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Rock Island Communications
Monthly Report and Q3 Summary

November 2018

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Finance

Q3 2018 Highlights

	Revenue Summary					
	3rd Quarter			Year to Date (Thru September)		
	2017	2018	Growth	2017	2018	Growth
Broadband Services						
<i>Residential Fiber</i>	\$ 225,000	\$ 301,000	34%	\$ 682,000	\$ 799,000	17%
<i>Institutional Fiber</i>	111,000	194,000	75%	265,000	540,000	104%
	\$ 336,000	\$ 495,000	47%	\$ 947,000	\$ 1,339,000	41%
Wireless						
<i>LTE Fixed Wireless</i>	\$ 356,000	\$ 522,000	47%	\$ 881,000	\$ 1,460,000	66%
Services						
<i>T&M, Hosting, etc...</i>	\$ 61,000	\$ 106,000	74%	\$ 153,000	\$ 223,000	46%
<i>VOIP</i>	11,000	21,000	91%	19,000	58,000	205%
	\$ 72,000	\$ 127,000	76%	\$ 172,000	\$ 281,000	63%

Condensed Financial Results

	3rd Quarter			Year to Date (Thru September)		
	2017	2018	Change	2017	2018	Change
<i>Revenue</i>	\$ 975,000	\$1,326,000	36%	\$ 2,572,000	\$ 3,612,000	40%
<i>Net Loss</i>	(566,000)	(640,000)	13%	(2,005,000)	(1,987,000)	-1%
<i>EBITDA</i>	(138,000)	(58,000)	-58%	(858,000)	(391,000)	-54%

All percentages are calculated on whole numbers. Minor differences may exist due to rounding.

Broadband Services:

- 164 residential fiber connections were added (net of cancellations) during the third quarter compared to 70 from the same period last year.
- Total YTD fiber revenues were \$1.3MM an increase of 41% year over year compared to the same period in 2017.

Wireless

- 392 LTE connections were added (net of cancellations) during the third quarter compared to 285 from the same period last year.
- Total YTD LTE revenues were \$1.46MM, an increase of 66% year over year.

Q3 2018 Financial Update

Revenues:

Gross revenues on a year-to-date basis through Q3 2018 ended 6% (approximately 235k) behind our planned targets. As previously reported, our shortfall stems from slower than planned LTE onboarding and the timing of onboarding institutional and large business customers. Another factor influencing our LTE revenues corresponds to our continued use of promotional incentives to new customers. Fiber onboarding speed has not dissipated, and we are still on track to end the year ahead of planned fiber subscriber counts.

Expenses:

Our overall G&A expenses on a year-to-date basis through Q3 2018 were over budget on the business plan targets by 2% (approximately \$71k). Cost of Service has exceeded plan on a year-to-date basis by 40% (approximately 228k). This variance was driven by several items as follows:

- In the month of August, we completed a large time and materials project. The project entailed installing a complex private wireless system to a private residence. The completion of this project resulted in sales of approximately \$26k with a corresponding cost of goods sold of approximately \$16k. Resultantly, this completion of this job as well as other smaller IT Services projects contributed approximately \$20k to the overall budget to actual variance for Cost of Services for the quarter. Please note that the revenues generated from these projects more than offset the corresponding expenses recognized for the period.
- The third quarter involved a culmination of marketing efforts in order to ensure we got the attention of seasonal residents before they left for the season. The campaign involved print advertisements in The Sounder, mailers to targeted addresses, and a social media push on Facebook. The culmination of these activities generated approximately 280 new LTE connections in August and September with an associated marketing cost of approximately \$29k which adversely impacted expenses in this period. We are in the process of evaluating and refining additional marketing campaigns as of this report to ensure we are using the most effective use of our budgeted marketing funds.
- Interest expense on borrowings was greater than budgeted for due to several factors. Rising interest rates on debt subject to floating interest rates, an assumption in our 2018 budget that assumed an aggressive model of capitalization of interest expense into plant assets, and the forward rate fix of \$4MM at 4.75% for five years which occurred earlier this year in March when prevailing rates were hovering around 4%. In totality, interest expense is 36% higher for the year to date than previously planned. Please note these interest rates are still dramatically lower than our initial interest rate projection of 6% (original business plan).

Bottom Line:

We have grown our revenue by 35% or \$1.3M over the third quarter last year, which is a huge accomplishment. In retrospect, the 2018 targets were overly aggressive for revenues and we have adjusted our budgetary targets accordingly. We ended the quarter with a net loss year-to-date of \$1.99MM, approximately 48% or \$645k higher than plan. Our focus remains on lean business objectives and execution of sales strategies to increase subscriber numbers through the end of the year.

