Operational & Financial Metrics
Used in the Wireless Industry

A Panel Presentation
Panelist:

- Bruce Hoehne, CPA
  - Partner at Kiesling Associates, LLP
  - The CPA’s perspective
- Ann Miller
  - Accounting Manager at Sierra Cellular
  - The Carriers perspective
- Scott Soden
  - Managing Partner at Alpina Capital, LLC
  - The Venture Capital perspective
- Robert West
  - Senior Vice President/Division Manager at CoBank
  - The Bankers Perspective
Benchmarking

By Bruce Hoehne

The CPA’s Perspective
Benchmarking

- The process of studying and comparing how other organizations perform similar processes and activities.
Benchmarking hopefully leads the CPA to:

- An understanding of the entity
- An understanding of the reasons behind financial performance
- An identification of areas for audit focus
Kiesling’s Dozen Key Wireless Financial Indicators

- Operating Results
  - Average Revenue Per User (ARPU)
  - Average Revenue Per User w/o Roaming (ARPU)
  - Churn
  - Revenue Per Employee
  - EBITDA Margin (EM)
  - Times Interest Earned (TIER)
  - Operating Margin (OM)

The CPA’s Perspective
Kiesling’s Dozen Key Wireless Financial Indicators (cont.)

- **Financial Position**
  - Quick Ratio
  - Current Ratio
  - Debt Service Coverage Ratio (DSC)
  - Equity to Total Assets – Equity %
  - Return on Equity (ROE)
Kiesling’s Dozen Key Wireless
Financial Indicators

- **Average Revenue Per User (ARPU)**
  - ARPU = Revenue from Services
  - # of customers with service
  - 2006 RCA Survey ARPU per Month is $58.61

- **Average Revenue Per User w/o Roaming (ARPU)**
  - 2006 RCA Survey ARPU w/o roaming is $39.58
Kiesling’s Dozen Key Wireless

Financial Indicators

- **Churn**
  - \[ \text{Churn} = \frac{\text{Number of customers that left provider}}{\text{Total number of customers}} \]
  - 2006 RCA Survey’s Average Monthly Churn is 1.9%

- **Revenue Per Employee**
  - \[ \text{Revenue Per Employee} = \frac{\text{Total Revenue}}{\text{Number of Employees}} \]
  - 2006 RCA Survey’s Average Revenue Per Employee is $413,550
Kiesling’s Dozen Key Wireless
Financial Indicators

- Definition: EBITDA – Earnings before Interest, Taxes, Depreciation, and Amortization

- EBITDA Margin (EM)
  - \( EM = \frac{\text{EBITDA}}{\text{Operating Revenues}} \)
  - 2006 RCA Survey EBITDA Margin is 29%
Kiesling’s Dozen Key Wireless Financial Indicators

- Times Interest Earned Ratio (TIER)
  - \[ \text{TIER} = \frac{\text{Interest Expense}}{\text{(Net Income + Interest Expense)}} \]
  - Minimum is 1.25 to 1.50
  - 2006 RCA Survey Median TIER is 4.7
  - 2006 RCA Survey Average TIER is 12.7

- Operating Margin (OM)
  - \[ \text{OM} = \frac{\text{Operating Income}}{\text{Operating Revenues}} \]
  - 2006 RCA Survey OM is 17%
Kiesling’s Dozen Key Wireless Financial Indicators

- **Quick Ratio**
  - Quick Ratio = \( \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}} \)
  - 2006 RCA Survey Quick Ratio is 1.25

- **Current Ratio**
  - Current Ratio = \( \frac{\text{Current Assets}}{\text{Current Liabilities}} \)
  - 2006 RCA Survey Current Ratio is 1.58
Kiesling’s Dozen Key Wireless
Financial Indicators

- Debt Service Coverage Ratio (DSC)
  - DSC = \( \frac{\text{EBITDA}}{\text{Principal + Interest on Debt}} \)
  - Minimum is 1.50 to 2.00
  - 2006 RCA Survey Median DSC is 3.1
  - 2006 RCA Survey Average DSC is 3.5
Kiesling’s Dozen Key Wireless Financial Indicators

- **Equity to Total Assets – Equity %**
  - \( \text{Equity} \% = \frac{\text{Total Equity}}{\text{Total Assets}} \)
  - 2006 RCA Survey Median Equity % is 58%
  - 2006 RCA Survey Average Equity % is 59%

- **Return on Equity (ROE)**
  - \( \text{ROE} = \frac{\text{Net Income}}{\text{Average Total Equity}} \)
Summary

- Utilize benchmarks to:
  - Better understand financial statements
  - Measure the financial performance of your organization
  - Grow and improve your organizations performance
Wireless Financial Metrics

By Anne Miller
Profitability Measures from the Income Statement

- Percent of Return on Net Revenues
  - Net Profit divided by net Revenues
- Monthly Ratio of Gross Profit to Revenues
  - Gross Profit divided by Gross Revenues
- Operating Margin to Net Revenues
  - Operating Margin divided by Net Revenues
Profitability Measures from the Balance Sheet

- **Percentage of Return on Assets**
  - Net Profit divided by Total Assets

- **Percentage of Return on Total Capital Employed**
  - Net Profit divided by (Debt + Equity)

