# ROCKISLAND

## 2019 Rock Island Business Plan

## December Edition

Dec 14, 2018

# Contents

Dec 14, 2018

# Executive Summary

## Objective

After a special session of the Board, in which the details of the Rock Island Business Plan, scenarios and additional materials were presented and discussed, staff recommends the adoption of a resolution in which Rock Island will execute the 2019 plan with the following guiding targets:

- Grow subscribers to 5,273
- Grow revenues to $6,174,964
- Manage expenses to $7,867,426
- Continue the investment for fiber incentives, thereby increasing total 2019 debt to $25,515,556

In order to meet these goals, Rock Island asks the Board to increase the loan guarantee by the parent company by $4M.

Dec 14, 2018

## INTRODUCTION

The 2019 budget aligns our operations to our purpose:

Rock Island Communications provides the highest quality, most reliable internet, voice and communications services to its subscribers.

Rock Island's top priorities are:

1.    to improve communications for public safety and emergency responders;

2.    install fiber to the premise (FTTP) for the highest standard of connectivity;

3.    maintain the health and long-term viability of wireless (LTE) services;

4.    accelerate strategies to gain market share to protect the company against all competitive threats.

This proposed budget prepares Rock Island to meet the marks set out in our living business plan:

TODAY: Connect Subscribers with FTTP. In 2017-18, the business plan focused on getting subscriptions to LTE wireless service, in order to mitigate a competitive threat. Today, we must transition as many subscribers as possible to FTTP, especially in the population centers focusing on MDUs and UGAs, in order to insure the best experience on our LTE system and to mitigate current competitive threats. This budget continues the connection incentives for FTTP.

TOMORROW: Financial Break-Even. The primary goal of Rock Island is to meet the unmet need of OPALCO's membership. Investment and borrowing will continue until the needs are met and Rock Island has gained a competitive advantage. Even as FTTP is emphasized, work will continue to improve our LTE system and connect as many subscribers as possible. Financial break-even is forecast for 2021YE.

FUTURE: Long-term Financial Viability. The greatest risk to long-term financial viability is competition. Once FTTP has reached saturation, Rock Island will be in a strong position maintain market share post contractual agreements. At the point that subscriber targets are realized, the OPALCO Board can then decide to reinvest profits into the business, or return dividends to the parent Co-op.

## INCENTIVE

It is the staff's recommendation that Rock Island continues to fully fund the incentive and investment of FTTP with a goal to evaluate the necessity of continuing the incentive at mid year.

Dec 14, 2018

DEBT

Rock Island currently carries $21.5M in debt. This debt was obtained during an all-time low interest rate period for borrowings. Our current future projections max our total lifetime maximum of debt at $26.8M. If the interest in fiber remains heavy, staff would recommend an increase to this debt to meet the member demand.



Debt (Historical & Projected)

Dec 14, 2018
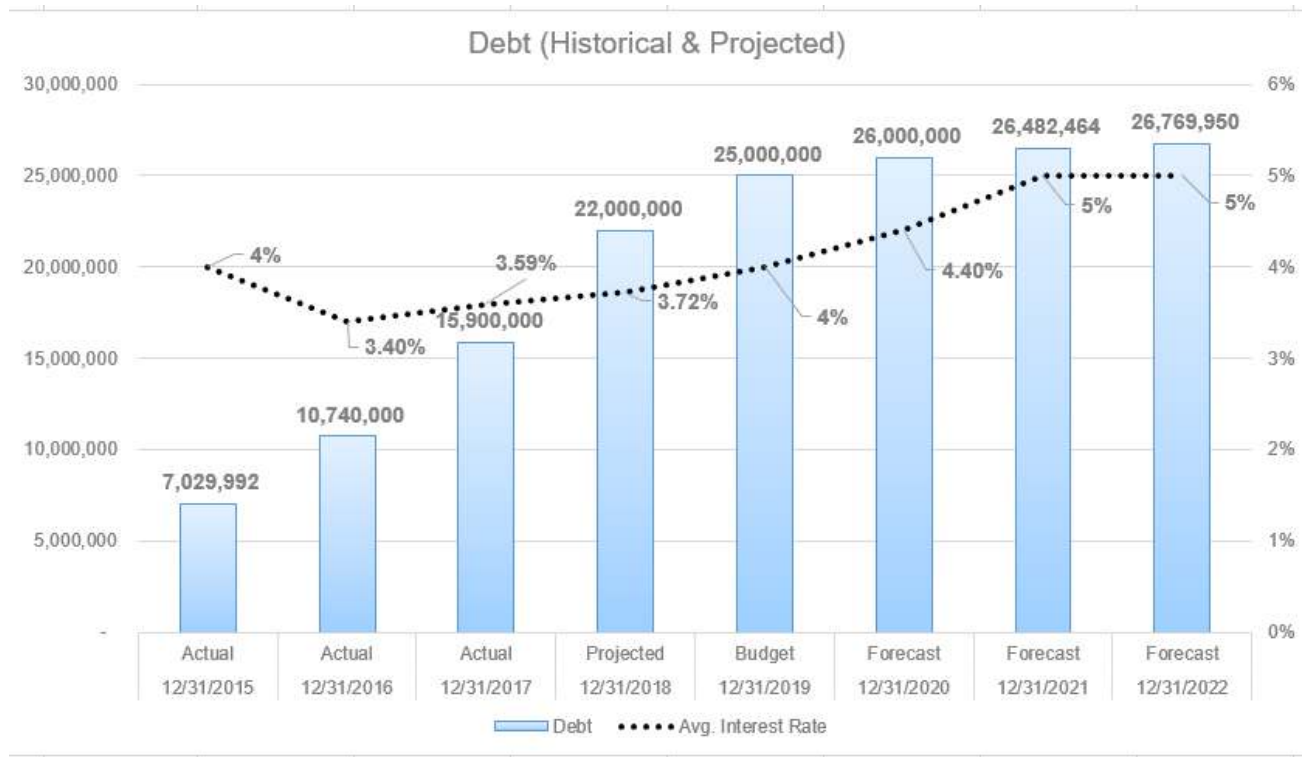
## HISTORICAL

In October of 2014, the Board adopted a strategy and made a major leadership decision in executing a new business plan to meet the needs of its members. This original 2014 plan opened with a purpose and a mission as follows:

> *"**Purpose**: The purpose of this **Business Model** and **Go-To-Market Strategy** is to explain the structural, financial, sales, operational and deployment plans for Island Network, a wholly owned subsidiary of Orcas Power & Light Cooperative.  This business model primarily focuses on the development and deployment of a middle and last mile solution to end consumers of high-speed Internet and voice services around San Juan County. The plan is a narrative explaining the approach, structure and operational workflows and includes several supporting financial tables, worksheets and diagrams.  **This will be a living document as we engage more members of the community and evolve this plan to meet requirements**.*

> *…**1.2 Mission**: In addition to providing a safe, stable and cost effective electric supply to San Juan County, OPALCO has an opportunity to provide a modern, scalable and reliable telecommunications service to the community as a whole.  The decision to move forward with the development and deployment of the Grid Control Backbone has created the ability to extend this critical infrastructure to meet the variety of broadband (data/voice) needs of the county.  The primary plan, with a series of initial investments in Island Network, is to allow it to achieve self-sufficiency as it continues to scale and grow within the community.*

> *The mission of Island Network is to provide the San Juan County community with the highest level of broadband (data & voice) service at the most cost effective price.  Island Network is a community centric organization that will go above and beyond to serve San Juan County in every way possible.  Island Network will be creative and dedicated to delivering solutions to meet the varied needs of our community.  We will utilize and provide market-leading tools to support all aspects of our business."*

The details of the business plan that followed in 2014 outlined the basis for a business to create the opportunity needed to meet those goals. Since that inception, the scope of the project has grown to accommodate a strategic purchase of Rock Island Technology Solutions. Shortly thereafter, we entered a relationship with our partner T-Mobile. This relationship grew the original scope of our project to meet the goals of a county-wide hybrid wireless and fiber deployment plan. So much more than a small fixed wireless play was on the table now. County-wide coverage was going to be a reality.

