



# Rock Island Communications

## Year End Report

March 2017

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## 1. Year-end Executive Summary

After a significant team effort, we have ended our first full year of operations meeting our financial targets. On an actual to plan basis we ended 2016 on a variance of less than 2% at 1.78% behind plan.

2016 was a significant turning point in the startup operations of Rock Island. This was the first full year of complete service offerings of Fiber, LTE, DSL, IT Services and Retail operations. The year was full of numerous successes, gains and challenges. The most significant change was substantial steps in the overall operational ability of the team to deliver new services quickly and efficiently on numerous fronts. From the multifaceted onboarding process of Fiber to the consistent stream of new LTE connections and how each, in addition to all other services, affect daily operations. We have matured our processes and procedures to a point where we are confident in our ability to scale and continue to gain market share.

YE 2016 Financial Highlights	YTD Actual	YTD Plan	Variance	% Var
	2016	2016		
Gross Revenues	\$2,286,000	\$2,346,000	-\$60,000	-2.56%
Operating Expenses	\$4,593,000	\$4,555,000	\$38,000	0.83%
Net Loss	-\$2,738,000	-\$2,690,000	-\$48,000	1.78%

2016 Product Highlights	YTD Actual	YTD Plan	Variance	% Var
	2016	2016		
Fiber Revenue	\$867,000	\$909,000	-\$42,000	-4.62%
LTE Revenue	\$399,000	\$387,000	\$12,000	3.10%
DSL Revenue	\$740,000	\$735,000	\$5,000	0.68%

2016 Customer Highlights	As of December 31,
	2016
Total Customers	3,595
Avg. Daily Connections	5.5
Avg. Daily Support Calls	330

2016 Product Metrics	As of December 31, 2016		
	Avg. Speed	Subscribers	***ARPU
Fiber	52 Mbps	968	\$85
LTE	Varies	918	\$67
DSL	Varies	1015	\$48
All Products			\$57

\*\*\*Average Revenue Per Subscriber



## 2. 2016 Financial Statement Narrative

Revenue ended the year down 2.56% on plan with Fiber at 4.62% behind plan while LTE was up 3.10%, and DSL up 0.68% offsetting most of this. Overall this was a 20% year over year growth in gross revenue. We see this as a significant accomplishment in the first full year of operations and speaks to the embedded risk mitigation strategy we employed from the very beginning of this project. The ability to delivery LTE services quickly and the purchase of Rock Island (DSL revenue) allows us to smooth the peaks and troughs of fiber connectivity/new revenue.

Fiber revenues were 4.62% under plan, we see this acceptable variance based upon the inherent timing constraints with the onboarding of new fiber connections and thus new fiber revenue. Fiber subscriptions ended the year at 968 subscriptions with a consistent mix of residential, small business, and new institutional/ISP connections. 49% of our customers are purchasing 50Mbps, followed by 37% with 25Mbps, and 7% for both 100Mbps and 200Mbps services. Just over 16% of our fiber residential fiber subscribers are on seasonal plans as out Fiber ARPU is \$0.55 lower than plan. The overall average speed of residential services is 52Mbps.

LTE revenues were \$399k for the year, coming in 3.10% higher than plan. 26% of our 918 LTE customers at the end of 2016 are on seasonal plans with ARPU holding at \$67. We are confident in the connection rates in early 2017 and anticipate meeting plan expectations.

DSL revenues were in line with our expectations. We anticipate a steady decrease of these revenues through 2017, as seen in 2016.

On the expense side we ended the year 0.83% behind plan. While individual line items fluctuated ahead and behind plan overall, we managed and mitigated unforeseen circumstances proactively. Much of this can be attributed to gaining a better understanding of necessary business expenses and applying the applicable cost controls and processes. The cost of our human capital was in line with plan. This speaks volumes to the effort and dedication of our staff especially given our growth and customer support needs on the daily basis.

We are pleased with the full year net loss of \$2.7 million, only 1.78% behind plan. We see this as a significant milestone affirming our strategy, development of our pipeline, and the implementation of our processes and procedures.

