

Benchmarking – If Not Now, When?

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Overview

- Why Benchmarking?
- Calculating Key Performance Indicators (KPI)
- A Look at Current Benchmarking Trends
 - Wireline
 - Wireless

Why Benchmarking?

- What is benchmarking?
 - Defined - A standard against which something can be measured or assessed
- The goal of benchmarking is to compare your company/operations with others in the industry
- Done at least annually
- Despite being historical in nature, it can help predict future results and where changes in operations need to be made

Why Benchmarking?

- Telecommunications is unique in its nature
 - Focused on indicators many industries are not
 - What you are concerned about today may not be what you are concerned about tomorrow
- Individual telecommunication companies have different factors they should focus on
 - Cooperatives vs corporations
 - Average schedule vs cost companies
 - Private vs publicly traded
- Benchmarking is more important now than ever with the current state of our economy

Why Benchmarking?

- Where to find information about other telecommunications companies
 - Telergee Benchmarking Study
 - CTIA Wireless Industry Survey
 - State association or regulatory body studies
 - Publicly traded companies
 - SEC webpage (www.sec.gov/filings and [forms/search](http://www.sec.gov/forms/search) for company filings) and look at latest 10Q or 10K (4813 – telecommunications code)

Key Performance Indicators

- Ratios, percentages and stats that tell you how your company is doing
- Both financial and operational
- These can be compared to
 - Other companies
 - Your company from prior periods
 - From one type of operation to another
 - Loan requirements

Key Performance Indicators

- Rate of return
 - Current year's net operating revenue / average of current and prior year net plant in service
 - Is the money you invested in your plant giving you a good return?
 - Better than 10%
 - Better than current interest rates
 - Better than your other operations

Key Performance Indicators

- Current ratio
 - Total current assets / total current liabilities
 - How liquid are you?
 - Better than 3:1
 - Do you need to borrow or raise more capital?
 - What can you pay for a dividend?
 - Are your investments structured correctly?

Key Performance Indicators

- Earnings before interest, taxes, depreciation and amortization (EBITDA)
 - Revenues – Expenses (excluding tax, interest, depreciation and amortization)
 - Why it has become so popular as an indicator
 - Eliminates the effects of financing and accounting decisions
 - Indicates the ability to service debt (3-4 times EBITDA)
 - Good for capital asset heavy industries or ones with a lot of amortization

Key Performance Indicators

- EBITDA as a percentage of operating revenues
 - $\text{EBITDA} / \text{operating revenues}$
 - A company's ability to keep earnings at a reasonable level
 - Isolates operating expenses with the goal of keep them down
 - What is remaining after operating expenses
 - A high percentage = efficient processes that have kept certain expenses low
 - Independent telephone companies: good = above 50%

Key Performance Indicators

- Operational indicators
 - Access lines
 - Access minutes of use (MOU)
 - Both interstate and intrastate
 - Universal service revenues (USF)
 - What is the monthly revenue per customer?
 - Non-regulated items
 - Internet, long distance and CATV customers

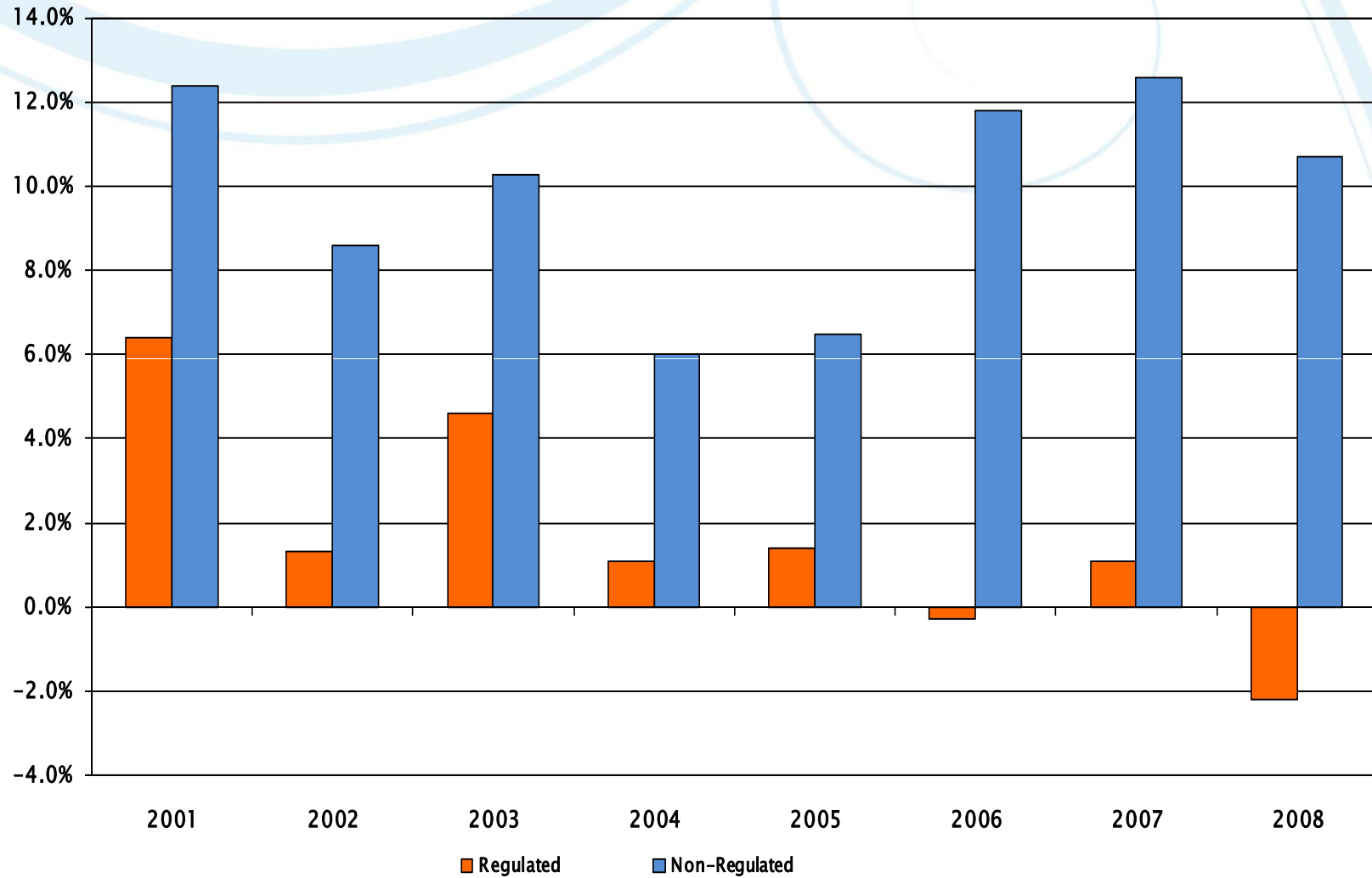
A Look at Benchmarks - Wireline

- Data collection - Telergee Benchmarking Study
 - Put together by 7 CPA firms that serve the telecommunications industry throughout the country (Kiesling is one of the seven)
 - 8 years of completing the study
 - Close to 200 independent telecommunication companies participate annually
 - Both cooperatives and corporations
 - Both cost and average schedule companies
 - Benchmarks are based on the median of respondents

A Look at Benchmarks - Wireline

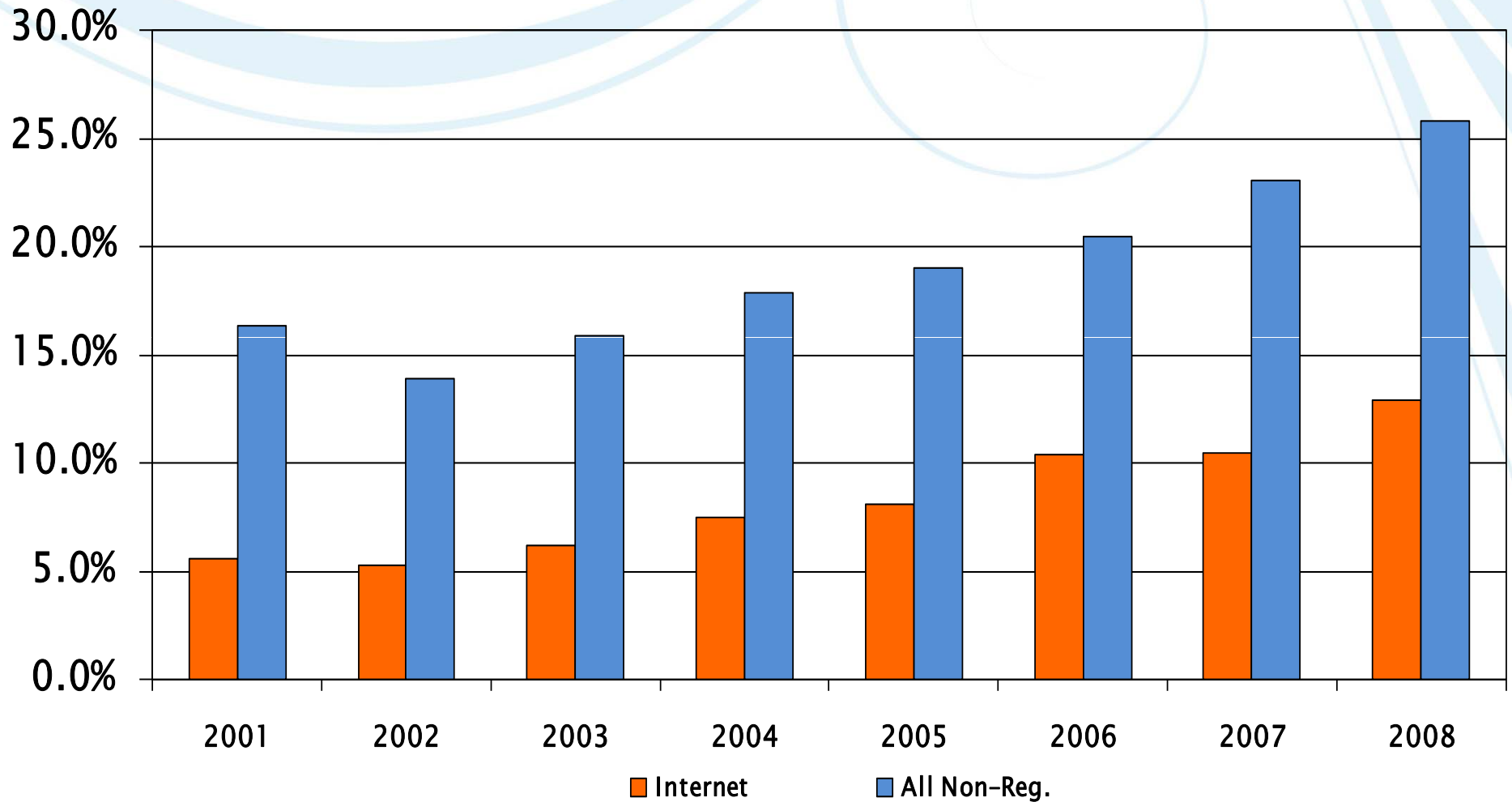
- Selected Wireline trends
 - Revenue Growth \Rightarrow Regulated vs. Non-Regulated
 - Non-Regulated Revenue as a % of Operating Revenue
 - EBITDA as a % of Revenues
 - Operating Margins as a % of Revenues
 - Access Lines – ILEC & CLEC
 - Minutes of use