After spending the year in 2015 retooling, we launched the effort to bring broadband services to our members. Three years later, we rest on the speed closer to some monumental business milestones. With the experience of a successful deployment we look to sharpen our plan to more effectively hit future projected business targets, while maintain the core value of a young technology company in remaining adaptable and abreast of the industry and opportunities.

Rock Island rounds the corner on major business milestones and starts to sharpen its focus toward the key to its success for the long run. The business is operationally cash flow positive in Q3 of 2019 and net income positive in Q4 of 2021. Rock Island has spent the last few years focused on the onboarding effort

and with that effort having built momentum and proven its sustainability, it is time that we expand our focus to avenues of the business that will layer in more opportunities in years to come. Beyond capturing a healthy market share, supporting the needs of our locals and their businesses needs to be the identifying mark of the Rock Island brand.

*Our Goals for 2019:*

- Continue our onboarding efforts to increase our fiber customer base, specifically in UGA areas, ensuring that we are always future- proofing our business.

- Expand the opportunities for supporting our customers with things beyond an internet connection, developing an array of business solutions and services that support our local business community.

- Fine tune and enhance our existing LTE network. Adding technologies and increasing capacity where needed to maintain customer satisfaction and growing demands.

| Long-Term Milestone Checkpoints | Period | Target Subs | Total Debt | Target Recurring Revenue |
|---|---|---|---|---|
| Operational Cashflow Positive | Q3-2019 | 5273 | $25.5M | $6.2M |
| Net income Positive (includes depreciation) | YE-2021 | 6167 | $26.5M | $7M |
| Revenue Sufficient to Cover Debt Service | YE-2024 | 7778 | $27M | $8.8M |

7

Dec 14, 2018

# Budget

The 2019 Budget includes a robust roll out strategy for FTTP, while continuing to strengthen the LTE network. New ancillary services for businesses will be introduced to capture a new segment. A major project to unify two-way radio communications for all first responders in San Juan County will provide a much-improved emergency communications network. Propane generators will be installed on targeted active sites for back-up coverage during power outages.

Rock Island meets the unmet needs of OPALCO's membership with high quality, reliable internet, voice and communications services. The strategies for 2019 are:

- **Products and Services:** Deliver internet, voice, and data communications products and services of the highest quality through the most appropriate technologies to meet the subscribers needs. Evolve the product and service offerings as necessary to provide the highest value proposition and address the unmet needs of the community. Deploy FTTP based on demand.

- **Competition**: Continually assess competitive product and service offerings. Maintain surveillance of competitive landscape with respect to technology evolution, financial strengths and weaknesses. Perform regular SWOT analysis.

- **Subscribers:** Utilize local presence to provide superior subscriber engagement experience in sales and support. Innovate new and effective products and services to maximize subscriber satisfaction. Roll out new ancillary services to support local customers and businesses.

- **Financial:** Continuously monitor key financial metrics. Retain sufficient earnings to acquire new subscribers, expand product and service offerings, refresh technologies, and if consistent with these goals, distribute a dividend to parent.

The 2019 budget moves us toward our targets utilizing the following tactics:

- **Safety** – The expansion of a communications infrastructure county-wide provides a tremendous boost to public safety. First responders can reach out for help in the field; members and tourists can get help in times of crisis and our County is connected to real-world services for education, economic development and quality of life. Access to cellular communication through our cellular partner is robust throughout the County, including all ferry routes. A unified two-way radio network for all emergency responders will be deployed in 2019.

- **Reliability** – Rock Island's long-term strategy is to provide capacity sufficient to meet the needs of OPALCO's membership and maintain reliable communication services with system redundancies to keep services available, even in times of emergency. The 2019 budget includes installation of propane generators to provide back-up to targeted active sites during power outages. Additional transport circuits through Fidalgo Island and to Canada for off-island redundancy loops.

- **Investment** – Rock Island will continue to use debt as a strategic tool to counter competitive threats in the market and to ensure long term financial viability.

Dec 14, 2018

- **Subscribers** – The more subscribers onboarded to FTTP, the greater their satisfaction and service reliability. This benefits subscribers and also mitigates competitive threats by keeping their loyalty. This year is all about migrating subscribers to FTTP with a focus on population centers and MDUs. Rock Island will also be rolling out new business offering and IT services.

- **Partnerships** – In order to remain nimble and be able to respond quickly to competitive threats and market changes, this budget includes additional investment in enhanced technologies and small cell deployments to support our LTE network. Our long-term partnership with T-Mobile  is important to maintain increases in capacity on our LTE network, including new technologies, spectrums, sector-splits and additional sites so as to ensure we always meet the growing demand of our LTE fixed wireless business.

- **Technology Deployment** – A hybrid fiber and wireless system is essential to reach subscribers in this remote island environment. FTTP installations are a long-term priority and provide key risk mitigation for competitive forces and a future post-contractual viability. Meanwhile, the LTE network will be improved to continue to reach subscribers in areas difficult for fiber.

- **Personnel** – Rock Island maintains industry standard wages and benefits to attract and retain highly qualified and motivated staff.

.



