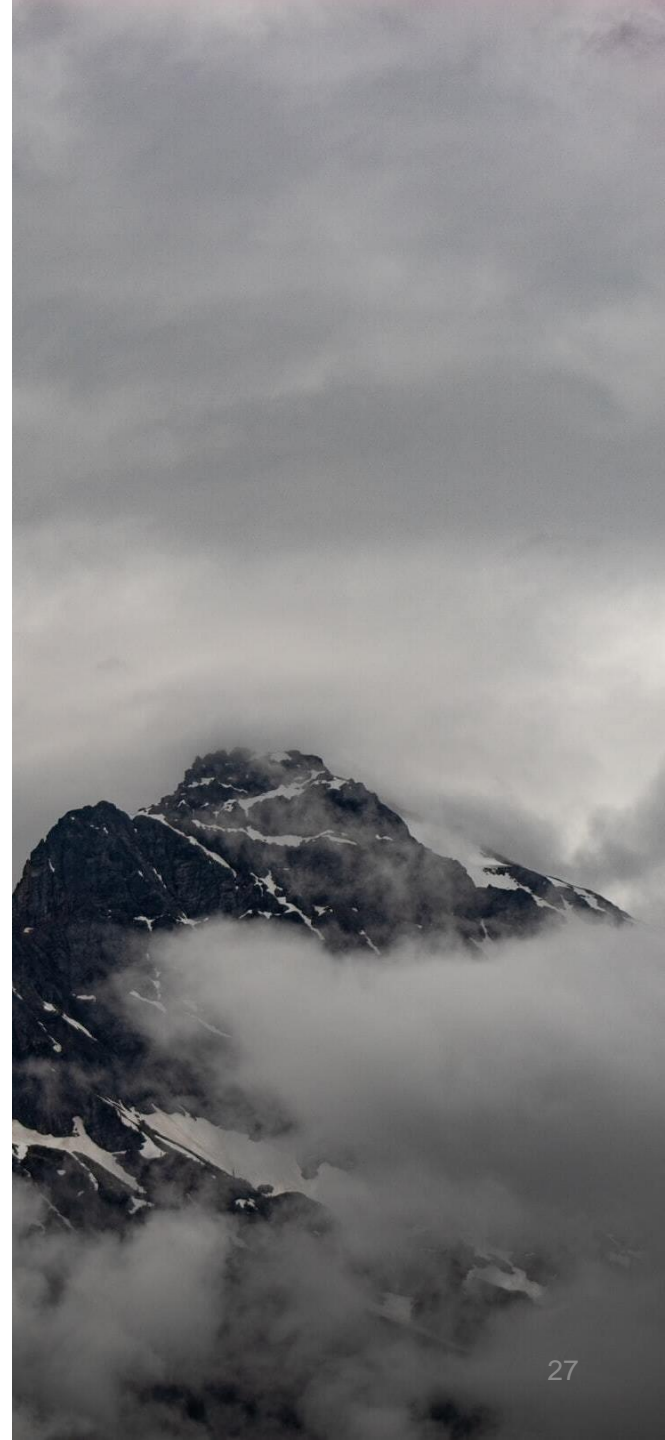


The Final Word on Valuing RDOF in an M&A

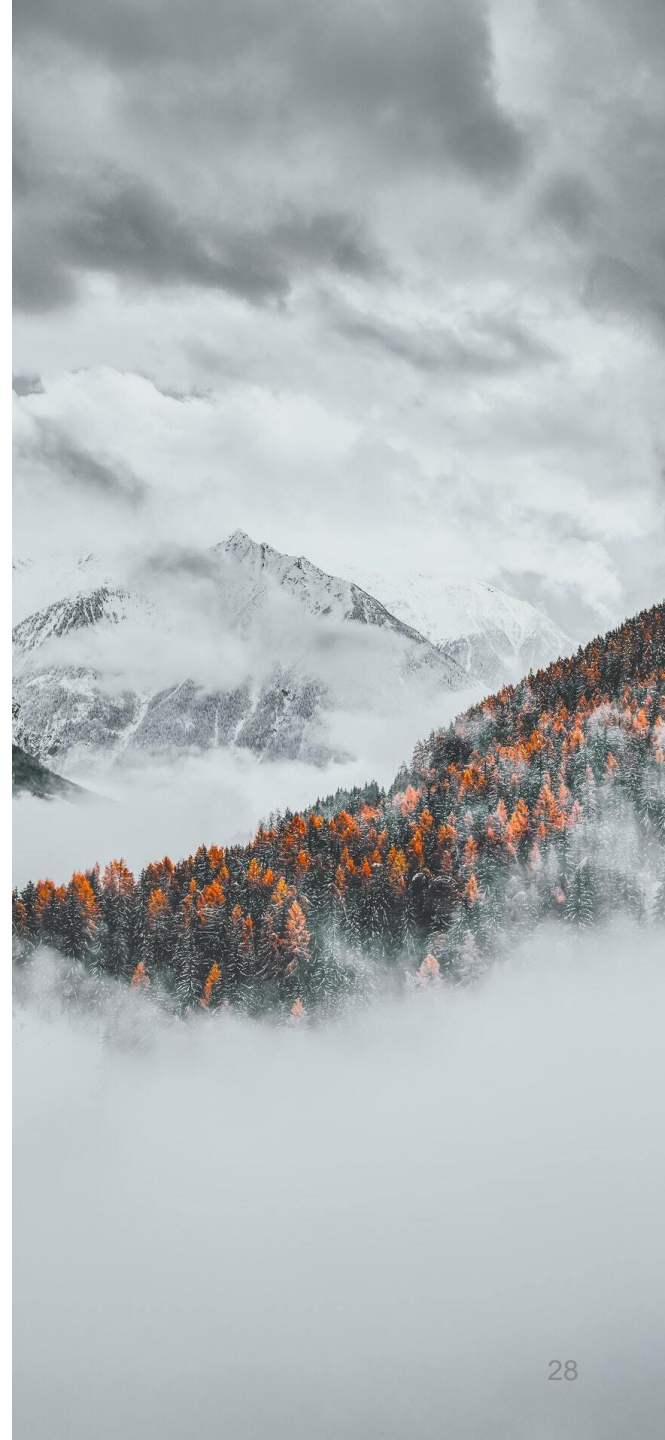
- *Maximize Valuation and Minimize Liability in an M&A with Team Support from Expert Counsel, Engineering, Investment Banking and Accounting Professionals*



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Questions?



Thank you

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