Revenue Growth \Rightarrow Regulated vs. Non-Regulated



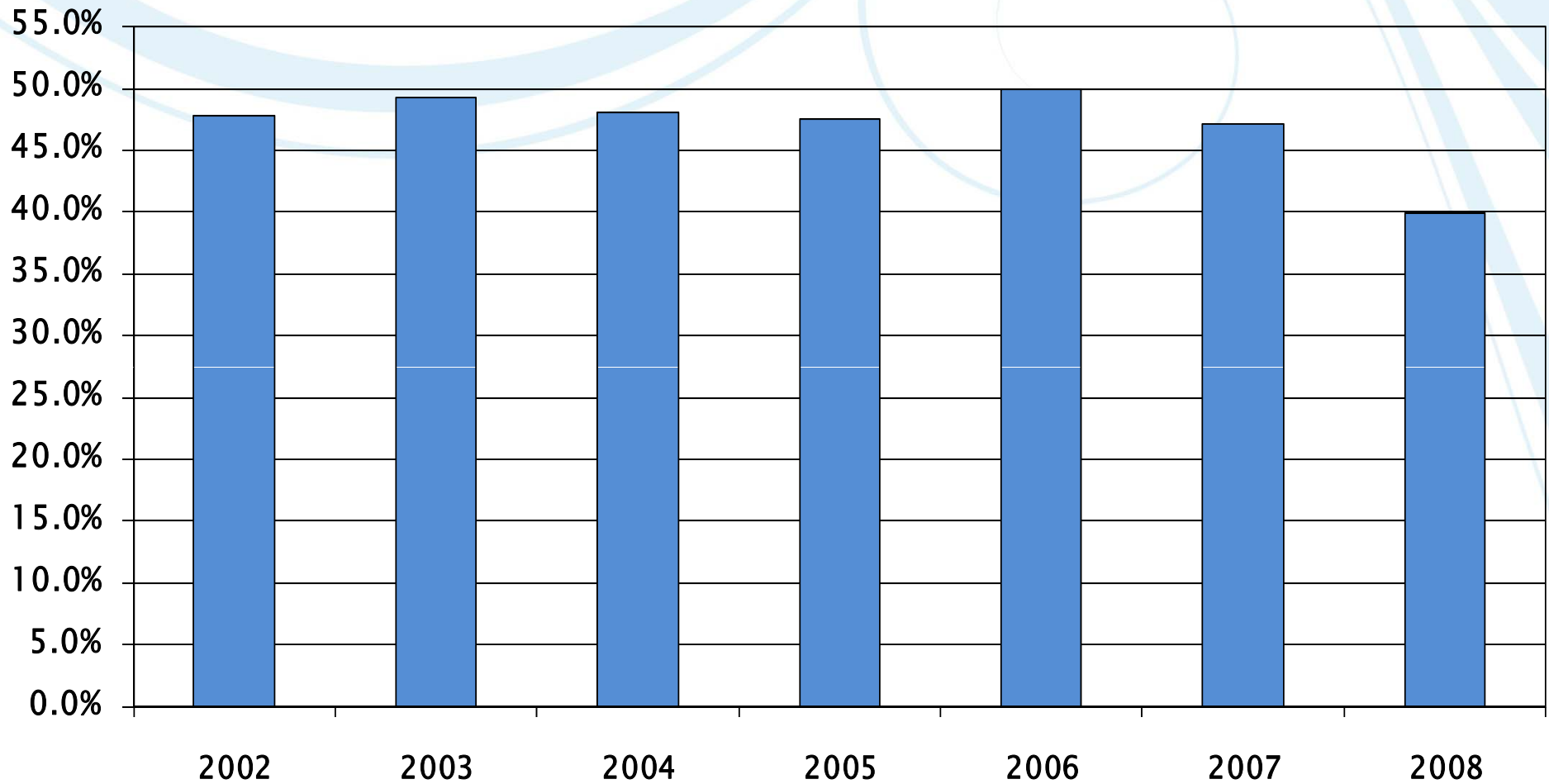
• Source: Telergee Benchmarking Study

Non-Regulated Revenue as a % of Operating Revenue



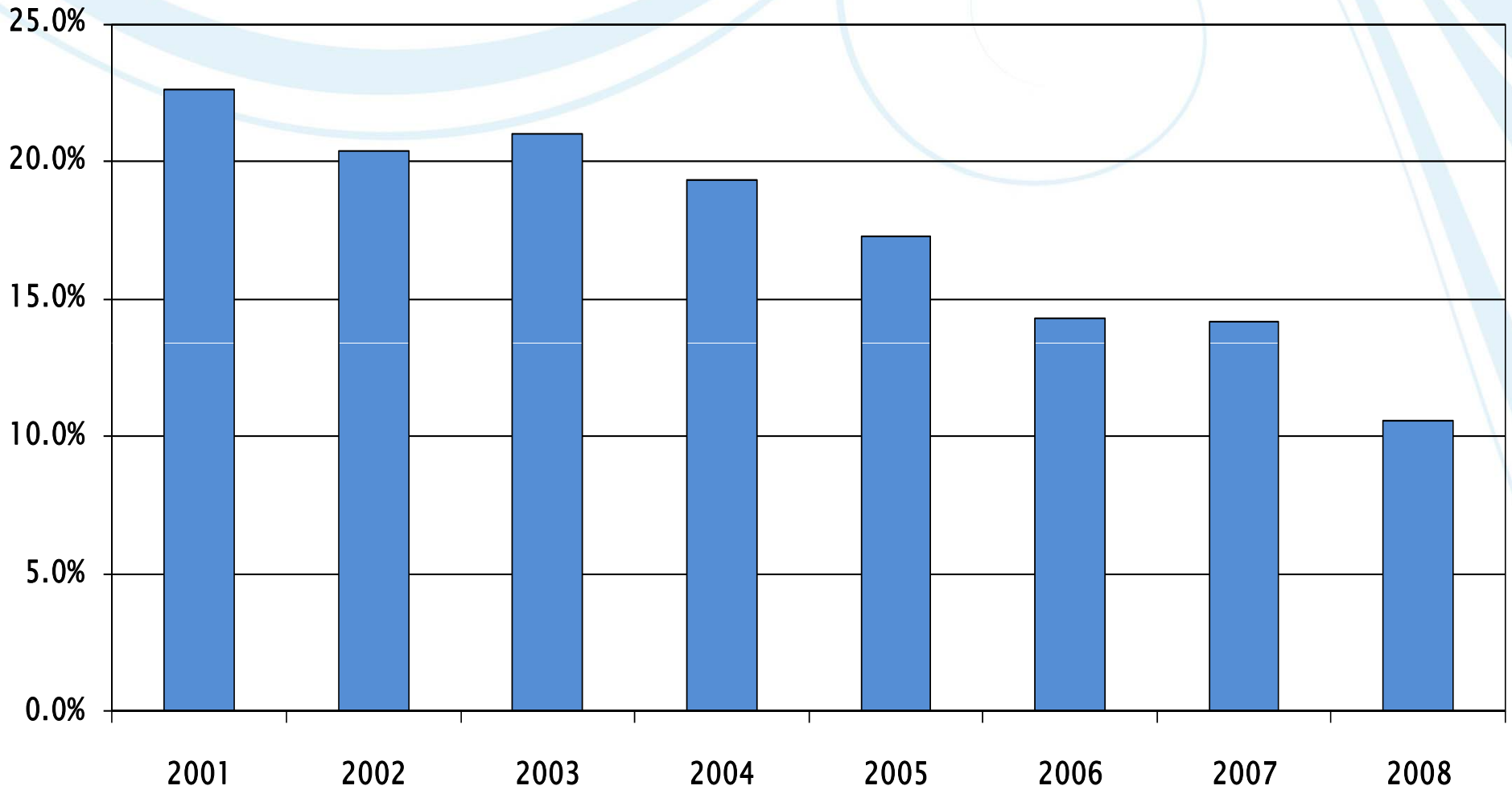
• Source: Telergee Benchmarking Study

EBITDA as a % of Revenues



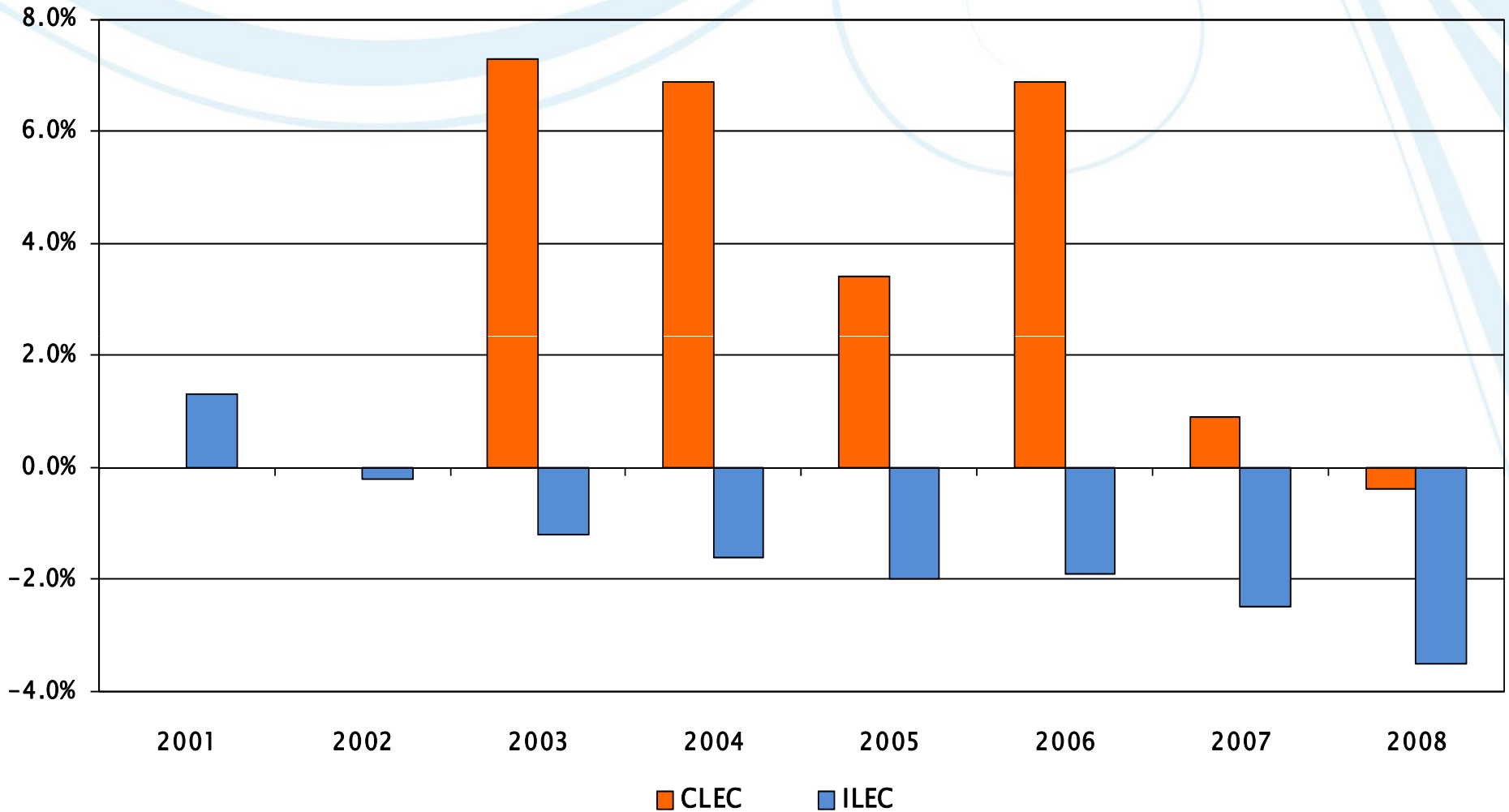
• Source: Telerges Benchmarking Study

Operating Margin as a % of Revenues



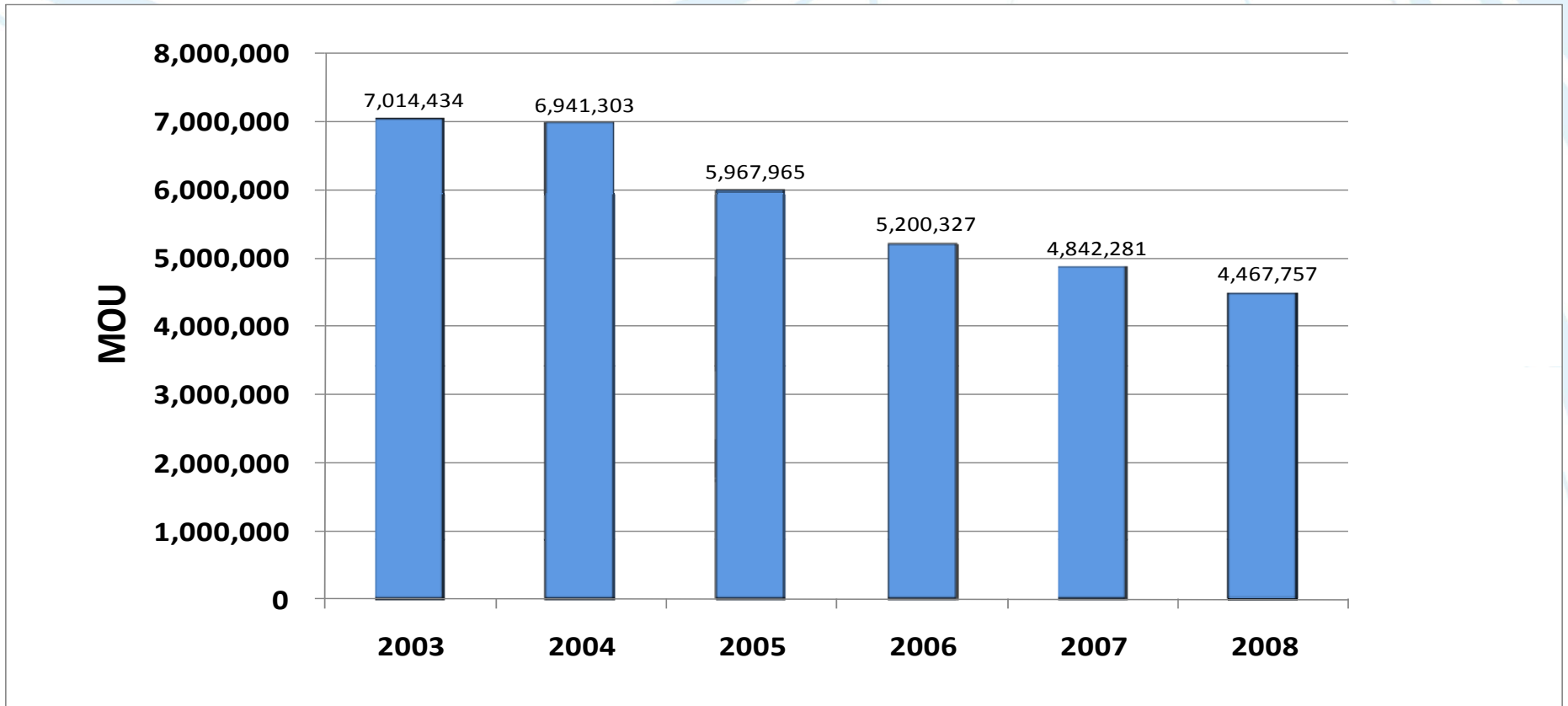
• Source: Telergee Benchmarking Study

Access Line Growth/Decline – ILEC vs. CLEC



• Source: Telergee Benchmarking Study

Average Iowa LEC MOU Per Year*



*Kiesling WDM clients excluding conference bridge companies – average company 1,200 lines

A Look at Benchmarks - Wireless

- Data collection - CTIA Wireless Industry Survey
- FCC 13th Annual Report and Analysis of Competitive Market Conditions with Respect to Commercial Mobile Services