Net Income, Investments and New Borrowings
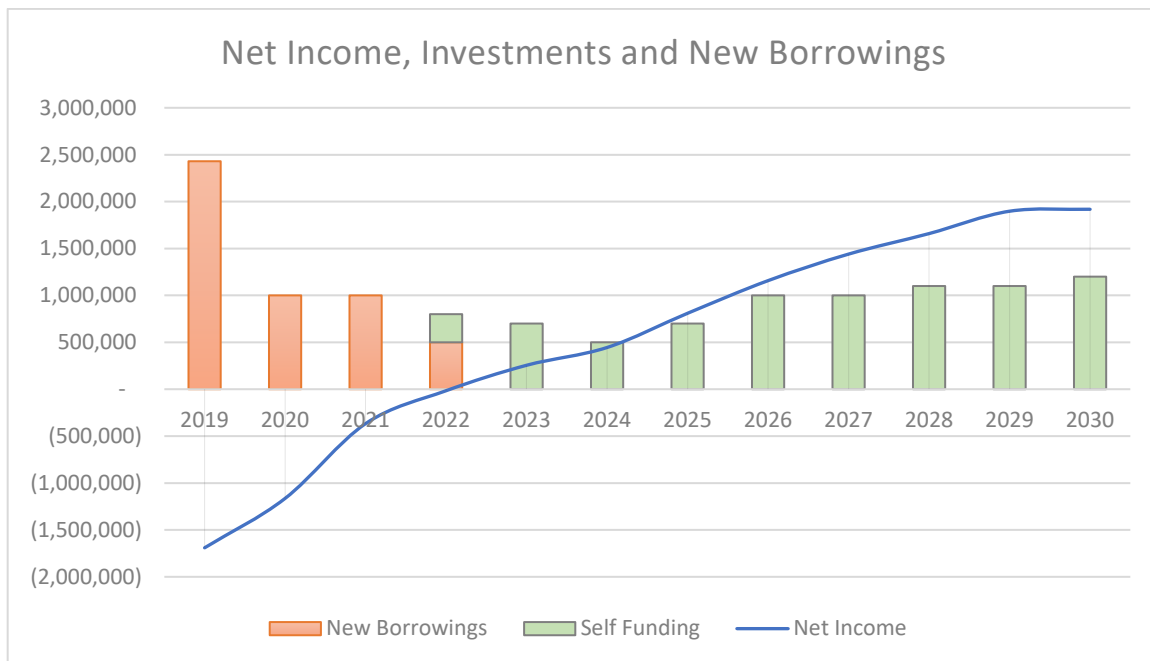
As Rock Island approaches its breakeven target, the business can then self-fund its investments back into onboarding.

Dec 14, 2018

## Fiber and LTE Adds YoY
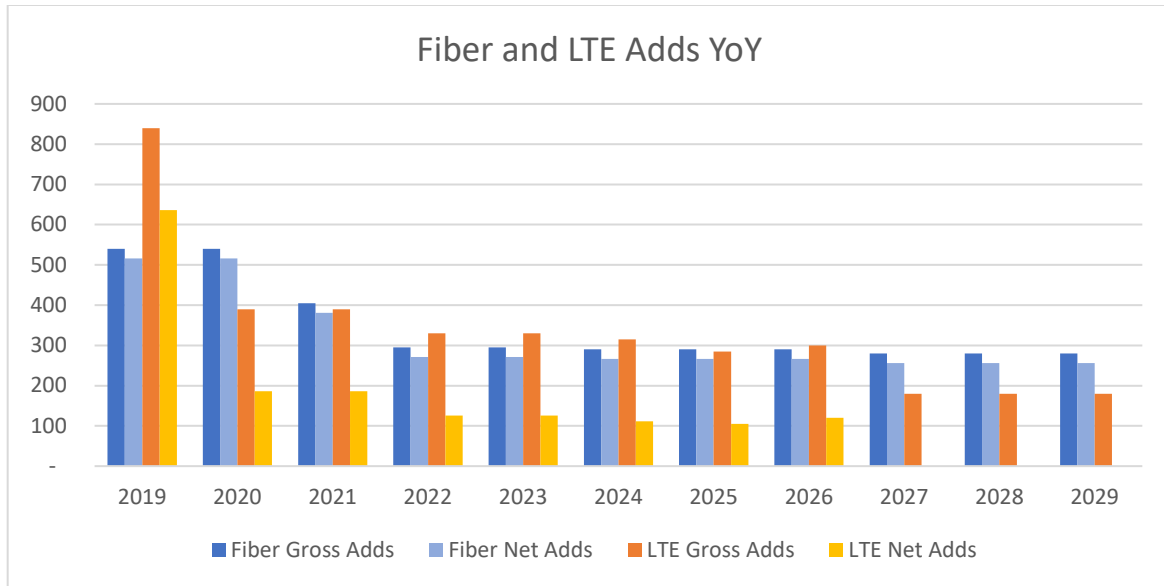


By focusing on fiber and managing our LTE onboarding over the next 10 years we ensure that we will eventually reach a majority base of fiber customers in the county. We also mitigate the risk of further saturation into our LTE network. We will always maintain the viewpoint that LTE is a stepping stone to fiber. If we realize added capacities from our partner, we can certainly ramp up our LTE onboarding in conjunction with our focus on fiber.

## Cash Account and Debt Forecast
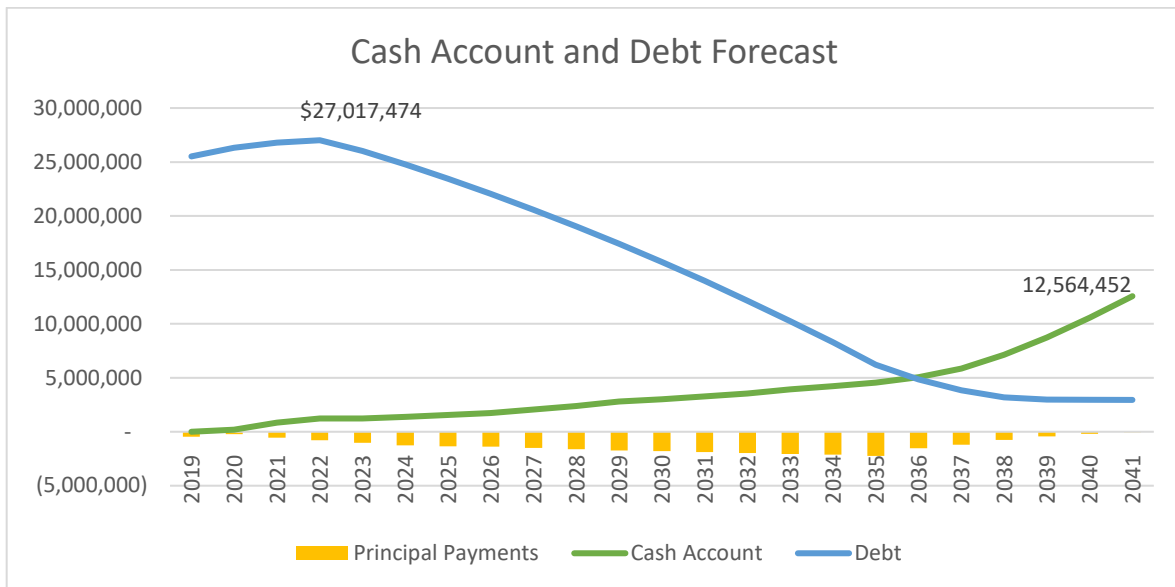


By focusing our investments on fiber before any competitor can make a play on the high-density UGA areas we ensure a long-term sustainable business, fully capable of loan repayments. More importantly, we meet our strategic directives.