Q3 2018 Financial Statements

Balance Sheet		Actual 6/30/2018	Actual 9/30/2018
1	CURRENT ASSETS	\$ 2,573,202	\$ 2,480,360
2	PROPERTY, PLANT, AND EQUIPMENT	12,486,469	13,171,623
3	OTHER NONCURRENT ASSETS	214,905	207,137
4	Total assets	<u>\$ 15,274,576</u>	<u>\$ 15,859,120</u>
5			
6	CURRENT LIABILITIES	1,538,138	1,491,975
7	NONCURRENT LIABILITIES		
8	CoBank Debt	19,400,000	20,800,000
9	Other Non-Current Liabilities	2,756,377	2,623,817
10	Total Liabilities	<u>23,694,515</u>	<u>24,915,792</u>
11			
12	EQUITIES AND MARGINS	<u>(8,419,939)</u>	<u>(9,056,672)</u>
13	Total Liabilities and Equity	<u>\$ 15,274,576</u>	<u>\$ 15,859,120</u>

Income Statement		A. Business Plan Period End YTD Q3 2018	B. Actual Period End YTD Q3 2018	C. Variance (A - B)
1	I OPERATING REVENUES	\$ 1,428,476	\$ 1,325,499	\$ 102,977
2				
3	II OPERATING EXPENSES			
4	COST OF GOODS SOLD	190,605	368,267	(177,662)
5	GENERAL AND ADMINISTRATIVE	1,284,879	1,289,458	(4,579)
6	SELLING AND MARKETING	15,750	39,845	(24,095)
7	TOTAL OPERATING EXPENSES	<u>1,491,234</u>	<u>1,697,570</u>	<u>(206,336)</u>
8	TOTAL NET OPERATING MARGINS	<u>(62,758)</u>	<u>(372,071)</u>	<u>(309,313)</u>
9				
10	III OTHER INCOME (EXPENSE)	(198,043)	(267,943)	69,900
11				
12	GRAND TOTAL NET (LOSS) MARGIN DETAIL BREAKOUT	<u>\$ (260,801)</u>	<u>\$ (640,014)</u>	<u>\$ (379,213)</u>

	YTD Ended 9/30/2018
Statement of Cash Flows	
Cash Flows from Operating Activities:	
1 Net income (loss)	\$ (640,014)
2 Adjustments to reconcile net income (loss) to net cash	654,662
3 Net cash provided by (used in) operations:	<u>14,648</u>
4	
5 Cash Flows from Investing Activities:	(3,696,292)
6	
7 Cash Flows from Financing Activities:	4,995,498
8	
9 Net change in cash	<u>1,313,854</u>
10	
11 Cash and cash equivalents, beginning of period	<u>33,551</u>
12 Cash and cash equivalents, end of period	<u><u>1,347,405</u></u>
13	
14 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
15 Cash paid during the year for interest	<u><u>\$ 550,977</u></u>

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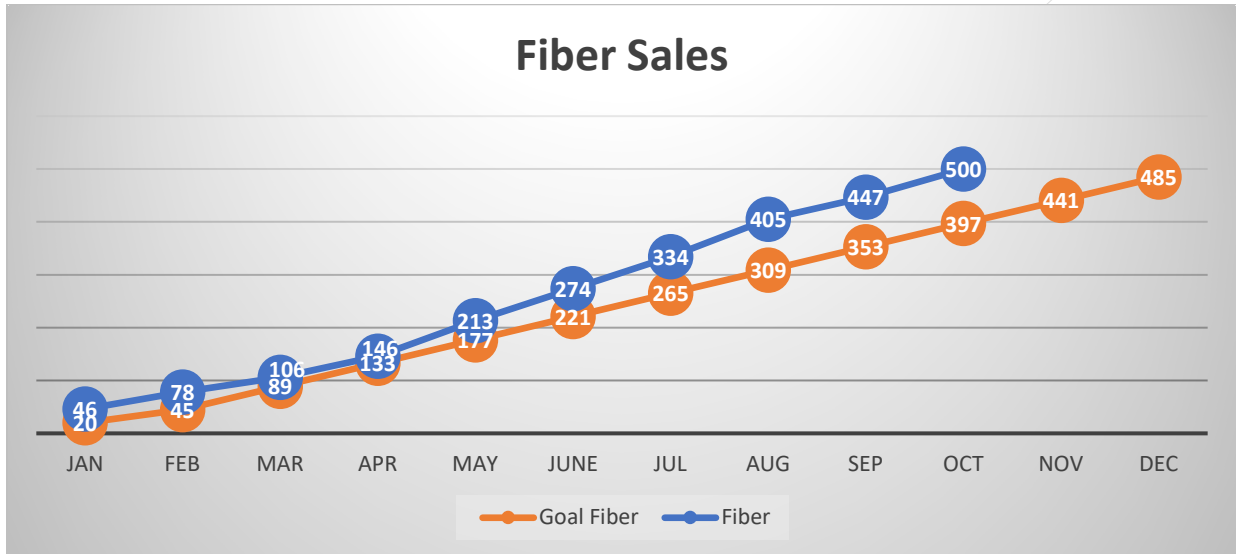
Sales and Onboarding