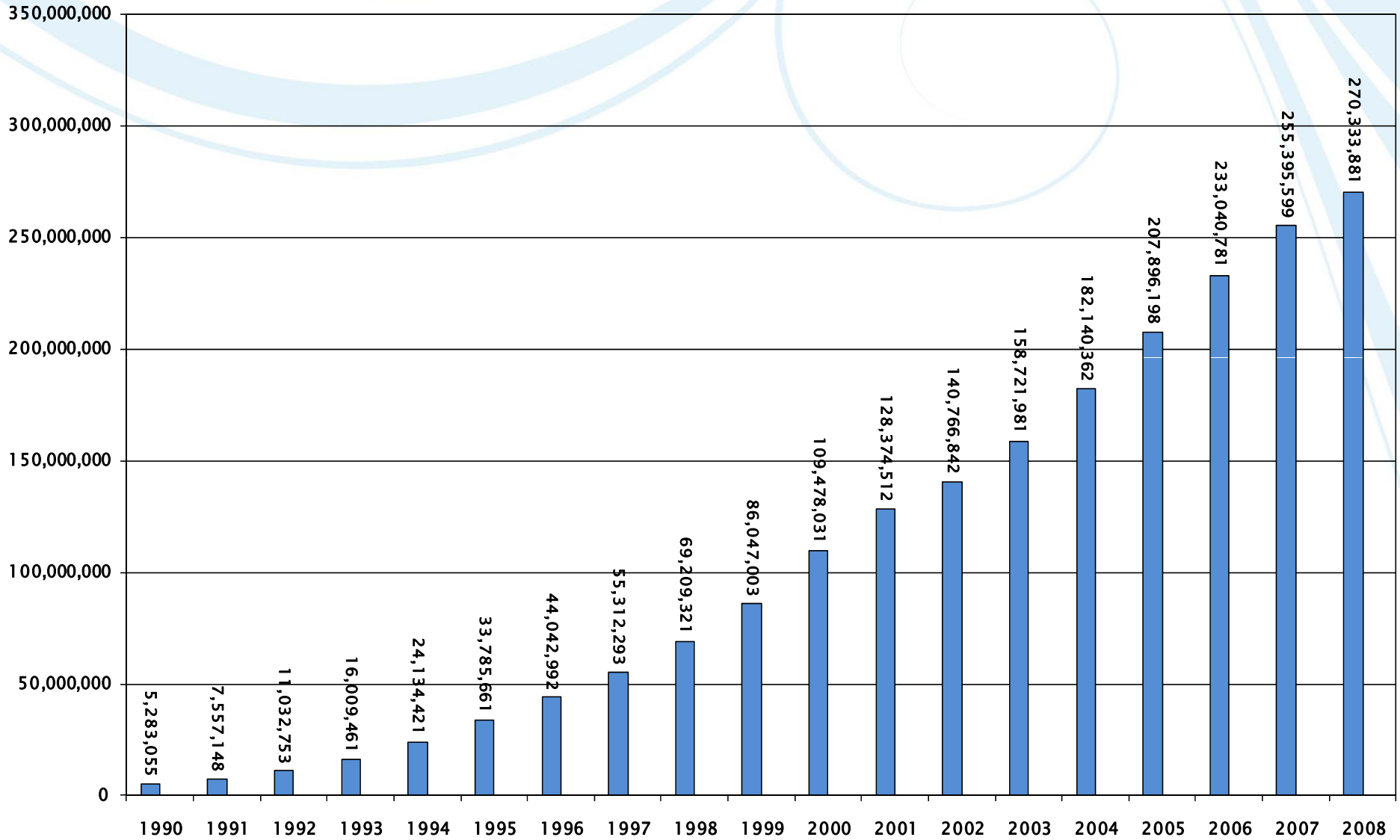
A Look at Benchmarks - Wireless

- What have the wireless trends been?
 - Estimated Total Subscribers Nationwide
 - Twelve Month Total Service Revenues
 - Market Share at 12/31/2008
 - Average Local Monthly Bill
 - Average Revenue Per User (ARPU)
 - Average Monthly Customer Churn
 - Average Minutes of Use Per Month
 - Monthly Text Message Traffic

A Look at Benchmarks - Wireless

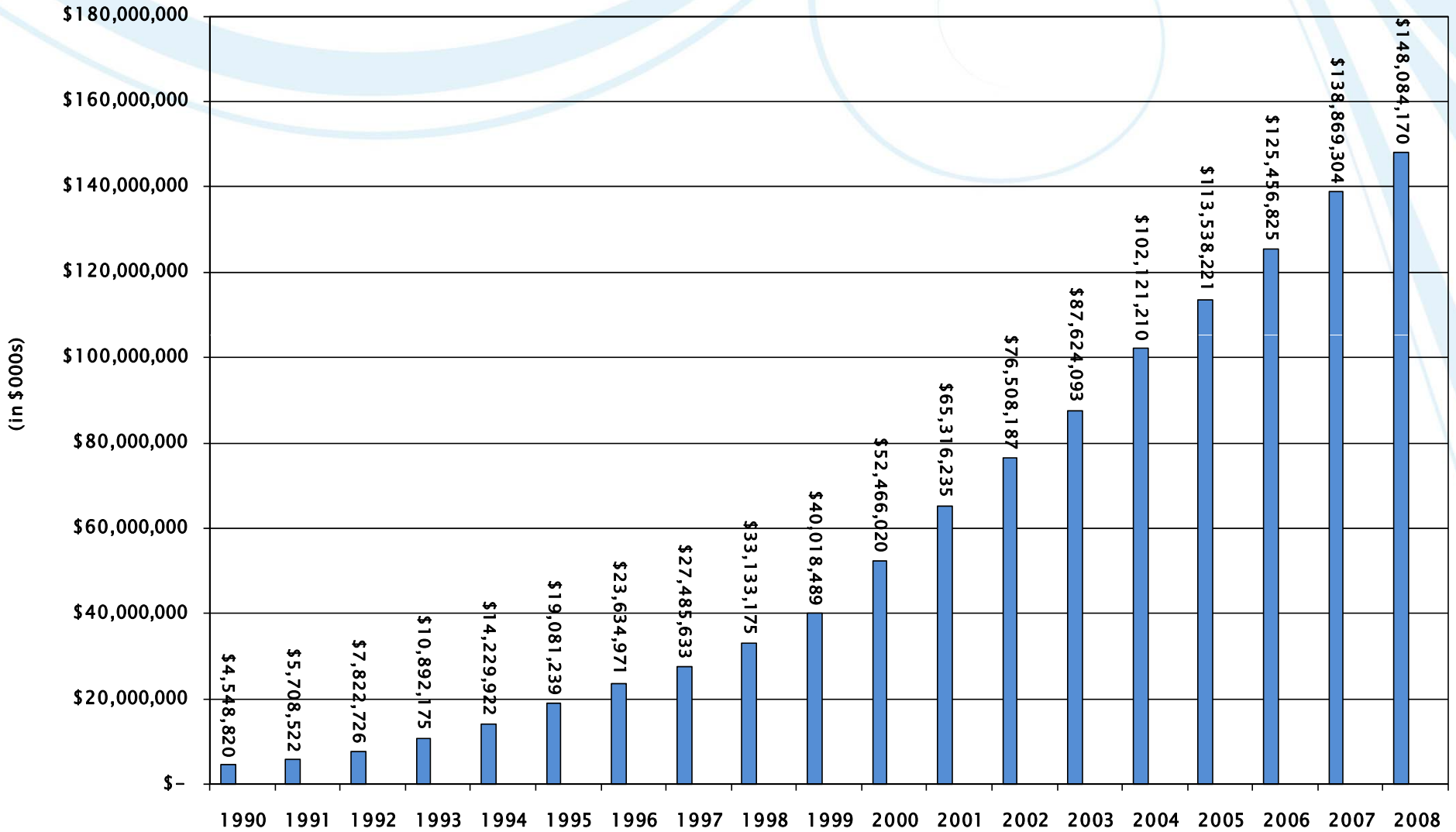
- What have the wireless trends been? (cont.)
 - EBITDA as a % of Revenues
 - Number of Cell Sites
 - Percentage of Individuals with Only Wireless Telephone Service