Dec 14, 2018

Dec 14, 2018

# Investment Snapshot 2018

Last year in the business plan we evaluated the investment compared to the original models for both a Hybrid deployment and a fiber to the home only deployment for 90% of the county. Rock Island continues to confirm the original models when it comes to the investment.
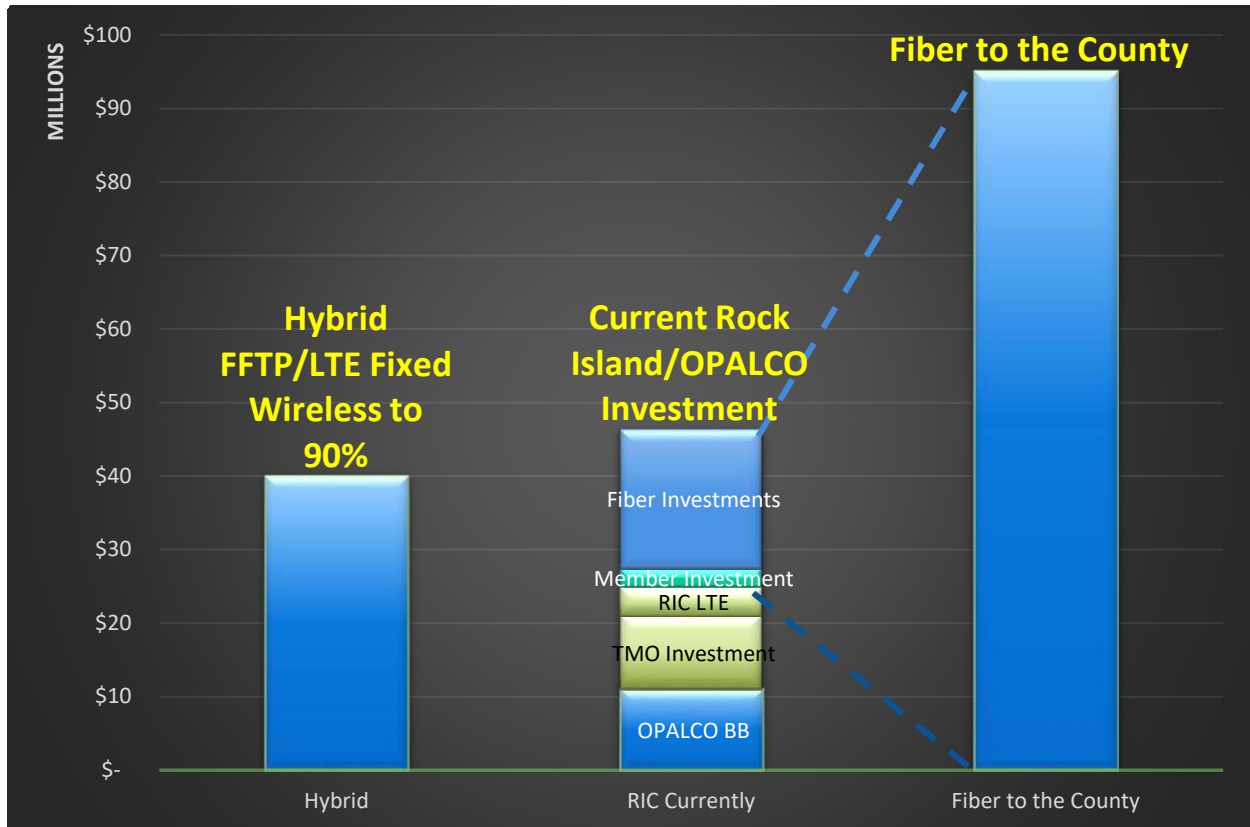


The following charts break down the costs associated with the on-going investment of both Fiber and LTE since our inception.

# Finance

## REVENUES

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Gross Revenues | $1,829,000 | $2,286,000 | $3,645,000 | $4,913,000 | $6,175,000 |
| Revenue Growth | | 25% | 59% | 35% | 23% |

## EXPENSES

Except for interest expense, in 2019, we have budgeted to account for an overall flatlining in our expenses as compared to years prior. In the table below, you can see our historical operating expense profile by year.

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Operating Expense | $3,422,000 | $4,592,000 | $5,540,000 | $6,195,000 | $6,554,000 |
| Expense Growth | | 34% | 21% | 12% | 4% |

*The table above shows our assumptions of interest rates in future periods*

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|
| Avg. Int. Rate | 4.67% | 4.83% | 5.00% | 5.3% | 5.5% | 6.0% |

Dec 14, 2018

# Income Statement Forecast & Lookback

| | | Actuals | | Projected | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** |
| **I OPERATING REVENUES** | | | | | | | | | | |
| **Broadband Services** | 1,551,041 | 2,005,394 | 3,160,389 | 4,252,142 | 5,453,129 | 6,124,680 | 6,865,031 | 7,310,888 | 7,702,342 | 8,059,350 |
| **IT Services** | 208,373 | 196,527 | 224,810 | 267,640 | 277,835 | 288,099 | 299,388 | 311,807 | 325,468 | 340,495 |
| **Other** | 69,935 | 84,345 | 259,423 | 393,203 | 444,000 | 462,120 | 468,546 | 427,293 | 410,378 | 369,817 |
| **TOTAL OPERATING REVENUES** | **1,829,349** | **2,286,266** | **3,644,622** | **4,912,985** | **6,174,964** | **6,874,899** | **7,632,965** | **8,049,988** | **8,438,188** | **8,769,662** |
| | | | | | | | | | | |
| **II OPERATING EXPENSES** | | | | | | | | | | |
| **Cost of Services** | | | | | | | | | | |
| **Broadband Services** | 704,457 | 529,371 | 632,550 | 669,455 | 637,134 | 600,516 | 565,179 | 593,438 | 623,110 | 654,265 |
| **IT Services** | 2,540 | 162,743 | 111,756 | 118,103 | 113,770 | 114,355 | 114,970 | 115,615 | 116,292 | 117,004 |
| **Other** | 19,745 | 67,502 | 114,157 | 127,094 | 171,900 | 180,495 | 189,520 | 195,027 | 203,587 | 211,385 |
| **Total Cost of Services** | **726,742** | **759,616** | **858,463** | **914,652** | **922,804** | **895,366** | **869,668** | **904,079** | **942,989** | **982,654** |
| **Labor** | 1,355,165 | 1,913,251 | 2,605,763 | 2,950,346 | 3,150,175 | 3,194,931 | 3,117,310 | 3,152,536 | 3,214,986 | 3,278,686 |
| **Total Labor Expenses** | **1,355,165** | **1,913,251** | **2,605,763** | **2,950,346** | **3,150,175** | **3,194,931** | **3,117,310** | **3,152,536** | **3,214,986** | **3,278,686** |
| **General & Administrative** | 1,283,507 | 1,850,879 | 2,001,816 | 2,253,224 | 2,417,591 | 2,475,868 | 2,489,732 | 2,453,850 | 2,473,090 | 2,481,991 |
| **Total G&A** | **1,283,507** | **1,850,879** | **2,001,816** | **2,253,224** | **2,417,591** | **2,475,868** | **2,489,732** | **2,453,850** | **2,473,090** | **2,481,991** |
| **Selling & Marketing** | | | | | | | | | | |
| Marketing & Advertising | 57,297 | 69,032 | 74,417 | 77,650 | 64,340 | 65,000 | 65,000 | 65,000 | 65,000 | 65,000 |
| **Total Selling & Advertising** | **57,297** | **69,032** | **74,417** | **77,650** | **64,340** | **65,000** | **65,000** | **65,000** | **65,000** | **65,000** |
| | | | | | | | | | | |
| **TOTAL OPERATING EXPENSES** | 3,422,711 | 4,592,778 | 5,540,459 | 6,195,872 | 6,554,910 | 6,631,164 | 6,541,710 | 6,575,465 | 6,696,066 | 6,808,332 |
| | | | | | | | | | | |
| **III NON-OPERATING EXPENSE** | 186,751 | 431,322 | 656,168 | 964,712 | 1,310,861 | 1,407,883 | 1,458,079 | 1,490,561 | 1,486,905 | 1,516,441 |
| **TOTAL NON-OPERATING EXPE** | **186,751** | **431,322** | **656,168** | **964,712** | **1,310,861** | **1,407,883** | **1,458,079** | **1,490,561** | **1,486,905** | **1,516,441** |
| | | | | | | | | | | |
| **IV TOTAL NET PROFIT (LOSS)** | **(1,780,113)** | **(2,737,834)** | **(2,552,005)** | **(2,247,599)** | **(1,690,807)** | **(1,164,149)** | **(366,823)** | **(16,038)** | **255,217** | **444,889** |
| | | | | | | | | | | |
| **EBITDA** | (1,466,833) | (1,721,952) | (810,097) | (72,826) | 932,893 | 1,582,830 | 2,416,960 | 2,733,942 | 2,988,947 | 3,183,218 |

