

# ROCKISLAND

2020-2025

Rock Island Business Plan

November 2019

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# Executive Summary

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## Key Business Takeaways

**Fiber** - Any opportunities to accelerate the deployment using new strategies, joint opportunities and customer interest to gain market share ensures that we protect the company against future financial risks and all competitive threats. Projections for future years have been reduced for subscriber (subs) counts to more accurately model the true churn rates we are seeing. However, Rock Island is projected to improve revenue by 2023 above our 2019 plan.

**LTE**- We have driven the success of Rock Island by strategically partnering with T-Mobile. They have graciously overextended their initial contract and deployed multiple phases of upgrades; the latest of which delivers enough increase to satisfy our LTE needs for some time to come. It is important to consider and support the value of these investments to realize the most benefit to our residents in San Juan County. The proposed upgrades for LTE provide essential capacity for long-term success and delivers on our principle to maintain the health and advancement of our fixed wireless network to meet growing needs.

**Business Services** - As we continue to ramp up Business Services to members of our community, we simultaneously assist many members to improve their economics by letting us leverage their technology for them. Through a resilient relationship with our parent company, we continue to refine the structure of this department to meet business needs around the service territory. We strive to deliver internet, voice, and data communications products and services of the highest quality through the most appropriate technologies to meet the subscribers needs. Constantly evolving the product and service offerings is integral to providing the highest value proposition and address the unmet needs of the community. The high monetary value of these types of services are predicated on our ability to invest larger portions of capital upfront and dedicate appropriate resources to support these services, while always balancing the net present value of the recurring revenue. Time to market is critical in order to reduce risk from our local incumbent striving to offer these same services.

**Financial** – Rock Island maintains healthy financials as it enters its 6th year of business. We have achieved the milestone for operations cashflow positive in Q3 of 2019 and are on track to achieve \$6.8M in revenues by YE 2020 and net income positive by Q1 2022. We are fine tuning our strategies for investment toward immediate returns on revenues in joint projects to ensure long-term debt loads do not increase unnecessarily.

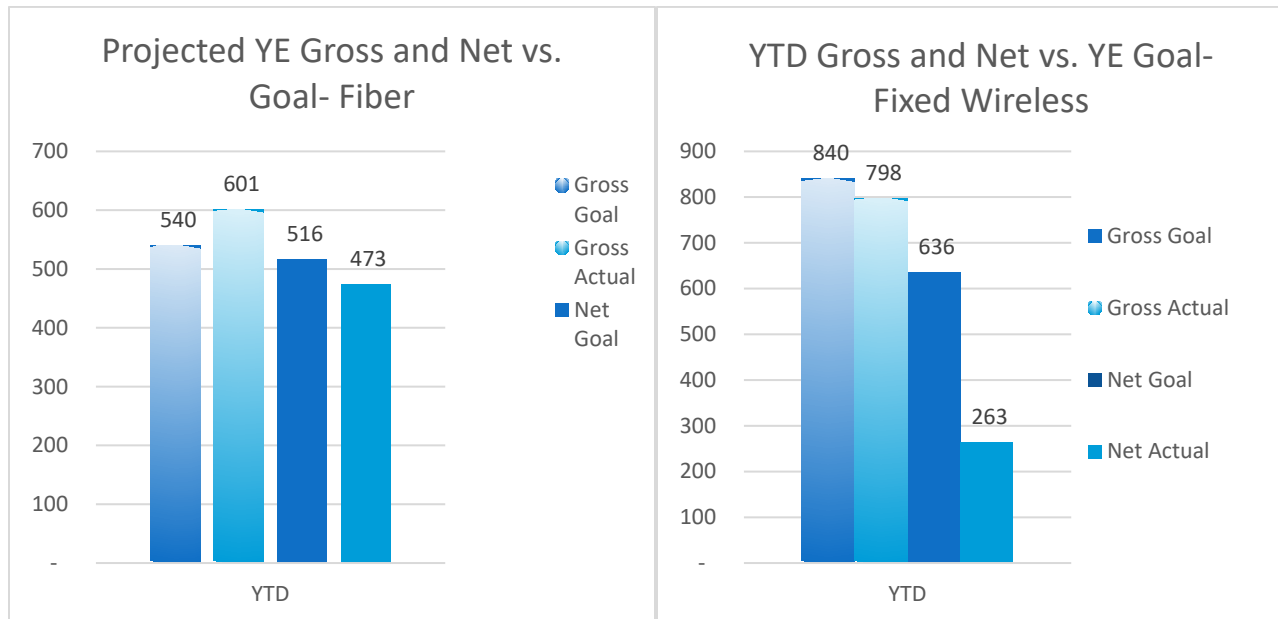
**Reliability** – Rock Island’s long-term strategy is to provide enough capacity to meet the needs of OPALCO’s membership and maintain reliable communication services. The 2020 budget completes the installation of propane generators to provide back-up to critical active sites during power outages as well as additional transport circuit opportunities for off-island redundancy.