Estimated Wireless Subscribers Nationwide



Source: CTIA Wireless Industry Survey

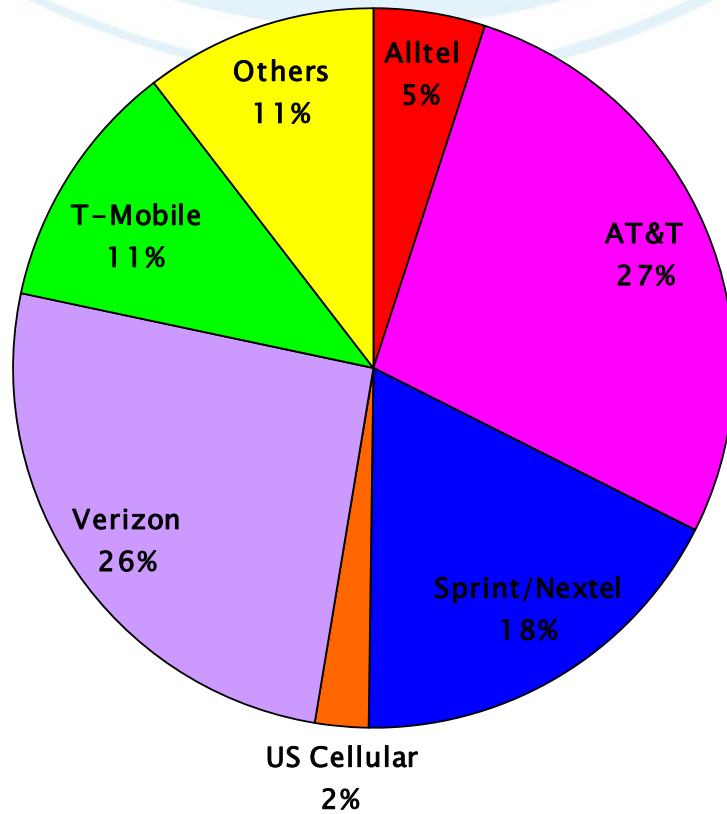
Twelve Month Total Service Revenues



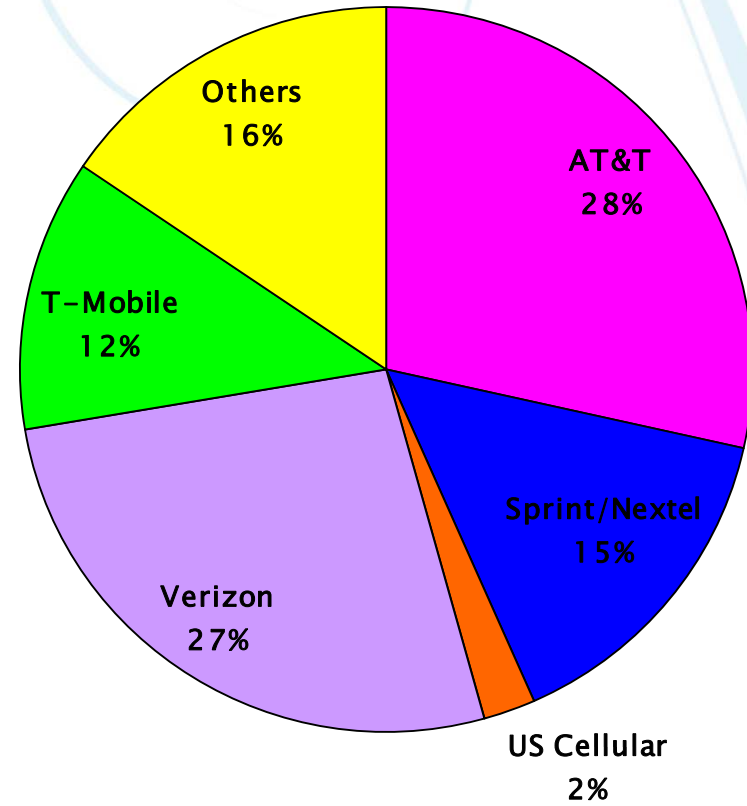
Source: CTIA Wireless Industry Survey

Market Share

12/31/2007

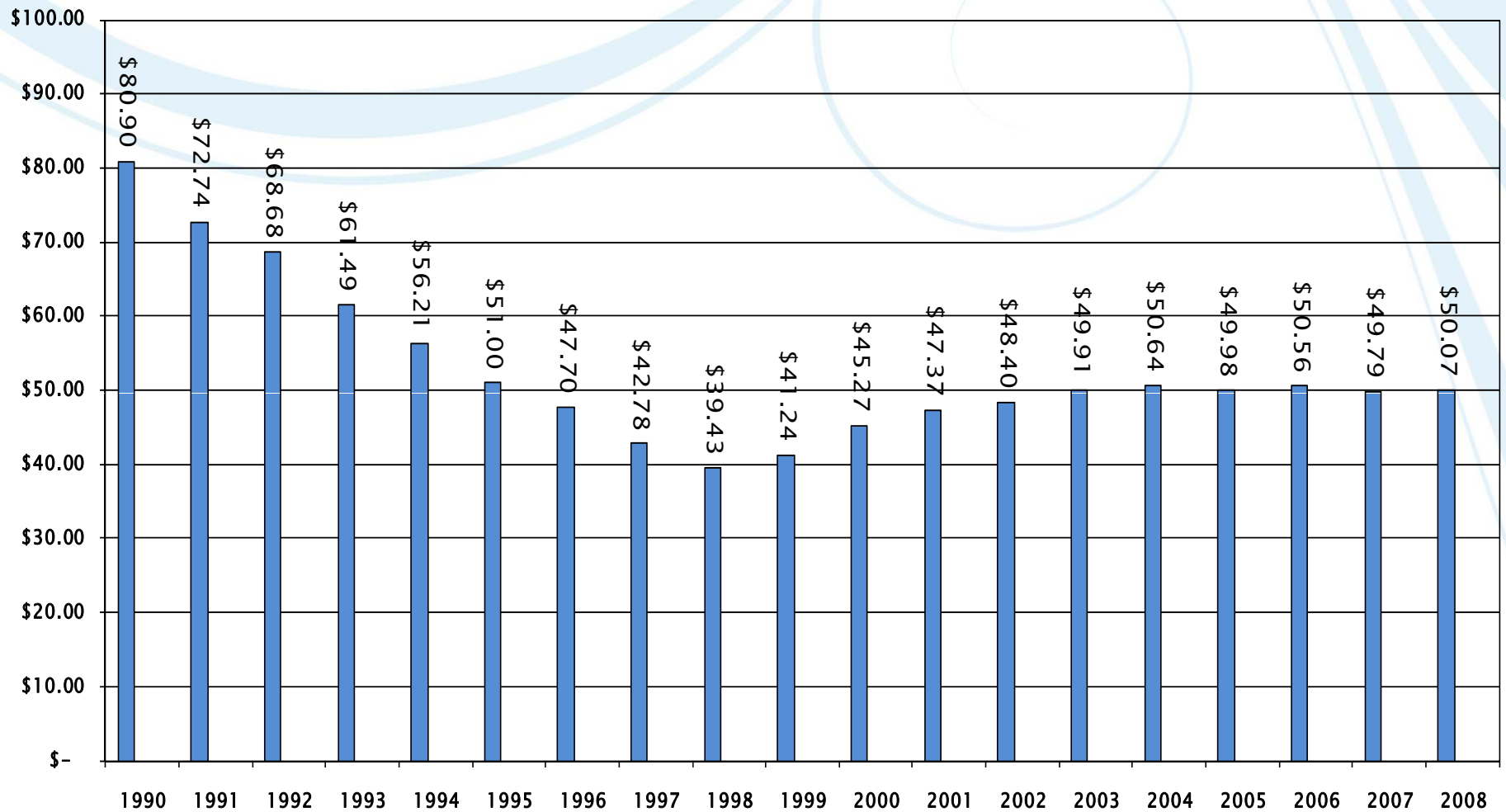


12/31/2008



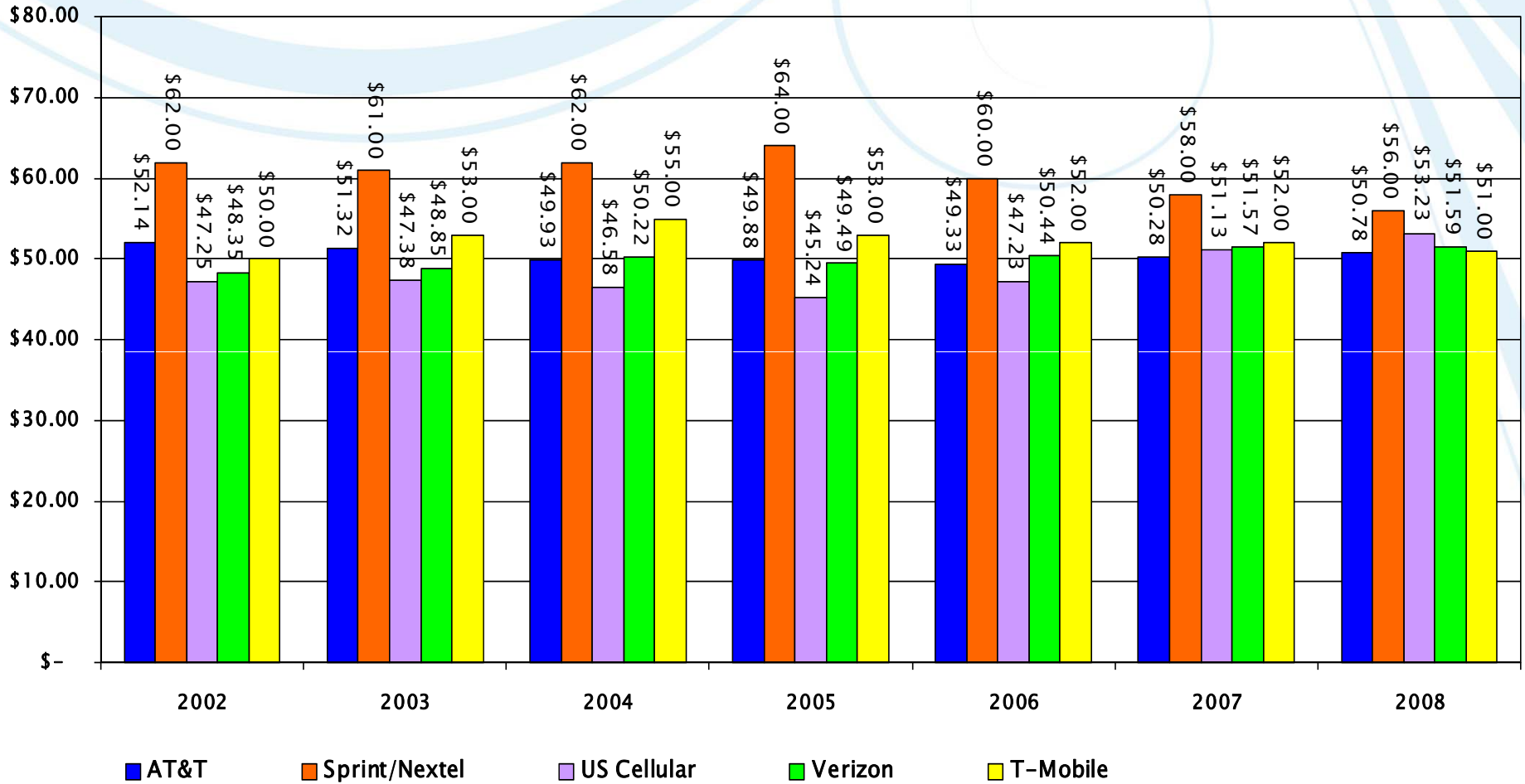
- Note: Alltel merged with Verizon in 2008
- Source: Company reports and SEC filings
- CTIA Wireless Industry Survey