Q3 2018

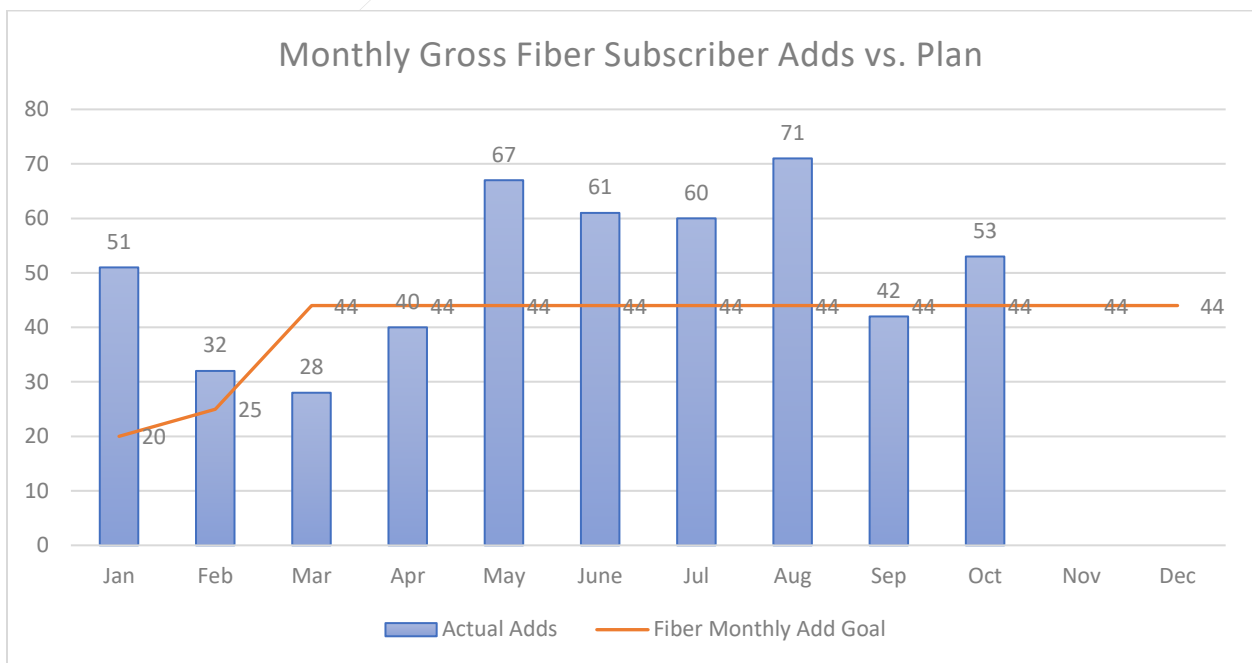
Customer Onboarding

Fiber

Here is a look at our current subscriber onboarding compared to plan for 2018 by gross monthly new adds.