Dec 14, 2018

# 2019 Income Statement by Month

| | January '19 | February '19 | March '19 | April '19 | May '19 | June '19 | July '19 | August '19 | September '19 | October '19 | November '19 | December '19 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **I  OPERATING REVENUES** | | | | | | | | | | | | | |
| **Broadband Services** | 409,567 | 413,538 | 422,025 | 430,042 | 438,981 | 449,614 | 458,210 | 470,353 | 476,836 | 486,254 | 494,244 | 503,466 | 5,453,129 |
| **IT Services** | 13,675 | 13,675 | 17,152 | 21,629 | 23,606 | 27,583 | 28,560 | 30,037 | 27,514 | 26,491 | 24,468 | 23,445 | 277,835 |
| **Other** | 35,900 | 36,100 | 36,300 | 36,500 | 36,700 | 36,900 | 37,100 | 37,300 | 37,500 | 37,700 | 37,900 | 38,100 | 444,000 |
| **TOTAL OPERATING REVENUES** | **459,142** | **463,313** | **475,477** | **488,171** | **499,287** | **514,097** | **523,870** | **537,690** | **541,850** | **550,445** | **556,612** | **565,011** | **6,174,964** |
| | | | | | | | | | | | | | |
| **II  OPERATING EXPENSES** | | | | | | | | | | | | | |
| **Cost of Services** | | | | | | | | | | | | | |
| **Broadband Services** | 55,087 | 53,347 | 53,132 | 54,542 | 52,802 | 52,562 | 53,972 | 52,232 | 51,992 | 53,762 | 52,022 | 51,682 | 637,134 |
| **IT Services** | 5,225 | 5,225 | 7,225 | 10,325 | 11,145 | 13,984 | 13,225 | 13,823 | 11,261 | 9,265 | 7,040 | 6,024 | 113,770 |
| **Other** | 12,950 | 13,200 | 13,450 | 13,700 | 13,950 | 14,200 | 14,450 | 14,700 | 14,950 | 15,200 | 15,450 | 15,700 | 171,900 |
| **Total Cost of Services** | **73,262** | **71,772** | **73,807** | **78,567** | **77,897** | **80,746** | **81,647** | **80,755** | **78,203** | **78,227** | **74,512** | **73,406** | **922,804** |
| **Labor** | 276,931 | 286,931 | 232,431 | 276,931 | 276,931 | 227,431 | 276,931 | 276,931 | 227,431 | 276,931 | 276,931 | 237,431 | 3,150,175 |
| **Total Labor Expenses** | **276,931** | **286,931** | **232,431** | **276,931** | **276,931** | **227,431** | **276,931** | **276,931** | **227,431** | **276,931** | **276,931** | **237,431** | **3,150,175** |
| **General & Administrative** | 195,402 | 194,774 | 197,954 | 198,392 | 201,113 | 200,266 | 204,010 | 204,677 | 203,225 | 206,320 | 206,566 | 204,891 | 2,417,591 |
| **Total G&A** | **195,402** | **194,774** | **197,954** | **198,392** | **201,113** | **200,266** | **204,010** | **204,677** | **203,225** | **206,320** | **206,566** | **204,891** | **2,417,591** |
| **Selling & Marketing** | | | | | | | | | | | | | |
| Marketing & Advertising | 11,170 | 2,470 | 2,870 | 3,670 | 7,270 | 4,170 | 9,870 | 4,370 | 6,670 | 5,470 | 4,670 | 1,670 | 64,340 |
| **Total Selling & Advertising** | **11,170** | **2,470** | **2,870** | **3,670** | **7,270** | **4,170** | **9,870** | **4,370** | **6,670** | **5,470** | **4,670** | **1,670** | **64,340** |
| **TOTAL OPERATING EXPENSES** | **556,766** | **555,948** | **507,063** | **557,561** | **563,212** | **512,614** | **572,459** | **566,733** | **515,530** | **566,948** | **562,680** | **517,398** | **6,554,910** |
| | | | | | | | | | | | | | |
| **III  NON-OPERATING EXPENSE** | 100,772 | 104,089 | 96,413 | 107,276 | 112,254 | 110,213 | 114,351 | 111,564 | 112,997 | 115,832 | 113,008 | 112,093 | 1,310,861 |
| **TOTAL NON-OPERATING EXPE** | **100,772** | **104,089** | **96,413** | **107,276** | **112,254** | **110,213** | **114,351** | **111,564** | **112,997** | **115,832** | **113,008** | **112,093** | **1,310,861** |
| | | | | | | | | | | | | | |
| **IV  TOTAL NET PROFIT (LOSS)** | **(198,395)** | **(196,724)** | **(127,999)** | **(176,666)** | **(176,180)** | **(108,730)** | **(162,939)** | **(140,607)** | **(86,676)** | **(132,334)** | **(119,076)** | **(64,481)** | **(1,690,807)** |
| | | | | | | | | | | | | | |
| **EBITDA** | 8,005 | 13,544 | 75,868 | 38,702 | 44,780 | 110,678 | 61,388 | 81,299 | 137,466 | 95,737 | 106,211 | 159,215 | 932,893 |

Dec 14, 2018

# Cashflow Forecast 2019 – 2024

| CASH FLOW ANALYSIS | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | | |
| **Net income (loss)** | (1,690,807) | (1,164,149) | (366,823) | (16,038) | 255,217 | 444,889 |
| Adjustments to reconcile Net Income to Net Cash provided by operations: | 1,547,092 | 1,573,349 | 1,559,958 | 1,493,673 | 1,481,079 | 1,456,142 |
| **Net cash provided by (used in) operating activities** | **(143,715)** | **409,201** | **1,193,135** | **1,477,635** | **1,736,296** | **1,901,031** |
| **INVESTING ACTIVITIES** | | | | | | |
| **Net cash provided by (used in) investing activities** | **(1,799,813)** | **(1,000,000)** | **(1,000,000)** | **(800,000)** | **(700,000)** | **(500,000)** |
| **FINANCING ACTIVITIES** | | | | | | |
| **Net cash provided by (used in) financing activities** | **1,967,071** | **780,457** | **452,393** | **(287,030)** | **(1,031,984)** | **(1,261,449)** |
| **Net cash increase (decrease) for period** | **23,544** | **189,658** | **645,528** | **390,604** | **4,312** | **139,582** |
| **Cash at beginning of period** | - | - | 189,658 | 835,186 | 1,225,790 | 1,230,102 |
| **Cash at end of period** | - | 189,658 | 835,186 | 1,225,790 | 1,230,102 | 1,369,684 |