- **Economic Value Added**
  - Annual After Tax Net Operating Profit minus it’s Cost of Capital
Liquidity & Cash Flow Measures

- **Expense Coverage Days**
  - \[
  \frac{\left(\frac{\text{Cash} + \text{Short Term Marketable Securities} + \text{Accounts Receivable}}{\text{Annual Cash Expenditures}}\right)}{360}
  \]

- **Cash Flow Adequacy Ratio**
  - \[
  \frac{\text{Cash from Operations}}{\left(\text{Long Term Debt} + \text{Cash Purchases} + \text{Cash Distribution to Shareholders}\right)}
  \]
Subscriber Growth Measurements

- **CPGA [Cost per Gross Add]**
  - \( \frac{\text{Monthly Expense for Equipment Subsidy} + \text{Agent Commissions} + \text{Advertising} + \text{Direct Payroll Cost} + \text{Retail Store Expense}}{\text{Monthly Gross Adds}} \)

- **Subscriber Growth**
  - Net Adds divided by Beginning Subscribers

- **Churn**
  - Cancellations divided by Average Subscribers

- **ARPU [Average Revenue per Unit]**
  - \( \frac{\text{Access & Airtime Revenue}}{\text{Average Subscribers}} \)
Value Metrics and Key Indicators From a Financial Advisor/ Venture Perspective

By Scott Soden
Alpina Capital, LLC

- Investment banking services for rural market communications providers
- Provides services in financial advisory, merger and acquisitions, and private placements
- The partners of the firm have completed over 100 transactions with an aggregate value in excess of $1.0 billion
- Expertise ranges from small, single market transactions, to large complex-market engagements
Metric Overview

- Future Discounted Cash Flows
- EBITDA
- Revenue
- Subscribers
- Pop’s
- Comparable Sales
- Public Company Trading Values
- Free Cash Flows

The Venture Capital Perspective
Standard Theories of Valuation on Which Metrics are Based

- Income Approach
- Market Approach
- Replacement Value

The Venture Capital Perspective
Future Discounted Cash Flows

- Basis of income approach
- The foundation for value estimate
- Estimated for three, five, and ten years
- Generally includes a terminal value based on EBITDA
- Must apply a discount rate
- The problem is it is never correct
EBITDA

- Earnings before interest, taxes, depreciation, and amortization
- EBITDA has nothing and everything to do with Valuation
- Equalizes for comparisons
- The ‘cornerstone’ for valuation
- Discussed in multiples times EBITDA
Revenue

- Basic premise assumes if revenue is ‘x’ then EBITDA or free cash flow is ‘y’
- Based on percentages and industry standards
- Reliability is low
Subscribers

- The most over used by analysts
- Easy metric to utilize
- The information is usually available
- Again, assumes if ‘x’ subscribers then ‘y’ EBITDA or free cash flow
Pop’s

- Again, if ‘x’ pop’s then ‘y’ EBITDA or free cash flow
- A last resort metric
- Utilized when nothing else is available or other metrics are inconsistent
Comparable Sales

- Based on market approach of valuation
- Compares transaction values of similar properties
- Historical transactions
- If historical transactions are available method has high reliability

The Venture Capital Perspective
Public Company Trading Values

- Has very little to do with private transaction values
- Excellent for comparing metrics
- Used as a basis since information is available
- Generally, provides a ‘ceiling’ for transaction values
Free Cash Flow

- Comes and goes in importance with analysts
- Popular when things are ‘bad’ and unpopular when things are ‘good’
- One of the major items that affected values in the early 2000’s
- We currently have forgotten the past
Summary

- Future cash flows are the foundation of valuation
- EBITDA is the cornerstone of valuation
- Other metrics reflect comparable standard value indicators
- Public trading values reflect constant theoretical value
The Lender’s Perspective

By Rob West
CoBank’s Communications Portfolio

- **Total Portfolio:** 206 Customers
  - Commitments: $3.2 Billion
  - Outstandings: $2.4 Billion

- **179 Wireline Customers**
  - Commitments: $2.8 Billion
  - Outstandings: $2.1 Billion

- **27 Wireless Customers**
  - Commitments: $437 Million
  - Outstandings: $321 Million

Data as of 6/30/07
Trends

- 95% recent wireless transactions from existing customers
  - Upgrades
  - Tower Builds
  - Auction Participation
  - Small Acquisitions
- Opportunities in niche plays
Successful Niches

- **ATN**
  - Provides services in U.S., Guyana, U.S. Virgin Islands & Bermuda

- **Bug Tussel Wireless**
  - Provides roam only wireless services for national carriers utilizing GSM technology in rural WI & MI

- **Key to Success: Complimentary services and/or strong relationship with large carriers**
Challenges

- Maturation of wireless penetration
- Fewer opportunities in rural wireless
  - Size & Scope
- ETC Uncertainty
- Reduction in roaming rates
Opportunities

- Auctions/Bandwidth (700 mhz, LMDS, AWS, WISPs)
- Crossroads Wireless/Sprint
- T-Mobile
- Minimal Acquisitions
Lending Parameters

- Tenors up to 10 years
- 4.5 – 6.5x Leverage
- Leverage decreases for higher dependencies on roaming
- ETC/USF payments may be discounted
Questions/Comments for the Panelist
Thank You

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