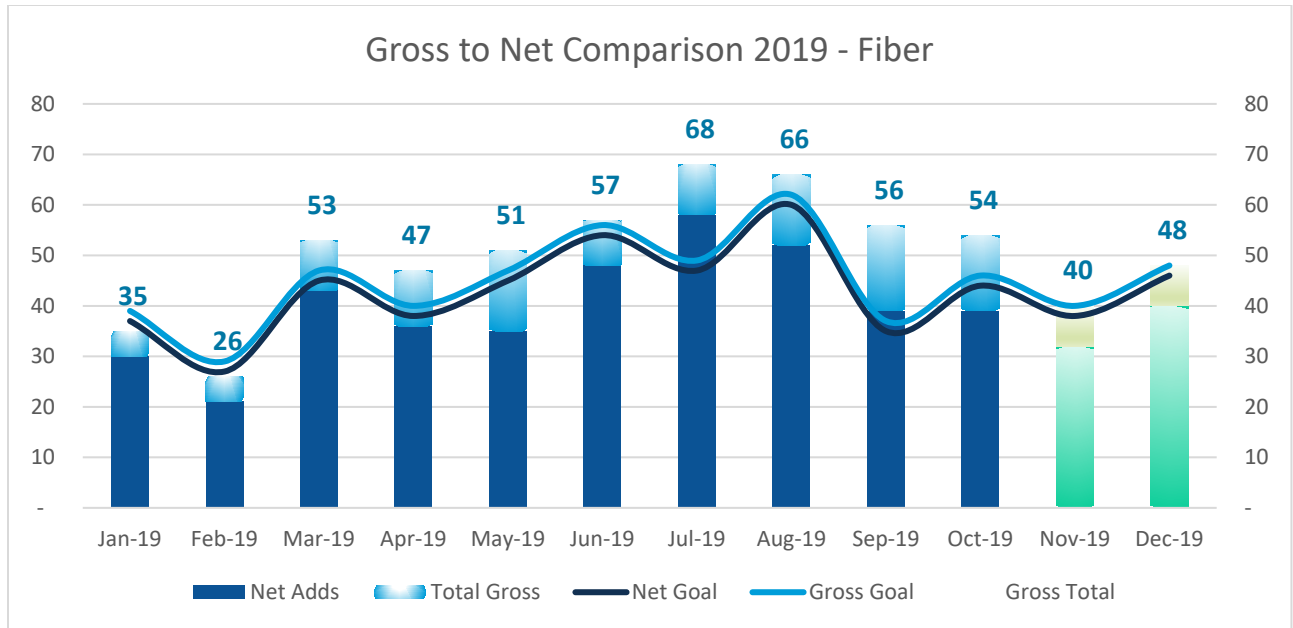
## 2019 YTD and Projections for Year End

Today, we are transitioning as many subscribers as possible to FTTP, especially in the population centers, focusing on high-density markets in order to mitigate current competitive threats and future-proof our customer base. An additional benefit of this approach is that it frees up capacity within our existing LTE system.

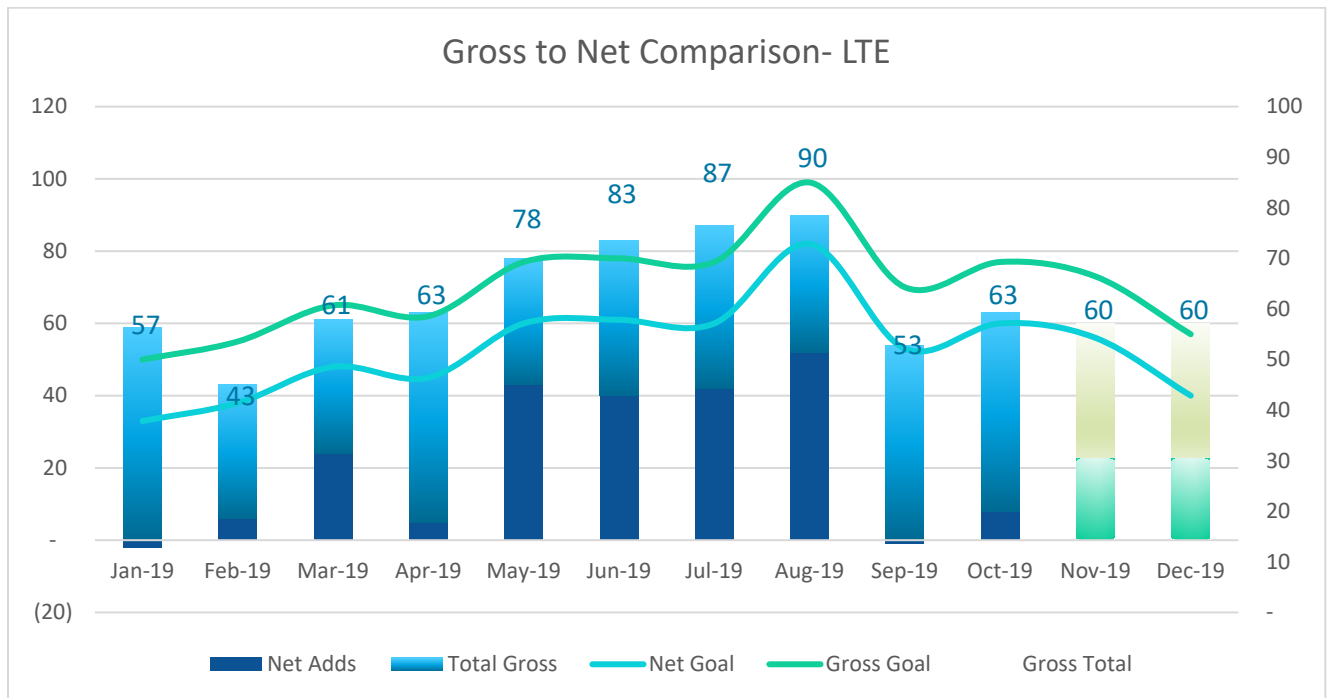
### Gross Onboarding

Fiber remains on track for gross onboarding to plan through the end of the year closing with an estimated 601 gross connections--61 subscriptions over our 2019 goal. Net fiber subscriptions are forecast to be behind plan by approximately 40 subscribers due to higher than planned churn rates in the category of subscribers who have moved out of the territory, or to a location where the service was unavailable.