Dec 14, 2018

# Cashflow Forecast 2019 by Month

| CASH FLOW ANALYSIS | January '19 | February '19 | March '19 | April '19 | May '19 | June '19 | July '19 | August '19 | September '19 | October '19 | November '19 | December '19 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | | | | | | | | | |
| **Net income (loss)** | (198,395) | (196,724) | (127,999) | (176,666) | (176,180) | (108,730) | (162,939) | (140,607) | (86,676) | (132,334) | (119,076) | (64,481) | (1,690,807) |
| **Adjustments to reconcile Net Income to Net Cash provided by operations:** | 125,150 | 125,700 | 126,976 | 127,613 | 128,226 | 128,716 | 129,498 | 129,863 | 130,666 | 131,761 | 131,800 | 131,124 | 1,547,092 |
| **Net cash provided by (used in) operating activities** | **(73,246)** | **(71,024)** | **(1,023)** | **(49,053)** | **(47,953)** | **19,986** | **(33,441)** | **(10,744)** | **43,990** | **(574)** | **12,724** | **66,643** | **(143,715)** |
| **INVESTING ACTIVITIES** | | | | | | | | | | | | | |
| **Net cash provided by (used in) investing activities** | **(159,000)** | **(139,000)** | **(184,000)** | **(167,688)** | **(173,688)** | **(153,688)** | **(193,688)** | **(133,688)** | **(133,688)** | **(189,313)** | **(88,688)** | **(83,688)** | **(1,799,813)** |
| **FINANCING ACTIVITIES** | | | | | | | | | | | | | |
| **Net cash provided by (used in) financing activities** | **234,150** | **212,663** | **188,585** | **215,776** | **221,487** | **134,324** | **228,491** | **146,547** | **92,756** | **187,670** | **80,277** | **24,344** | **1,967,071** |
| **Net cash increase (decrease) for period** | **1,904** | **2,639** | **3,562** | **(964)** | **(154)** | **622** | **1,362** | **2,116** | **3,059** | **(2,216)** | **4,314** | **7,300** | **23,544** |
| **Cash at beginning of period** | - | 1,904 | 4,543 | 8,105 | 7,141 | 6,987 | 7,610 | 8,972 | 11,088 | 14,146 | 11,931 | 16,245 | - |
| **Cash at end of period** | **1,904** | **4,543** | **8,105** | **7,141** | **6,987** | **7,610** | **8,972** | **11,088** | **14,146** | **11,931** | **16,245** | **23,544** | **-** |

- Current projections indicate we should reach operational cashflow breakeven in Q3 2019.
- Please note, net income (loss) projections as they flow into this calculation operate under the assumption that construction projects/activities are closed on a quarterly basis. With the implementation of our new ERP system, Intacct, in November 2018 we now have the capabilities to shift to a monthly close. As of the date of this report, we anticipate we our new monthly close process could be fully implemented by Q2 2019. The impact of closing construction projects/activities on a monthly basis will serve to even out the month-to-month spikes in net cash provided by operating activities.

Dec 14, 2018

# Seasonality Redefined

A new piece of information we are incorporating into our business plan is an update to the actual seasonality for onboarding using a historical 3-year dataset. The results are intriguing.

## Onboarding 3yr Seasonality
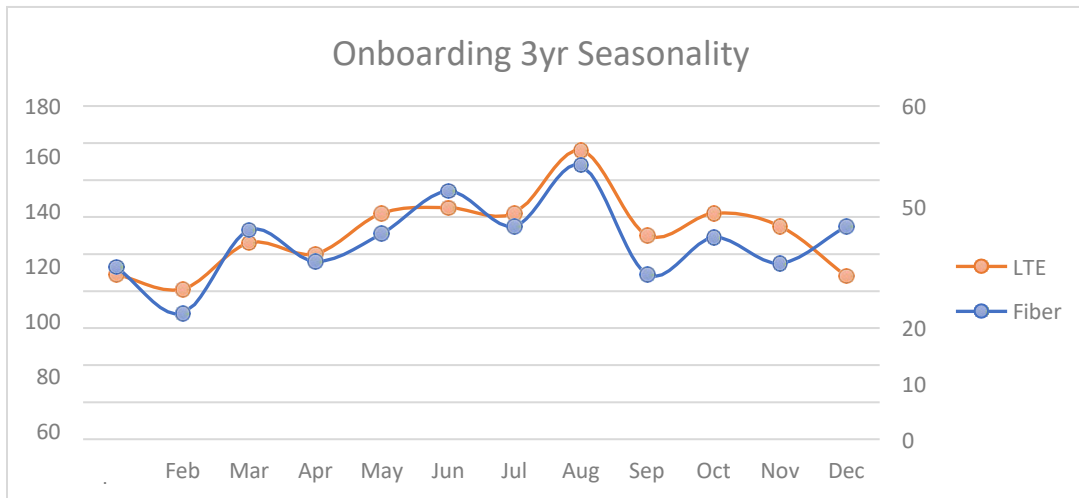


By overlaying the actual numbers for onboarding over the past three years, we can clearly see that both the LTE and Fiber onboarding rates match in seasonality. We expect that for the most part our onboarding will follow this pattern.

# Network Management

## CAPACITY AND USAGE

The overall use and reliance on our platform are growing above national averages to date. The year over year national growth rates of internet traffic is 27%. We are seeing 100% growth rates due to two factors:

- Multiplier effect of onboarding
- Growing usage by existing customers

| Ingress | Egress |
|---------|--------|
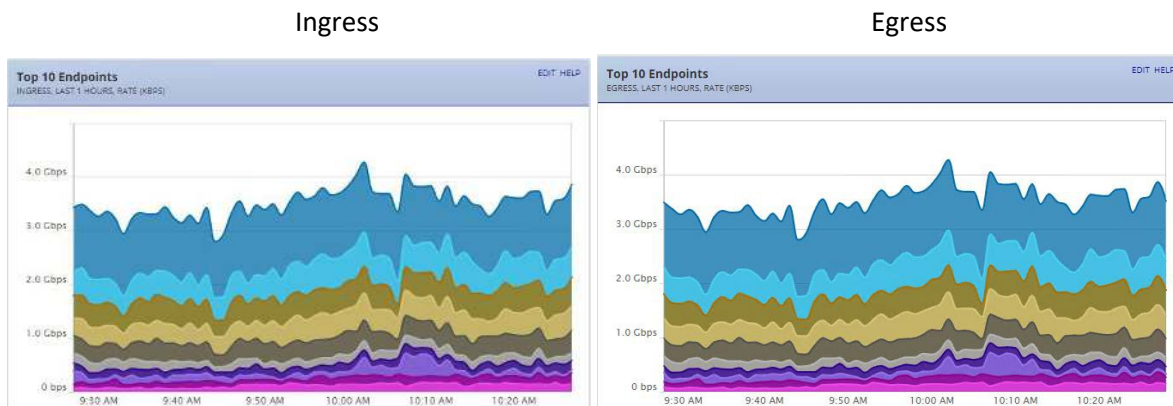


The data rates are also not just because of the "Netflix Effect" in peak evening hours as we see a growing and consistent level of usage throughout the day and even overnight with the current typical bandwidth on various circuits ranging from 4.0Gbps to 11.5Gbs compared to 1.5Gbps to 6Gbps over the same time frame in 2017.