Average Local Monthly Bill



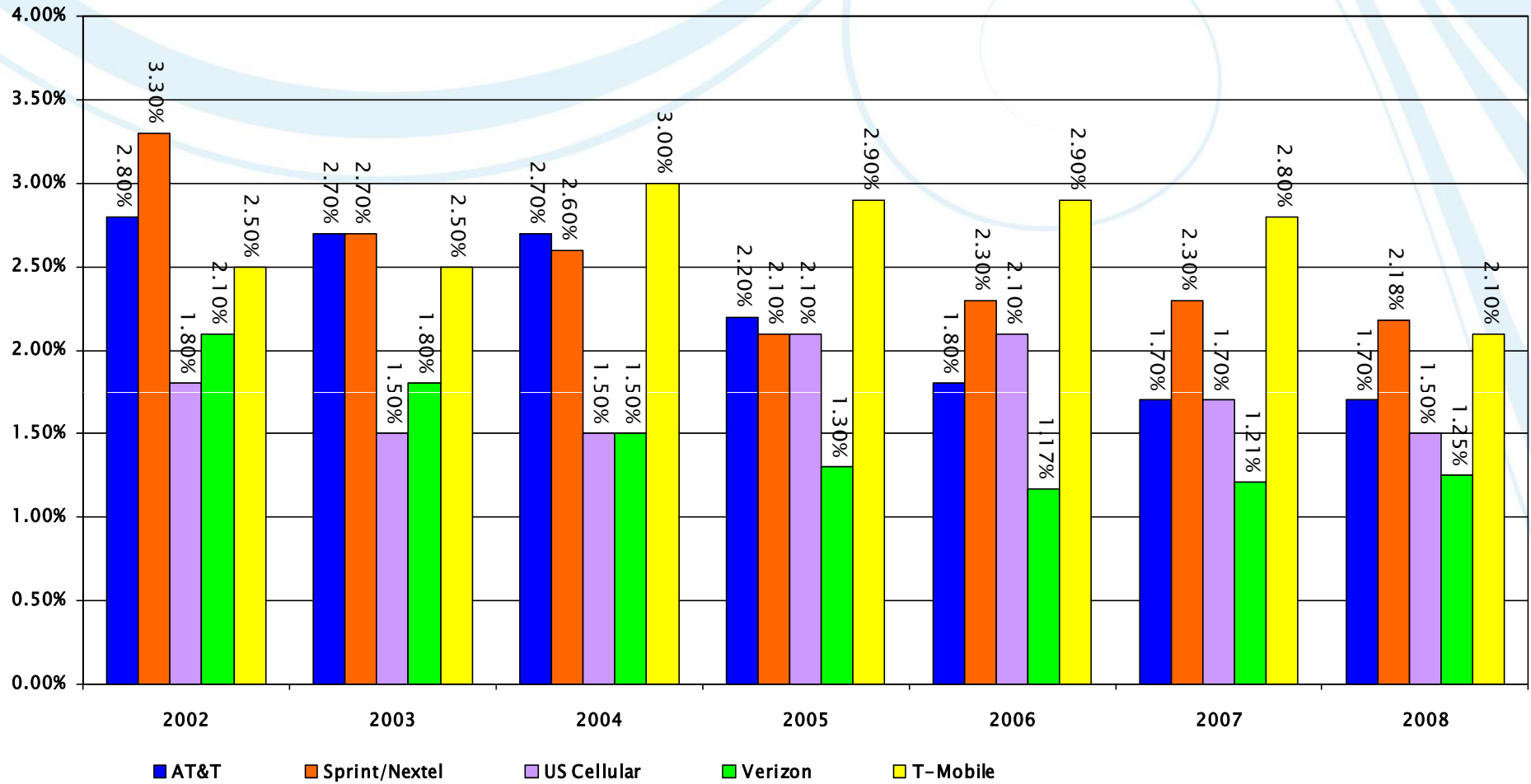
• Source: CTIA Wireless Industry Survey

Average Monthly Revenue Per User (ARPU)



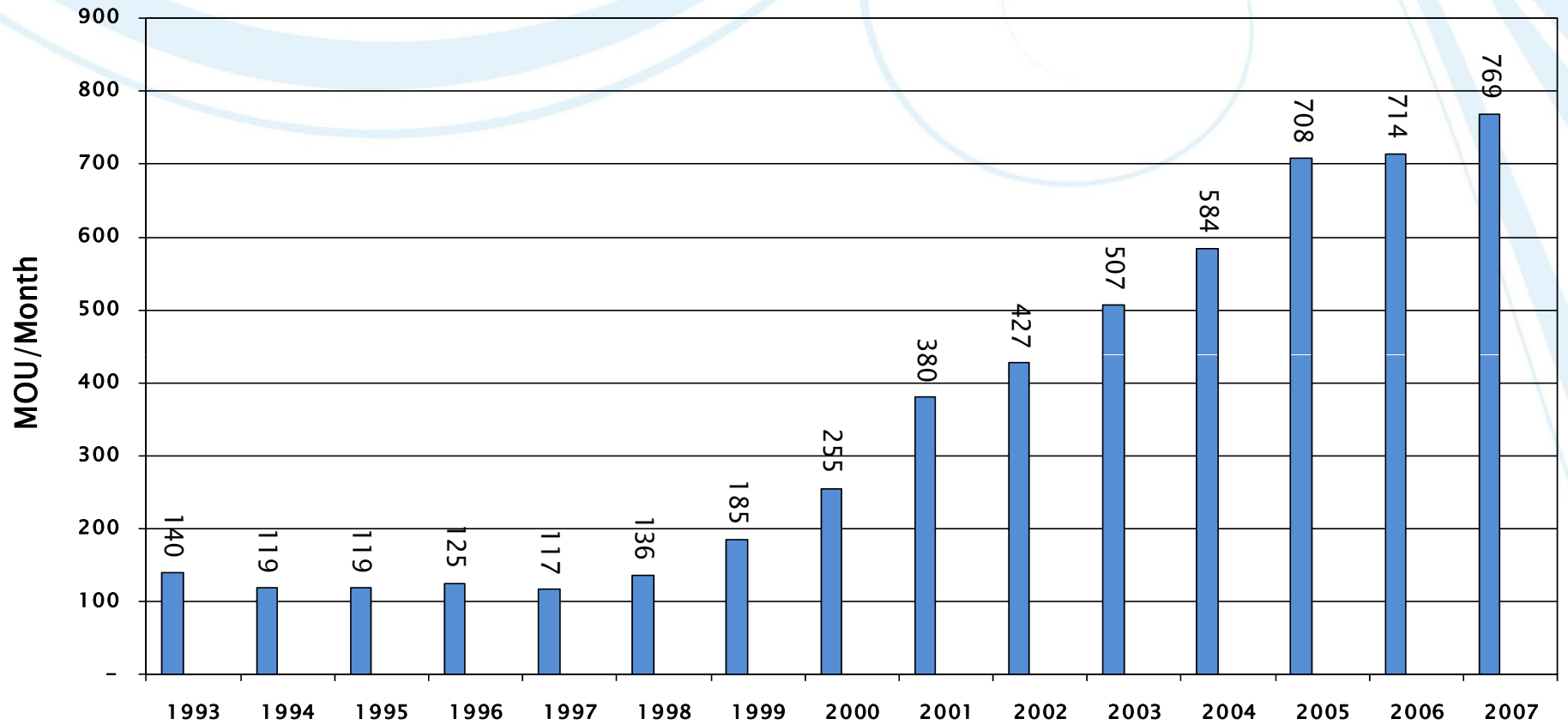
• Source: Company Reports and SEC Filings