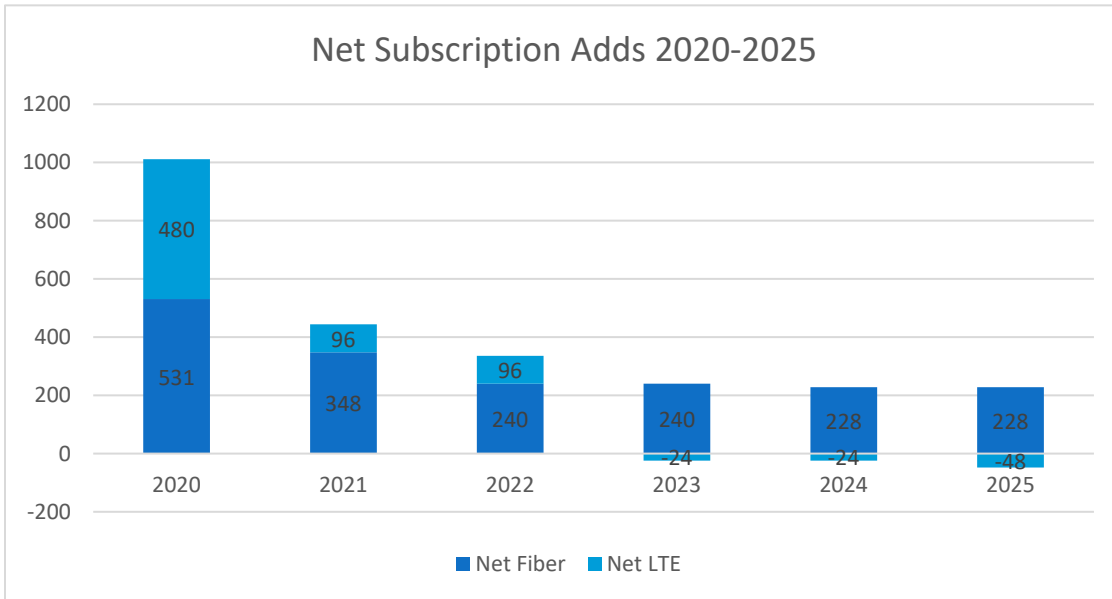
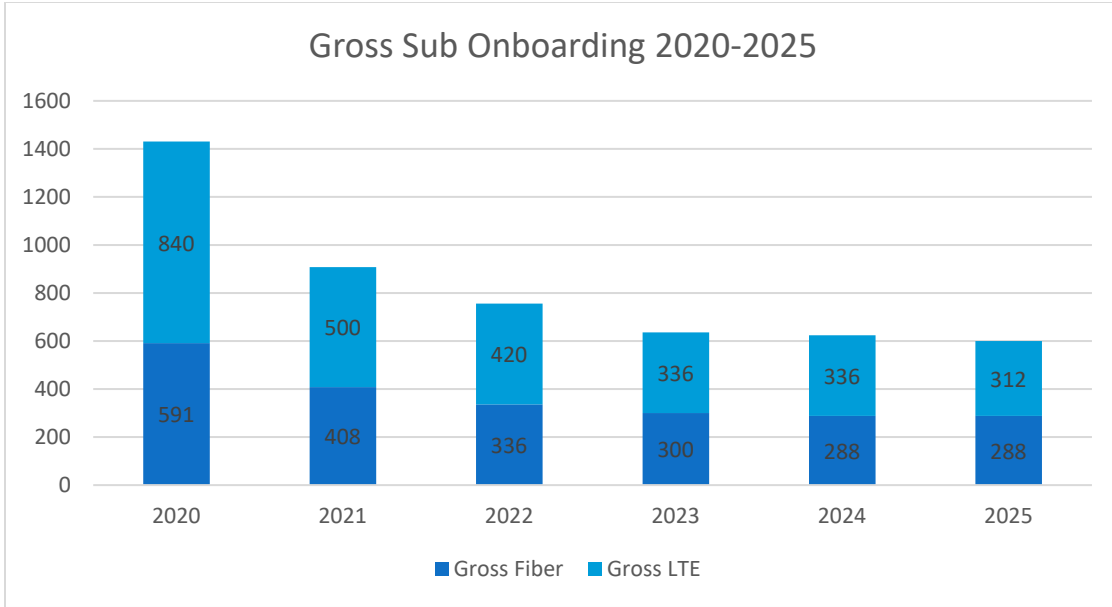
*\*Nov and Dec are projected values*