**2018 -**4.0Gbps to 11.5Gbs
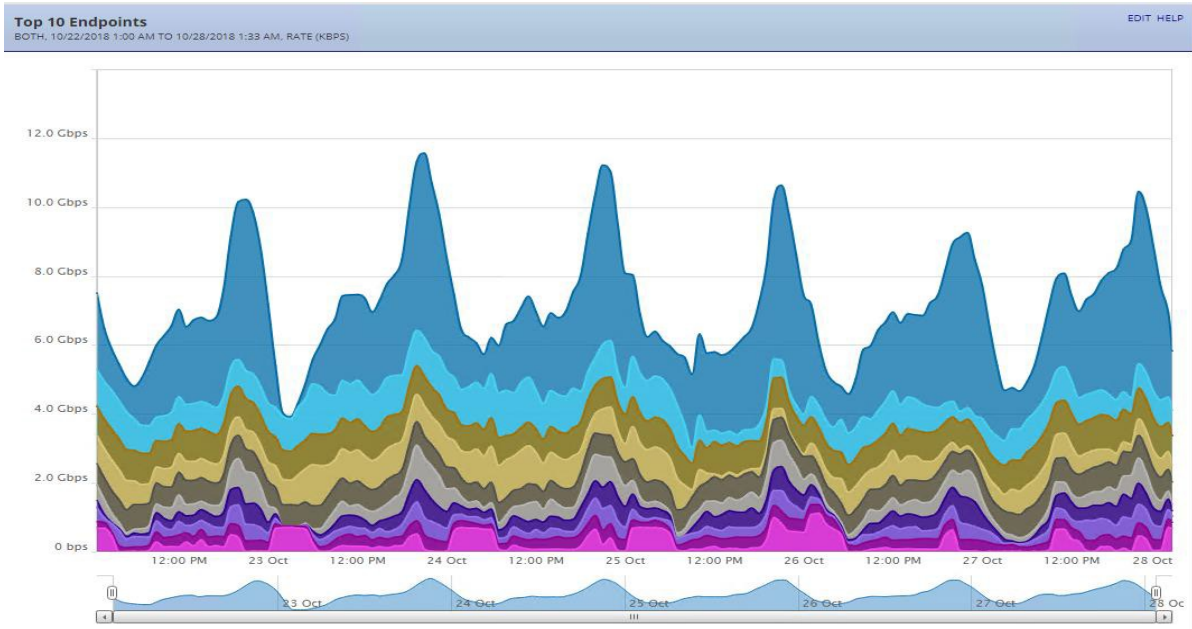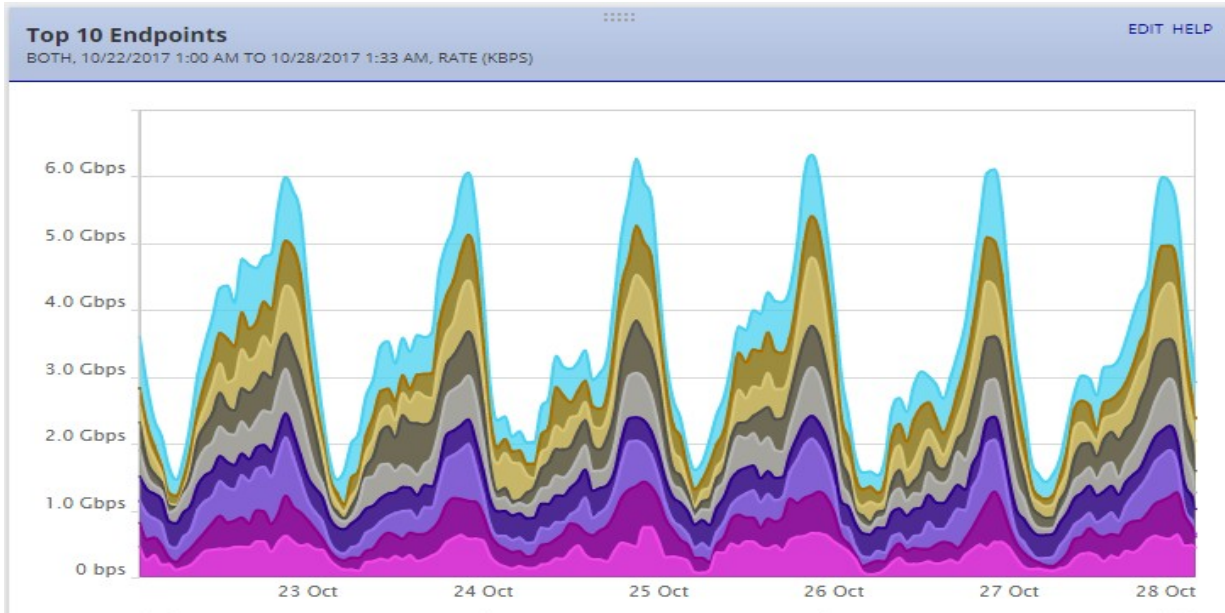
Mbps down vs GB Downloaded (1hr)
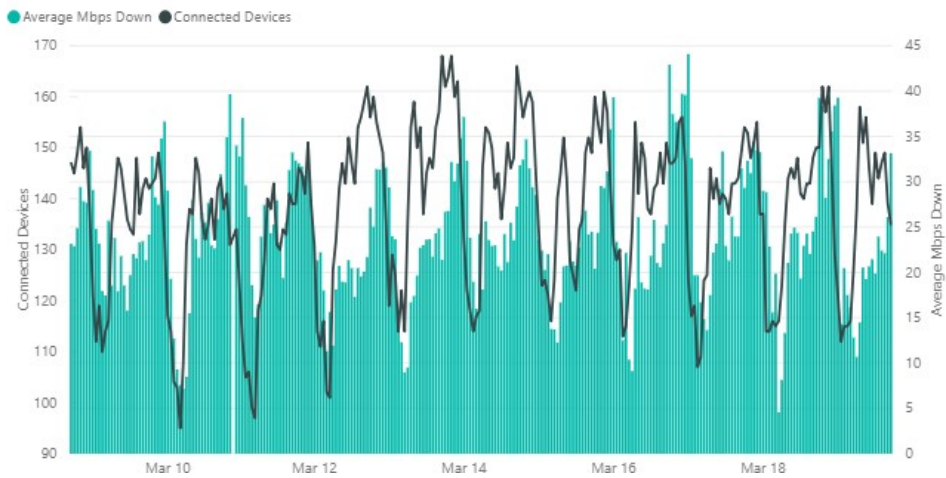


Driving LTE usage is the number of devices individuals are connecting to the network. National averages are currently 7.7 connected devices with growth to 12.6 devices per user by 2021. We are seeing device connection rates in line with national numbers currently averaging 9 on fiber modems and 7 on LTE Modems.

