

Telergee Alliance Executive and Financial Conference

Mergers & Acquisitions in an Evolving and Consolidating Industry

Mazer Telecom Advisors, LLC

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May 12, 2016

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MAZER TELECOM ADVISORS, LLC

A leading investment banker in the telecommunications field focusing on:

- **Privately-owned and Cooperative Local Exchange Carriers**
- **Wireless Licenses & Minority Interests in Cellular Partnerships**
- **Related Telecommunications Assets**

Principals have represented 22 ILECs over the past 20 years in the sale of their companies; principals have also represented more than 30 other ILECs in the sale of their wireless interests.

Topics of Discussion

1. Current Mergers & Acquisitions Marketplace for Independent Telephone Companies
2. Likely Buyers – Nearby ILECs
3. Key ILEC Valuation Drivers
4. Ranges of Values for Various ILEC Lines of Business
5. Why Cooperatives Don't Sell
6. Organic Growth vs. Growth Through Acquisitions

Current Mergers & Acquisitions Marketplace for Independent Telephone Companies

- **Very few ILEC sales over the past couple of years while industry has waited for regulatory clarity.**
- **Recent FCC order will create better stability/certainty of revenue streams which could increase M&A activity. However, values (for the core business) will likely remain at relatively low historical levels.**
- **Reduced revenues and significantly fewer buyers than in years past have resulted in downward pressure on values.**
- **Traditional buyers such as TDS, Century Link and Frontier are generally not participating in acquisitions of ILECs, nor are private equity groups.**
- **Lenders remain conservative on leverage ratios.**

LIKELY BUYERS-NEARBY ILECs

The most likely buyers for smaller ILEC's are either neighboring companies or those already operating within the state or adjacent state. There are few private equity buyers for ILECs due to their size and scale requirements. Local buyers are seeking operating efficiencies in addition to increasing their revenue base.

Without the larger regional or national wireline companies, and only modest lender and private equity interest, ILEC values have remained relatively low for several years. However, as ILECs have moved into alternative business segments that are growth businesses, values have stabilized when combined with the declining wireline voice business. Merging and/or partnering with neighboring ILECs (synergies, existing relationships and partnerships) has become a more likely alternative for many companies.

KEY ILEC VALUATION DRIVERS

- **Alternative revenue sources are typically valued at higher multiples than wireline revenues due to higher growth rates.**
- **Fiber loops and tower investments (and to a lesser extent data centers) are examples of how ILECs have created greater value.**
- **FTTH investments create value by increasing both video and internet revenues for telephone companies.**
- **Geographic fit with potential buyer's existing operations remains important to buyers.**
- **Availability of a fiber connection can be a factor for buyers.**
- **Having more than one interested buyer will often drive the value upward.**

Ranges of Values for Various ILEC Lines of Business

- Range of Values for Various ILEC Lines of Business Expressed in Multiples of EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization):
 - Wireline Regulated Business Only: 4-5x
 - Internet: 6-8 x
 - Cable TV: 6-8 x
 - Fiber/Transport: 8-10 x
 - Towers: 17-20+ x

Why Cooperatives Don't Sell

- Inconsistent with cooperative mission
- Hesitancy to have local company controlled by 'outsiders'
- Board of Directors/Management integration tricky
- Can be difficult to be approved by members (super majority, proxy voting sometimes not allowed)
- Majority of recent attempts have been rejected by members

Organic Growth

Pros

- Easy to control the pace of growth
- Utilize existing skill set of employees
- Maintain existing culture/mgmt. styles
- Less capital and risk, safer

Cons

- May have limits on size (and pace) of growth
- Harder to build market share
- Can be time consuming to achieve meaningful revenue and profits
- New lines of business start from scratch

Growth by Acquisitions

Pros

- Much quicker results; business established immediately
- Greater pool of skills and experience
- Can reduce competition
- Can help with asset diversification

Cons

- More expensive than organic growth
- Due diligence risk (i.e., any skeletons in target)
- Execution/integration risk

MAZER TELECOM ADVISORS' EXPERIENCE

- **Experience in providing strategic advice and using effective negotiation skills in executing transactions within both the wireline and wireless businesses.**
- **Mazer Telecom Advisors (or its principals) has represented owners of 22 independent telephone companies in the sale of their businesses. In addition, we have assisted more than 40 independents in the sale of their wireless assets.**

PRINCIPALS:
MAZER TELECOM ADVISORS, LLC

Michael Mazer, President

Michael Mazer has more than twenty years of investment banking experience in the telecommunications field. Since 1993, he has worked with 50 independent telephone companies in the sale of their wireline and wireless interests.

Patrick O'Keefe, Vice President

Patrick O'Keefe has nearly twenty years of investment banking experience in the telecommunications field. His background also includes more than 10 years as President of a voice, video and high speed internet business, in addition to his commercial and investment banking experience in telecommunications. Patrick is among the few in his field that have owned and operated a diversified telecommunications company.