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# 2020-2025 Business Plan

## Onboarding Goals 2020-2025



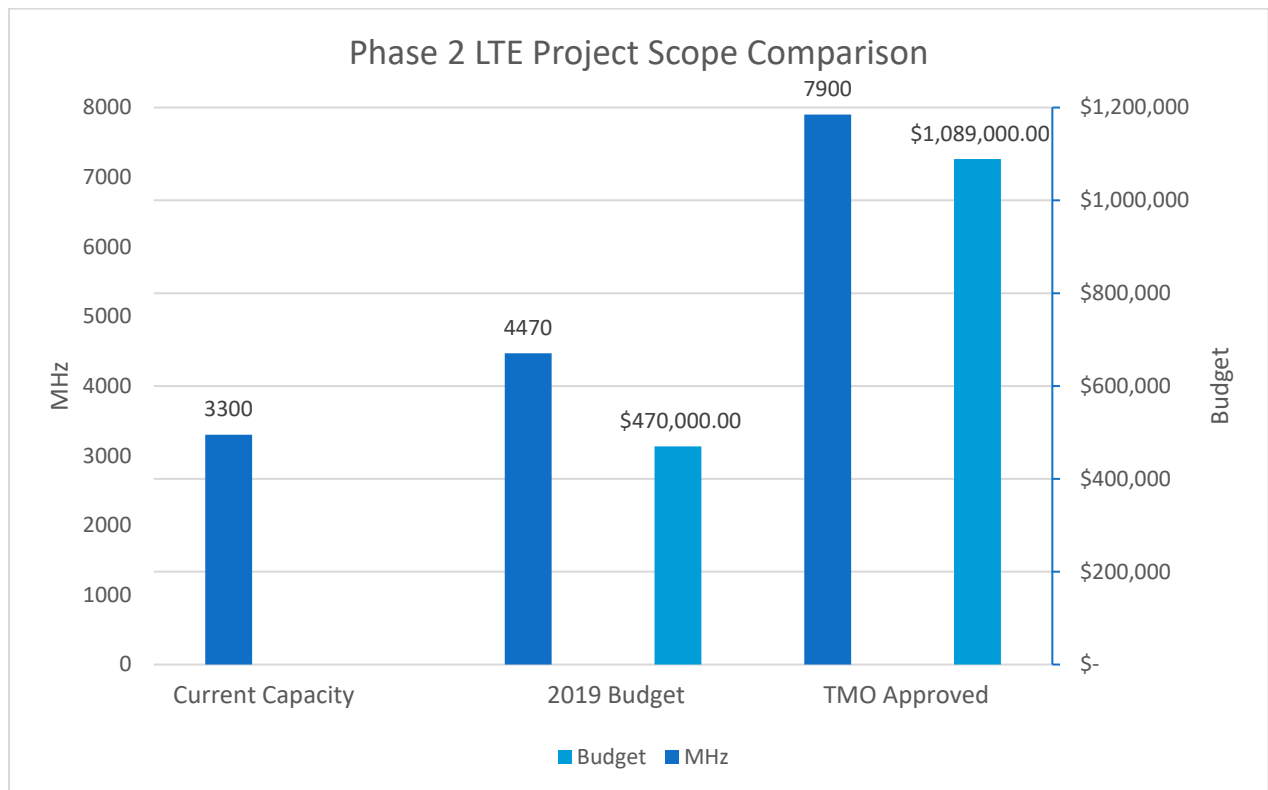
# Projects

## LTE PH2

In March of 2019, Rock Island Staff outlined a plan to the Board to deploy a strategic upgrade to the LTE network. This upgrade was budgeted to include four conversions from a tower bottom configuration to a tower top configuration and other additional improvements.

## LTE PH2 2.0

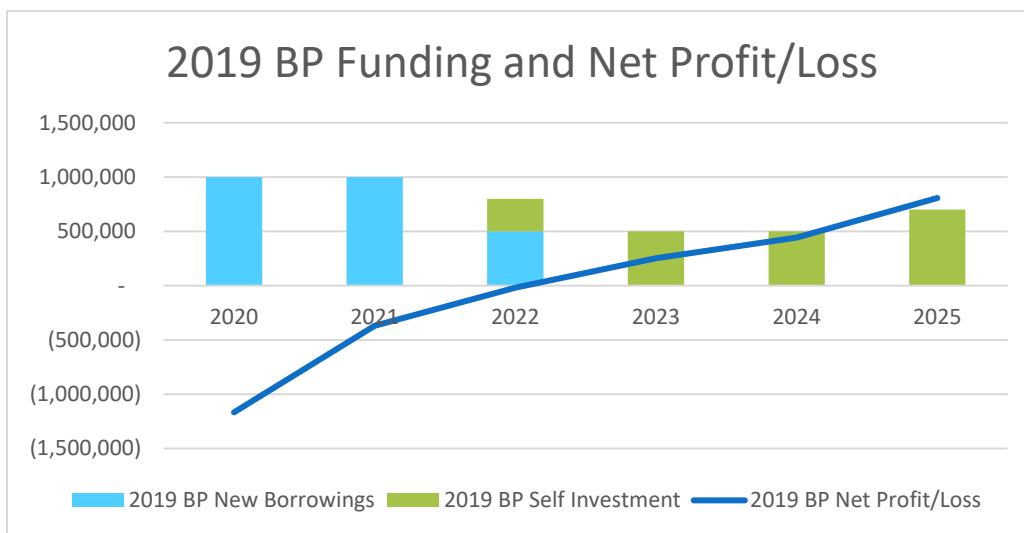
Just after Rock Island’s quarterly meeting with the Board in August, T-Mobile surprised us with a massive increase to the investment they were looking to make in our territory. The scope grew from what was originally in PH2 to add 22 10MHz in the 1900 frequency, as well as the 600 frequency in 2020. This is a 90% increase to the existing capacity of our LTE network. The adjustment to the scope is estimated at just under \$1.1M. The T-Mobile value of investment on this scope is just over \$2M.