Average Monthly Customer Churn



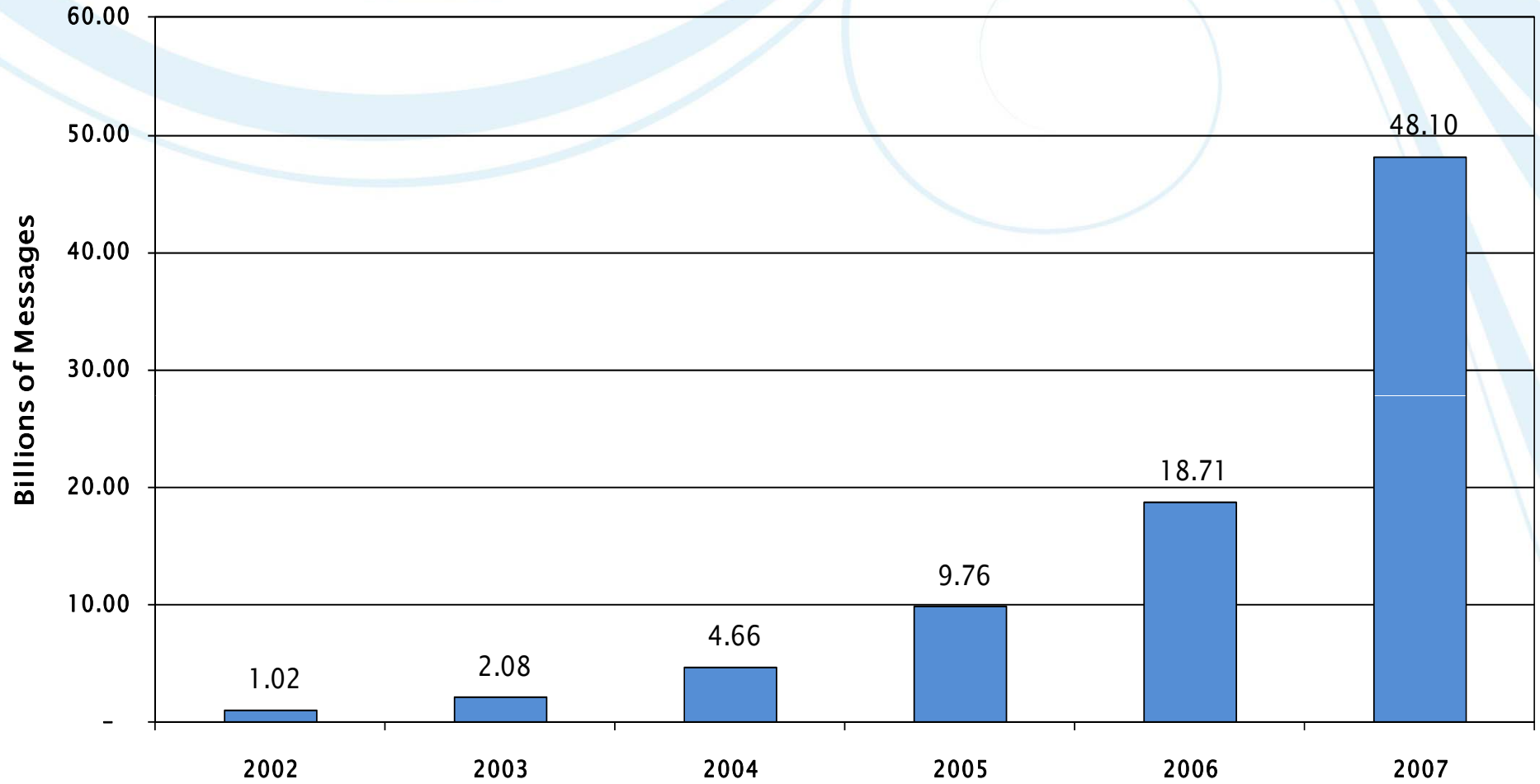
• Source: Company Reports and SEC Filings