Number of connected devices on Fiber and LTE modems
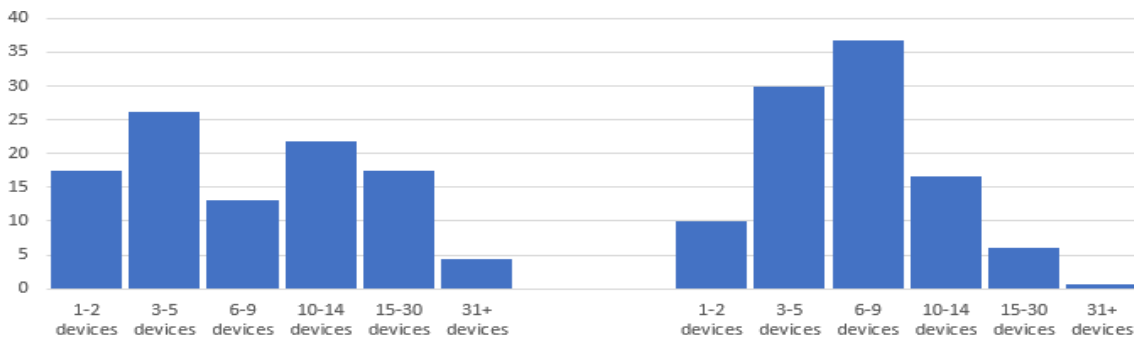


## BACKHAUL

Rock Island staff continues to make our existing backhaul as economically efficient as can be while looking for ways to improve reliability and redundancy.

# Support

2018 was a difficult year for the Rock Island Support Team. We learned a lot about supporting wireless connections and supporting email customers. We had several mainland fiber and power outages planned and otherwise. When combining all these factors together it made for a tough year filled with a lot of lessons learned.



Call Volume and Case Load by Week
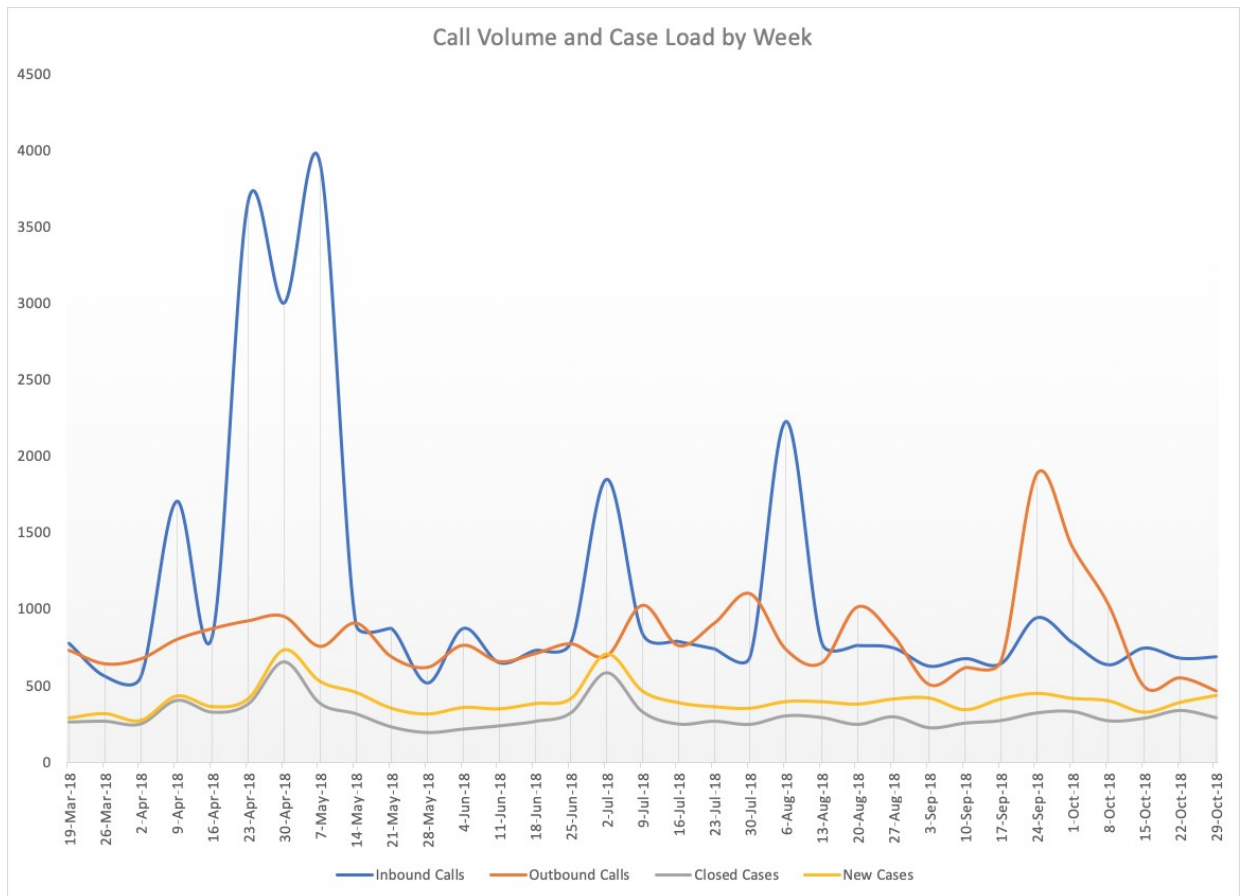
85% of our customer contact comes from inbound phone calls. We average about 160 inbound support calls a day across the business (about 35-40 calls per rep per day). On days when we have events, we can get up to 1,600 calls like we did in April when our email service went down (300-400 calls per agent a day). During the period above our Support team fielded 9,000 calls each.

The team also joined the LTE sales effort in a significant way by making outbound calls. You can see above, the team makes about as many calls per week as they receive in general.

15% of our customer contact that comes electronically is represented as new cases in our system (gold line in the chart above). We average 400 new cases a week and usually close them all in a timely manner. The gray line at the bottom represents how many cases we close in the system every week.

Note how as the year progresses, a divergence begins to appear between new cases coming in and our case close rate. We fell behind as we juggled between outage event inbound contact and outbound sales calls. This is something we're rectifying now but it does show some limits of the team as we try to juggle several things at once.

## ONBOARDING AND SUPPORT IMPROVEMENTS

We have taken the lessons learned and turned them into assets. In 2019 we are re-inventing ourselves, and our customers will have a different experience when dealing with Rock Island in the future – from how we great you when you call. Improvements to the uniformity of our support protocol are coming. Some of the major changes we will be making include:

- Professional training in key areas of communication and dealing with specific user groups
- Better CPE devices deployed to mitigate potential customers experience
- Improved escalation protocol for getting cases to the right internal groups faster
- Better case management workflows and transparency of each case's lifecycle
- Better use of call and case statistic to insure we meet customer SLAs
- Increased communication within the Support group and within the company
- A physical support presence in our Friday Harbor retail store and cross training with our T-Mobile reps
- Better tools in our CRM that will allow us to give customer a clear understanding of their connectivity options and their associated connection costs
- A fantastic, can-do attitude centered around helping and educating our customers each time they reach out to us