## Debt

As presented in the 2019 budget, the anticipated borrowings for investment were earmarked for a \$1M for debt draw for investment in 2020. With the substantially greater offering from our partners at T-Mobile, it is Rock Island's recommendation that we co-invest in completing 100% of the project as rapidly as possible to ensure the reliability and sales opportunities for LTE. The projections for LTE sales in this business plan coincide with these upgrades. In addition to the investments that were planned for FTTH and other capital projects, the total borrowings for 2020 would be \$2.4M. This would be done by a restructuring of future debt with raising the total debt load for Rock Island.

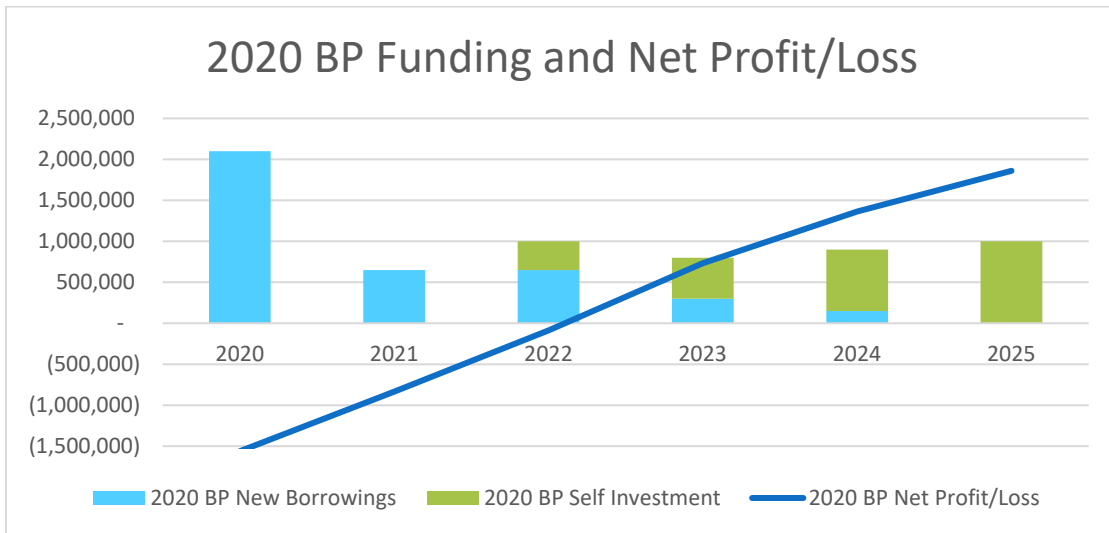
The 2019 Business Plan (BP) outlined the following investment strategy:



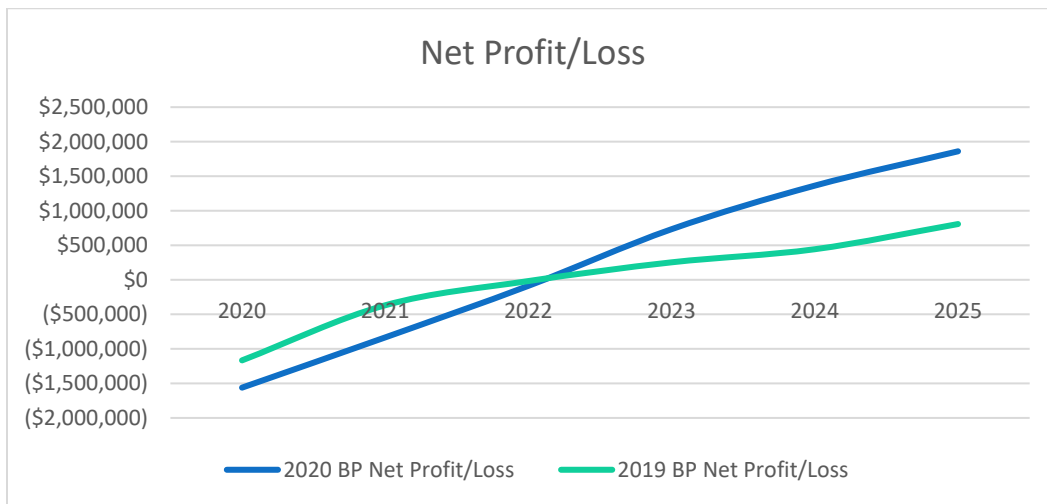
This allowed Rock Island to take down debt up to \$27.5M. The adjustment in this plan does not raise the total debt ceiling, but models us maintaining that peak debt load for up to three years, or as needed, to accommodate demand for incentive investment. Alternatively, the Board can elect to raise that total debt load if they feel the demand for services warrants the investment. Staff recommend that we begin this investment in 2019 by drawing down \$500,000 of these funds. This will position Rock Island for success in meeting our subscriber targets for 2020.