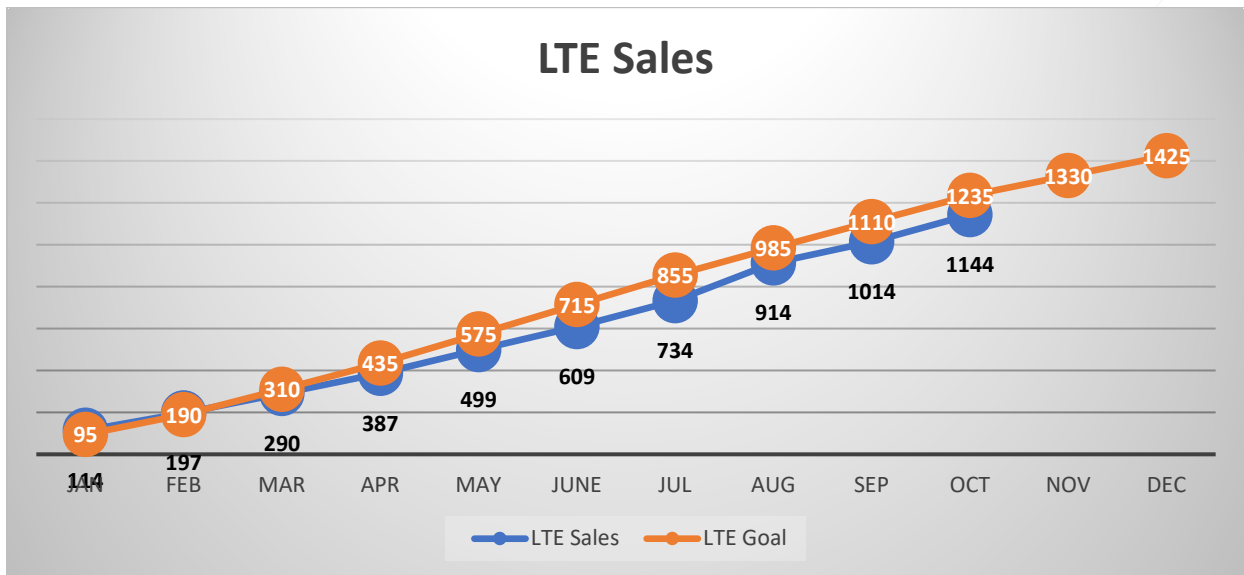


Fiber sales continue at the same pace for Residential and Small Business. Having already hit our number for the year in total subscribers, we are still scheduled to add approx. 80 more subscribers by year end.