In 2016, we paid back the initial loan to OPALCO totaling \$7.2 million and signed a long term note and line of credit with CoBank. Our weighted average interest rate on CoBank debt is



2.98%; including the interest paid to OPALCO this rate increases to 3.31%. We estimate over 60% of borrowed funds have been used for the deployment of our fiber and LTE network within the county.



### 3. Summary Financial Statements

		A.	B.	C.
		Business Plan Period End YTD Q4	Actual Period End YTD Q4	Variance (B-A)
1	I OPERATING REVENUES	\$ 2,346,395	\$ 2,286,266	\$ (60,129)
2				
3	II OPERATING EXPENSES			
4	COST OF GOODS SOLD	728,001	759,616	31,615
5	GENERAL AND ADMINISTRATIVE	3,755,800	3,764,131	8,331
6	SELLING AND MARKETING	71,155	69,032	(2,123)
7	TOTAL OPERATING EXPENSES	<u>4,554,956</u>	<u>4,592,779</u>	<u>37,823</u>
8	TOTAL NET OPERATING MARGINS	<u>(2,208,561)</u>	<u>(2,306,513)</u>	<u>(97,952)</u>
9				
10	III OTHER INCOME (EXPENSE)	(481,849)	(431,321)	50,528
11				
12	GRAND TOTAL NET (LOSS) MARGIN DETAIL BREAKOUT	<u>\$ (2,690,410)</u>	<u>\$ (2,737,834)</u>	<u>\$ (47,424)</u>



## Balance Sheet

	Actual 12/31/2016
1 CURRENT ASSETS	\$ 1,873,828
2 PROPERTY, PLANT, AND EQUIPMENT	7,245,385
3 OTHER NONCURRENT ASSETS	254,867
4 Total assets	<u>\$ 9,374,080</u>
5	
6 CURRENT LIABILITIES	899,338
7 NONCURRENT LIABILITIES	12,992,689
8 Total Liabilities	<u>13,892,027</u>
9	
10 EQUITIES AND MARGINS	<u>(4,517,947)</u>
11 Total Liabilities and Equity	<u>\$ 9,374,080</u>



## Statement of Cash Flows

YTD Ended  
12/31/2016

	Cash Flows from Operating Activities:	
1	Net income (loss)	\$ (2,737,834)
2	Adjustments to reconcile net income (loss) to net cash	643,886
3	Net cash provided by (used in) operations:	<u>(2,093,948)</u>
4		
5	Cash Flows from Investing Activities:	(4,435,712)
6		
7	Cash Flows from Financing Activities:	6,398,109
8		
9	Net change in cash	<u>(131,552)</u>
10		
11	Cash and cash equivalents, beginning of period	<u>225,976</u>
12	Cash and cash equivalents, end of period	<u><u>94,424</u></u>
13		
14	SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
15	Cash paid during the year for interest	<u><u>\$ 372,426</u></u>



## 4. YTD Update

Continuing with a good start in January, February was equally as strong for LTE connections adding 128 new LTE customers and 19 Fiber customers. Given February only had 19 working days, we managed to maintain a daily average of 7.7 new customers. This is 32 connections ahead of plan for February and 72 for the first two months. For the first seven days of March, we have maintained an 8.1 daily average connection.

Fiber is beginning to pick up now that seasonal residents are returning to the islands. The weather has been a challenge as this has been the wettest winter in 40 years and the coldest on record. We have added 46 active fiber projects since the last board report. Our pipeline continues to grow.

Long Term Opportunity Pipeline is active with 41 group conversations moving through the commitment process. This equates to **1,093** properties with an initial estimate of **849** connections if construction is completed.

Near Term Opportunities pipeline is **226** opportunities in process. We have **163** active projects underway, up **47** projects from the month prior.

### LTE Network Build

By Island	Planned	Online	In Process
Blakely/Decatur	2	2	0
Lopez	8	8	0
Orcas	13	8	5
San Juan	12	6	6
Shaw	2	2	0
Unassigned	1	0	1
<b>TOTAL</b>	<b>38</b>	<b>26</b>	<b>12</b>