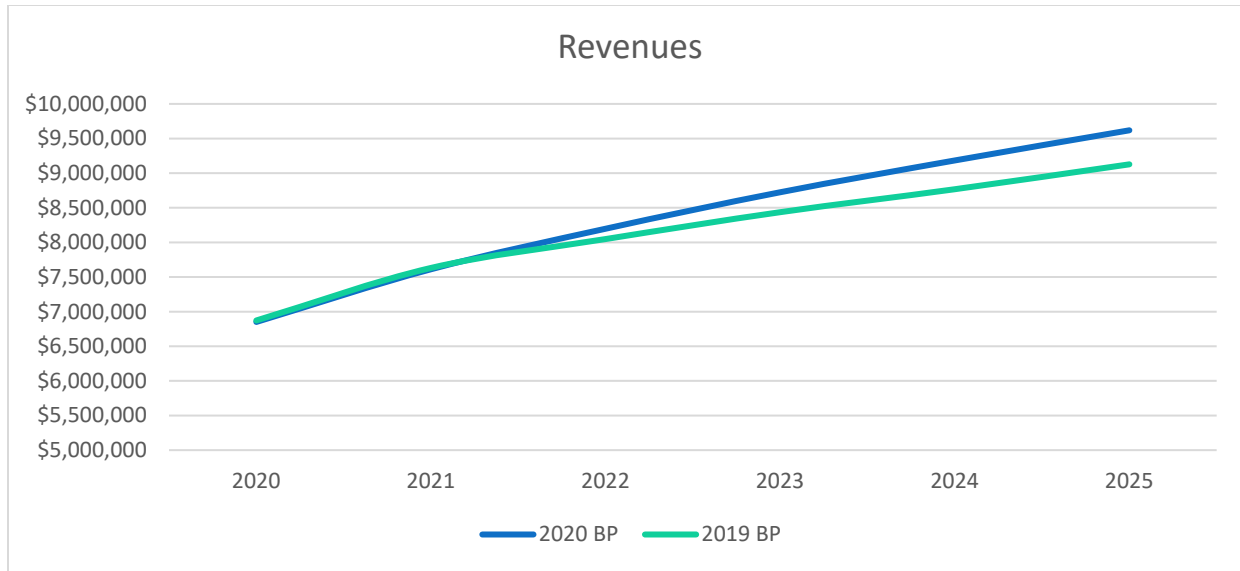
The adjusted plan for investment as proposed in this plan looks like this:



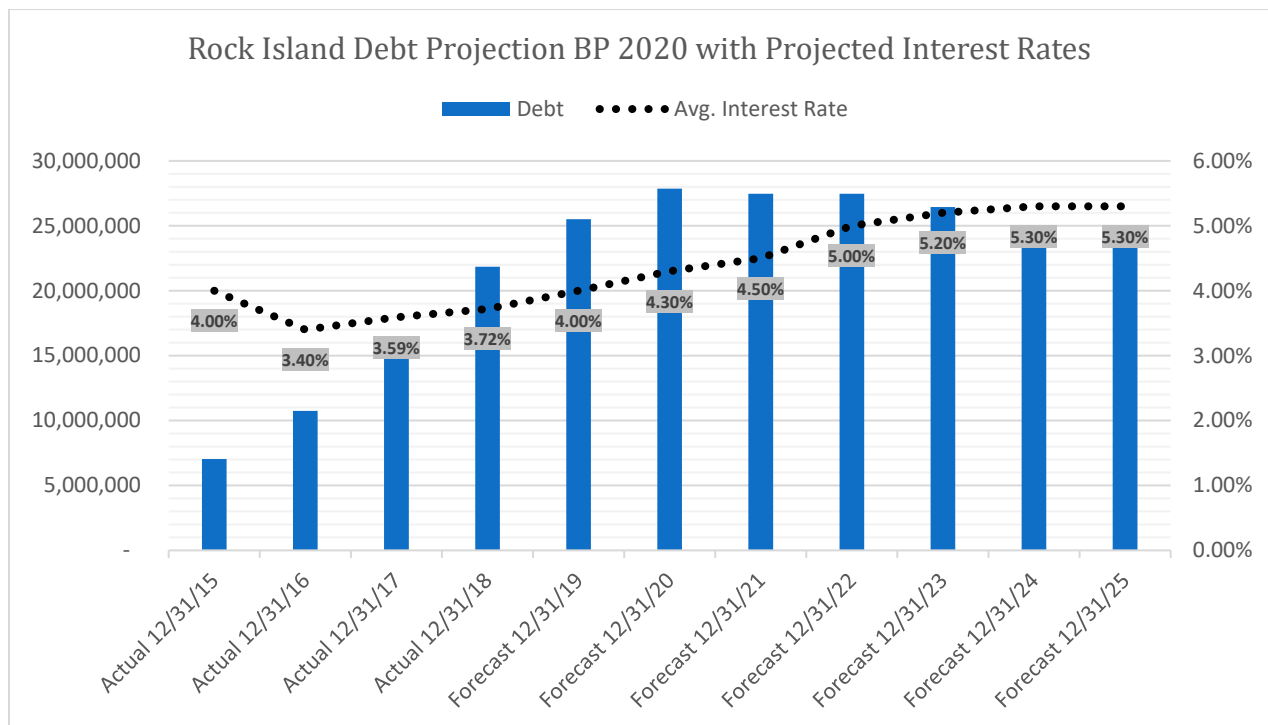
A side effect of the increased speed of the borrowings is a greater depreciation expense than budgeted in last year’s plan. This causes a short delay in the previously projected net income positive timing from YE 2021 to Q1 2022. As an ancillary benefit, it increases our profitability above the 2019 plan in 2023 on through 2025.