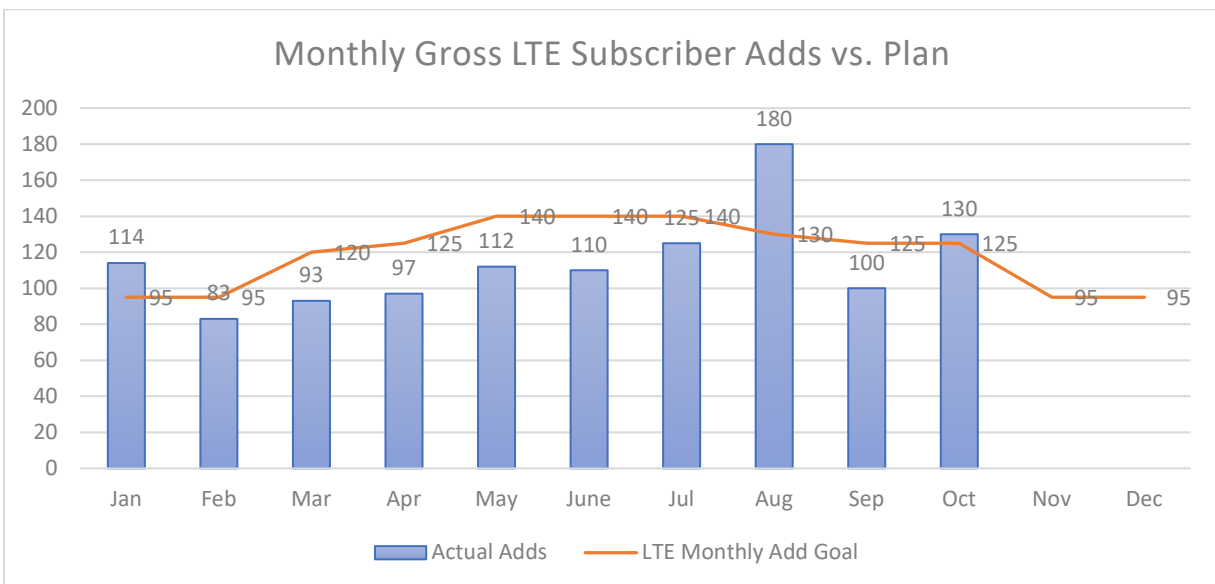


LTE

Current customer onboarding totals for LTE in 2018

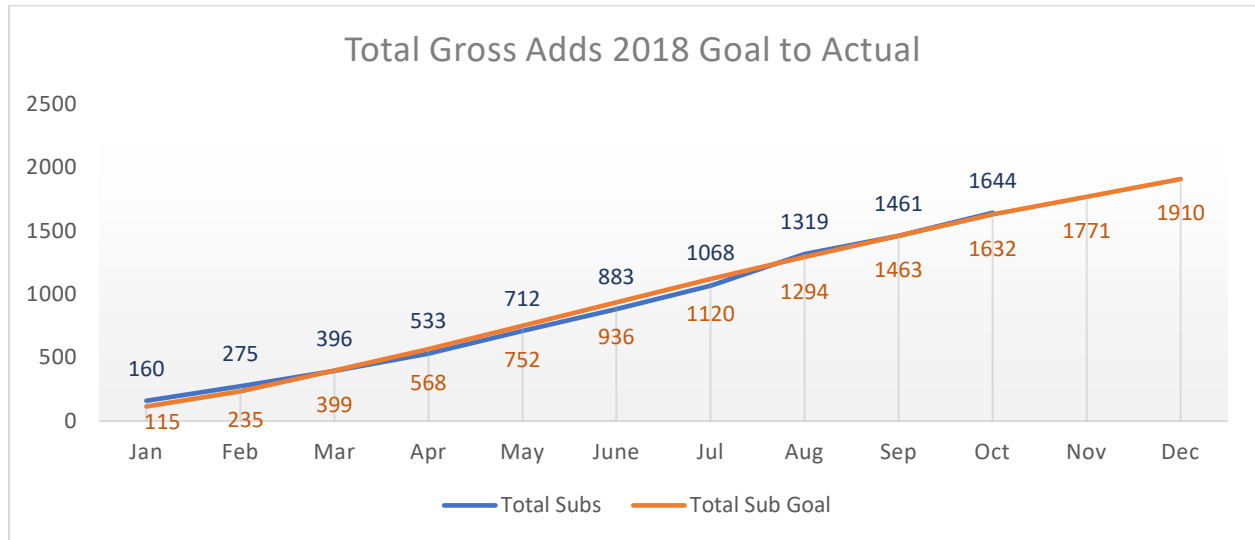


We continue to enhance our methods for outbound sales for LTE and have dedicated a calling program to spreading the word. We have also launched new campaigns for referrals and rewards to existing customers. 2018 is already the second-best year of sales to date and we will end the year strong.



LTE trends did show some quality returns in October as we surpassed our months goal of 125 with 130. An earnest effort to close the year out strong is still our focus.

Total Subscriber adds YTD against Plan



We had 4,890 total subscribers as of Nov 1, 2018.

Marketing/Support

Some of the marketing highlights of recent months included two film festivals held on Orcas and San Juan islands, our Refer a Friend promotion, and a note on the retirement of Tom Miller.

Orcas Island Film Festival

The core of our Film Festival marketing strategy was centered around exposing moviegoers to our 60-second LTE Fixed Wireless commercial. This one is similar to the one we've been running on Facebook explaining the benefits of our LTE Fixed Wireless product and the ease of giving it a try.



The second component of our strategy was to sponsor an event and be present with feet-on-the-street to talk about LTE, answer questions about fiber, T-Mobile phone service, and to take the opportunity to greet our customers. We also handled the inevitable tech support questions that came our way too.

We sponsored the Orcas Island Film Festival Hub and the VR Lounge at the film festival in October 2018. We were there to pass out fliers and talk about our LTE service. It was a great event and we heard a lot of good feedback about our products, as well as gratitude for supporting this unique event.

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Friday Harbor Film Festival

Just like Orcas, our one-minute LTE commercial ran before every single movie screening at all venues during the festival. We were present at movie entrances and exits from 10am – 5pm all three days passing out \$50 off activation coupons. It was a rainy weekend, but again our feedback from both existing customers and supporters was great.



Refer A Friend Campaign

Our refer-a-friend program for our LTE Fixed Wireless customers was launched on October 8th to get the word out about our Fixed Wireless service – and to close new customers as a result. We are seeing some humorous example of customers dragging in their friends and neighbors to sign up for LTE, and they are racking up the credit thanks to this program.

While these are minor examples, we are seeing this as a good way to get incremental sales, but also as a great way to show our base that we are willing to share our success with them as we expand our reach.



Thomas Miller Retires from Rock Island

After over 10 years as the friendly voice of Rock Island's Tech Support, Tom Miller is retiring. Tom has been an instrumental domain knowledge resource as we transitioned from Rock Island Technology Solutions to this Island Network, LLC. iteration. He has made thousands of connections throughout the county and is widely-loved as such.

We hosted a farewell and thank you party on Friday November 9th to send him off in style. We had a BBQ and we sent out a 7,000 person invite to the community. This is a bitter-sweet moment for us and we wish Tom all the best in his future endeavors.

Conclusion

Strategic numbers for the business are all in line with our current expectations. Staff has been dedicated to the most recent Business Plan and the sharpened focus on our future business. We are excited to see fiber come in so strongly this year and look forward to continuing that trend. With new opportunities and a large pool for individual connections in San Juan County, we are confident of Rock Island's ability to deliver. A much more detailed analysis is prepared in this year's 2019 Business Plan.