Average MOU Per Month



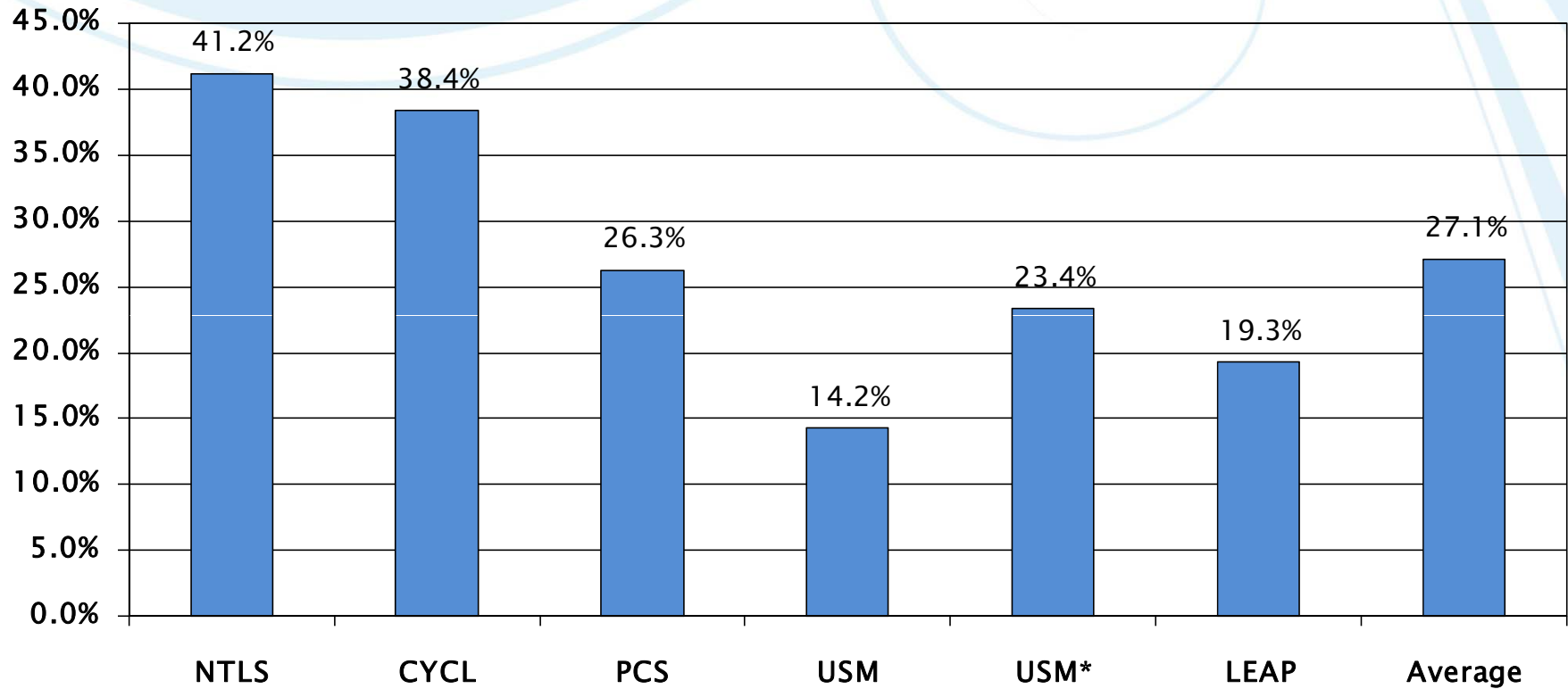
• Source: FFC 13th Annual Report

Monthly Text Messaging



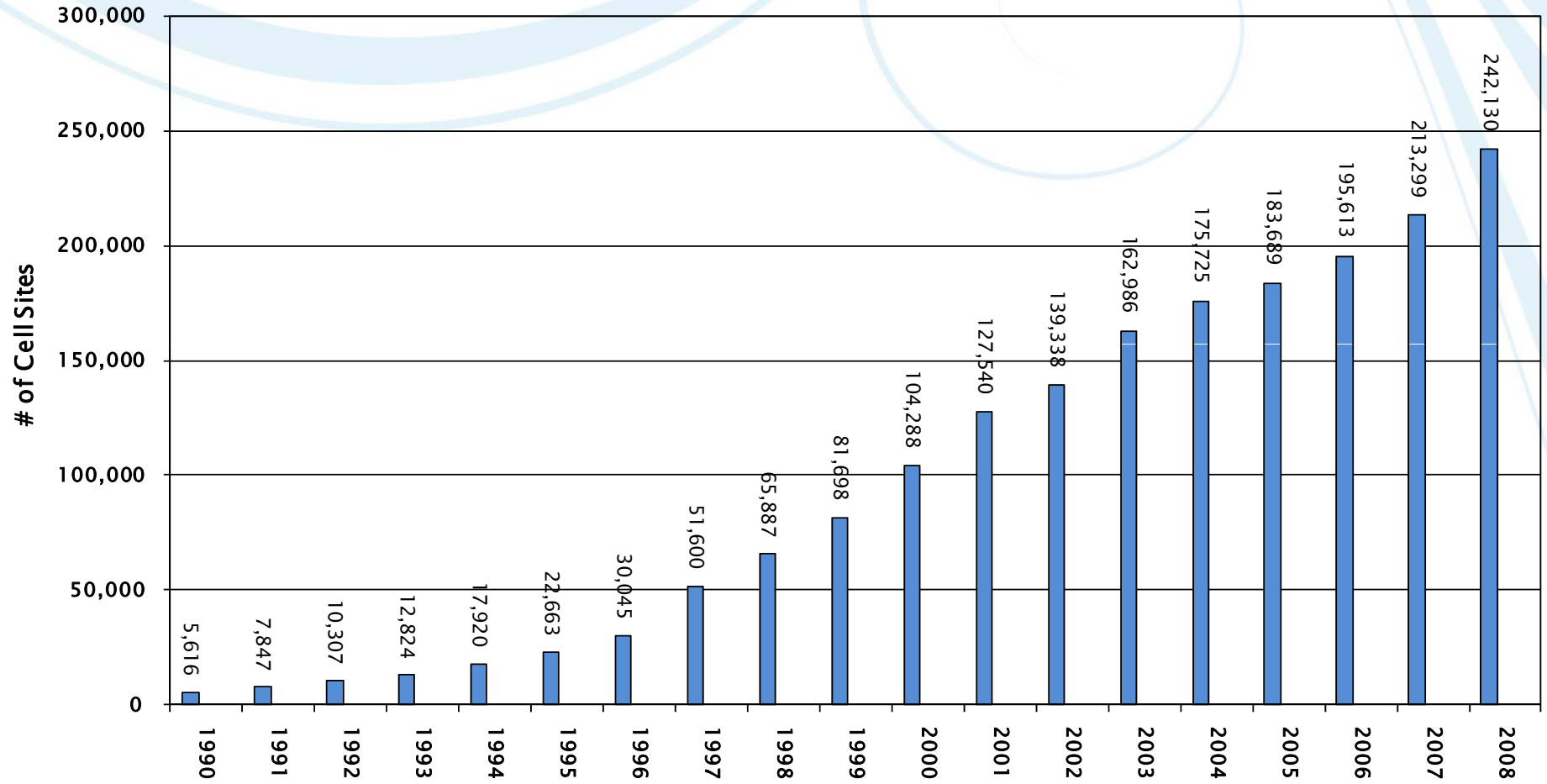
• Source: FCC 13th Annual Report

EBITDA as a % of Revenues



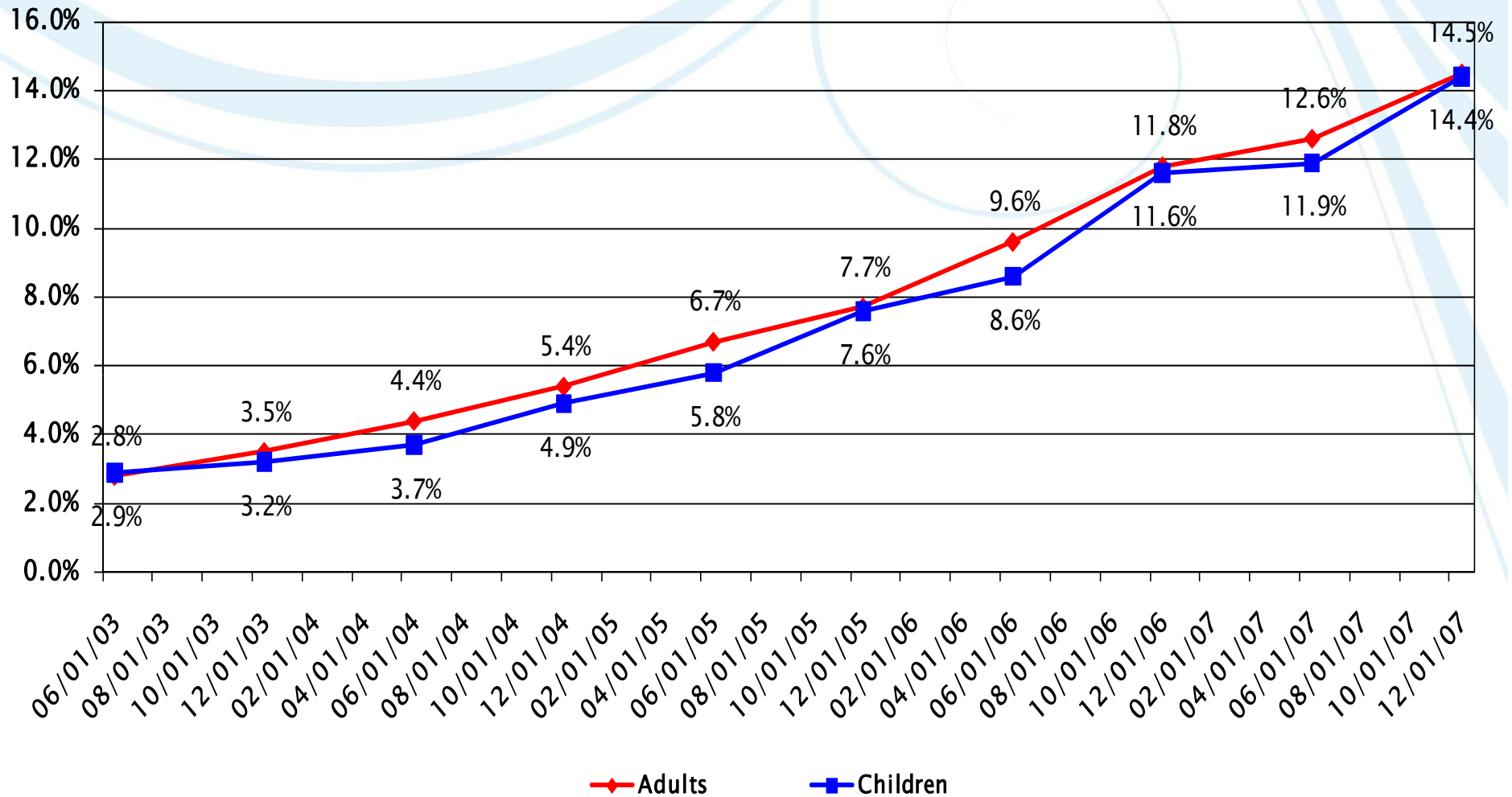
- * USM recorded a large impairment loss due to licenses in 2008. USM* does not include the impairment loss.
- Source: Company Reports, SEC Filings

Number of Cell Sites in Operation



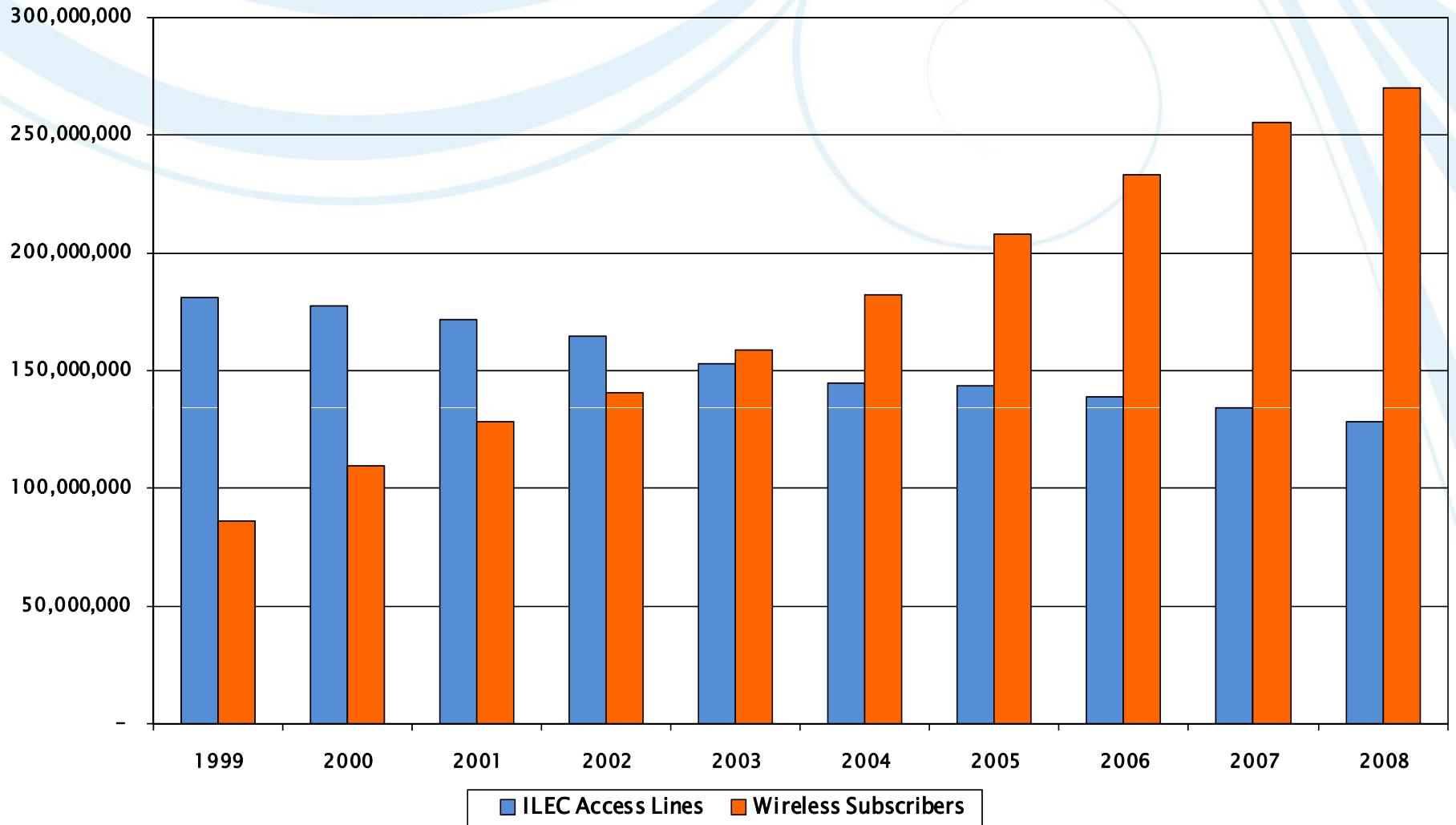
• Source: CTIA Wireless Industry Survey

Percentage of Individuals with Only Wireless Telephone Service



• Source: FCC 13th Annual Report

Historical ILEC Access Lines & Wireless Subscribers



• Source: FCC

Closing Thoughts

- There is no better time than now to start benchmarking
- Have a plan for results
 - Build on strong areas and improve on weak areas
 - What can you do today to make your company more profitable and able to prosper tomorrow?

Questions?

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Thank You!