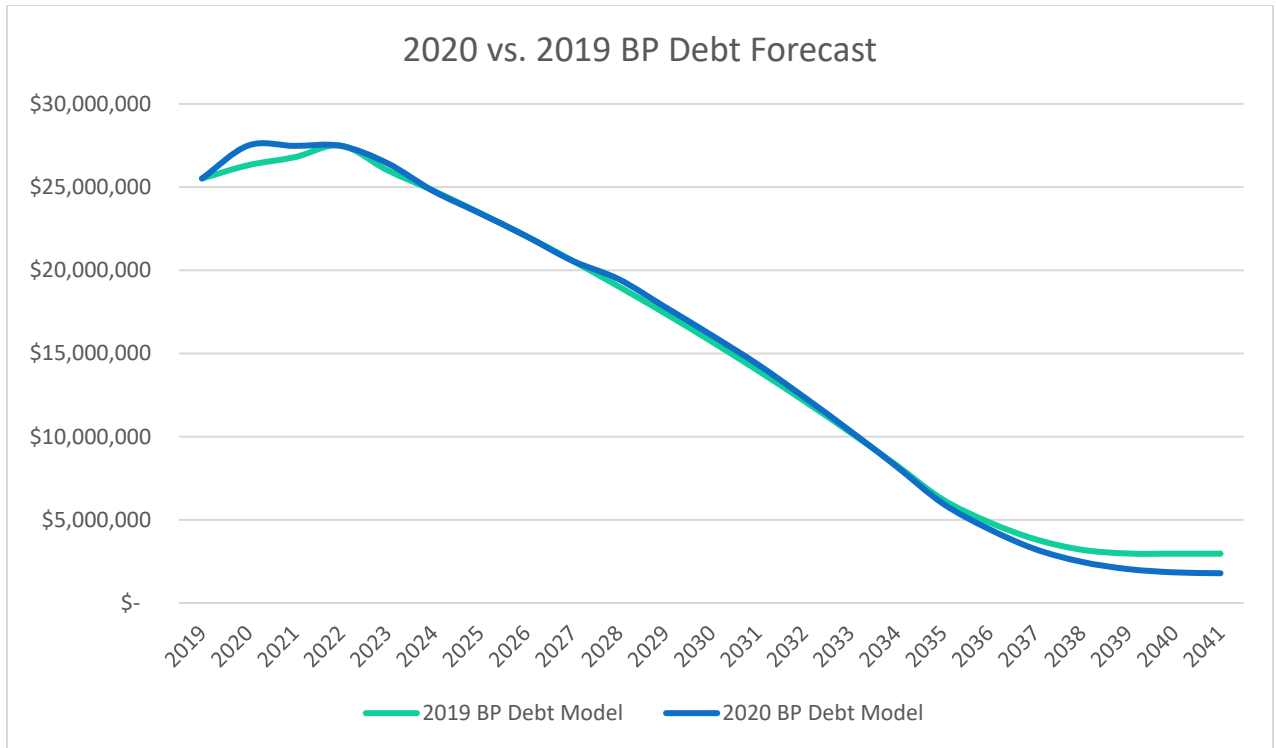


This trend corresponds more to the “Aggressive Investment” model presented in the strategies section of the 2019 Business Plan. In that model, when front loading the investment, it tips the revenues projection positively and ensures better market capture and protection against competitive threats.



The debt structure would reshape, but would not increase, beyond the total debt load presented in the 2019 plan, unless the Board elects to accelerate investments further.





# Finance

## Income Statement

RIC FY '20 - '25 Working Budget - Profit & Loss (Budget)							
	2020	2021	2022	2023	2024	2025	Total
	Budget	Budget	Budget	Budget	Budget	Budget	Budget
<b>Revenues</b>	<b>\$6,851,137</b>	<b>\$7,611,830</b>	<b>\$8,197,117</b>	<b>\$8,723,928</b>	<b>\$9,183,275</b>	<b>\$9,618,648</b>	<b>\$50,185,935</b>
Broadband Services	5,870,793	6,540,998	7,016,655	7,424,543	7,773,919	8,106,809	42,733,717
IT Services	546,960	631,590	735,000	847,320	950,280	1,045,320	4,756,470
Other	433,384	439,242	445,462	452,065	459,076	466,519	2,695,748
<b>Cost of Revenues</b>	<b>892,033</b>	<b>889,354</b>	<b>906,241</b>	<b>917,472</b>	<b>936,866</b>	<b>949,566</b>	<b>5,491,531</b>
<b>Gross profit</b>	<b>\$5,959,104</b>	<b>\$6,722,476</b>	<b>\$7,290,876</b>	<b>\$7,806,456</b>	<b>\$8,246,410</b>	<b>\$8,669,082</b>	<b>\$44,694,404</b>
<b>Gross profit %</b>	<b>86.98%</b>	<b>88.32%</b>	<b>88.94%</b>	<b>89.48%</b>	<b>89.80%</b>	<b>90.13%</b>	<b>89.06%</b>
<b>Operating expenses</b>	<b>6,217,271</b>	<b>6,174,791</b>	<b>5,994,185</b>	<b>5,717,761</b>	<b>5,564,976</b>	<b>5,547,581</b>	<b>35,216,566</b>
<b>Operating profit/loss</b>	<b>(\$258,167)</b>	<b>\$547,685</b>	<b>\$1,296,691</b>	<b>\$2,088,695</b>	<b>\$2,681,434</b>	<b>\$3,121,501</b>	<b>\$9,477,838</b>
<b>Other income/expenses</b>	<b>1,303,376</b>	<b>1,382,781</b>	<b>1,391,145</b>	<b>1,376,847</b>	<b>1,359,091</b>	<b>1,326,197</b>	<b>8,139,437</b>
<b>Net profit/loss</b>	<b>(\$1,561,543)</b>	<b>(\$835,096)</b>	<b>(\$94,455)</b>	<b>\$711,848</b>	<b>\$1,322,343</b>	<b>\$1,795,304</b>	<b>\$1,338,401</b>

# Network Management

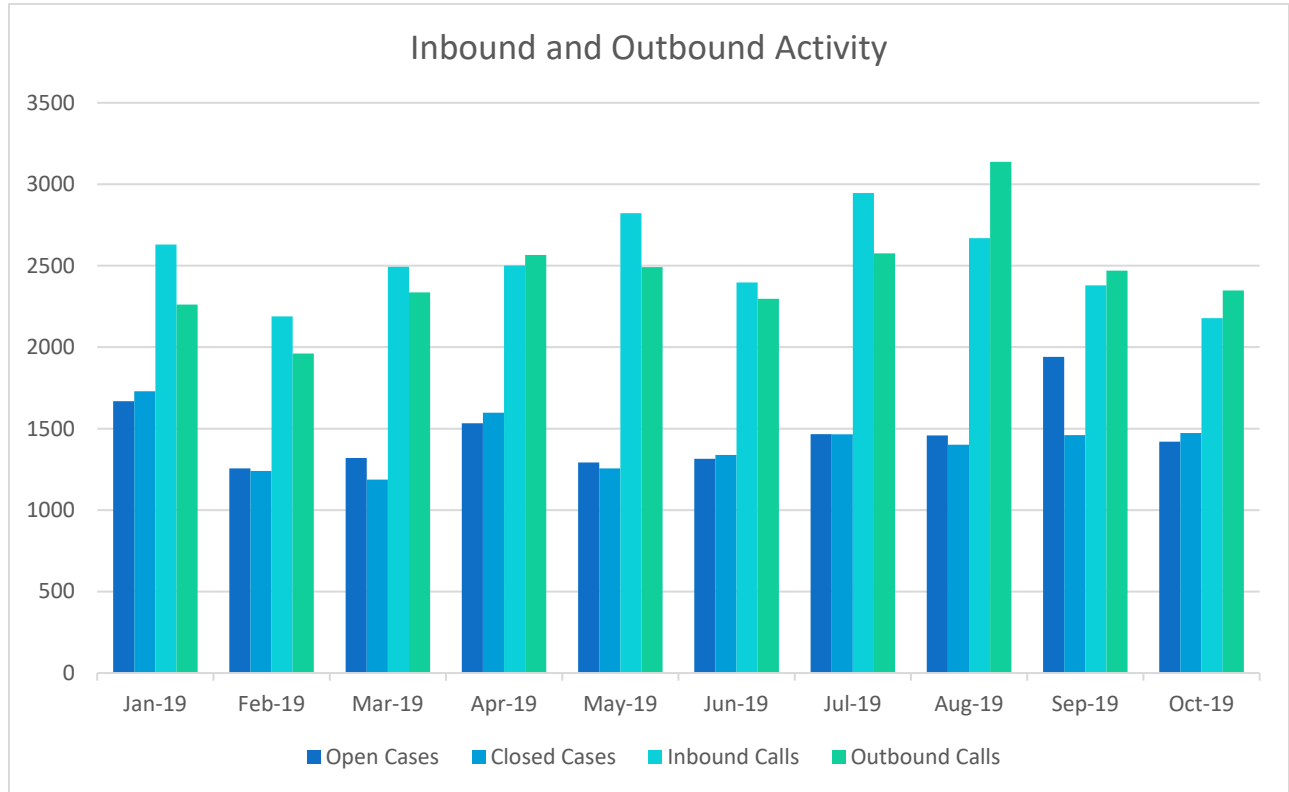
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## Redundancy

We are progressing well in our conversations with off-island transport companies to acquire a new, separated route underground transport to the Westin via Whidbey Island. This would provide fully cable-redundant paths on the mainland, drastically increasing the reliability of the grid. With the addition of the fully implemented Cluster in 2019, roll-over to redundant transports happens automatically and turns noticeable outages from 20-30 min to sub-second during transfer. Once we have the secondary path for off-island transport (expected by March 2020) we will have true protected service for our county.

# Support

## Onboarding and Support Improvements



Rock Island Support staff continue to maintain very high levels of engagement with our customers. From working them through the connection process to sales outreach where LTE service is available, they are churning enormous metrics for a group this size. We have been so fortunate to have the staff that we do on our front lines.