VTX1 Companies

Revenue Diversification:

Challenges, Triumphs, and Lessons Learned

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Our Needs for Growth

- Replace lost FUSF and TUSF revenues which have no expense
- Gain additional economies of scale
- Acquire strong businesses within our marketplace
- Gain additional towers to densify our fixed wireless footprint

Opportunity Analysis – Organic

- Organic
  - Sell within our existing CLEC footprint where facilities are in place;
  - Focus on business customers
    - Larger ARPU
    - More need
    - Fewer collection issues
    - Less likely to abandon for a “deal”

Opportunity Analysis – Acquisitions

- We chose *not* to pursue ILECs
  - Encounter the same USF issues
- We chose *not* to pursue CLEC towns
  - Did not want to build residential
  - Did not want collection issues

- We chose to pursue fixed wireless (WISPs)
  - Our existing expertise and network footprint
  - Generally a growth market

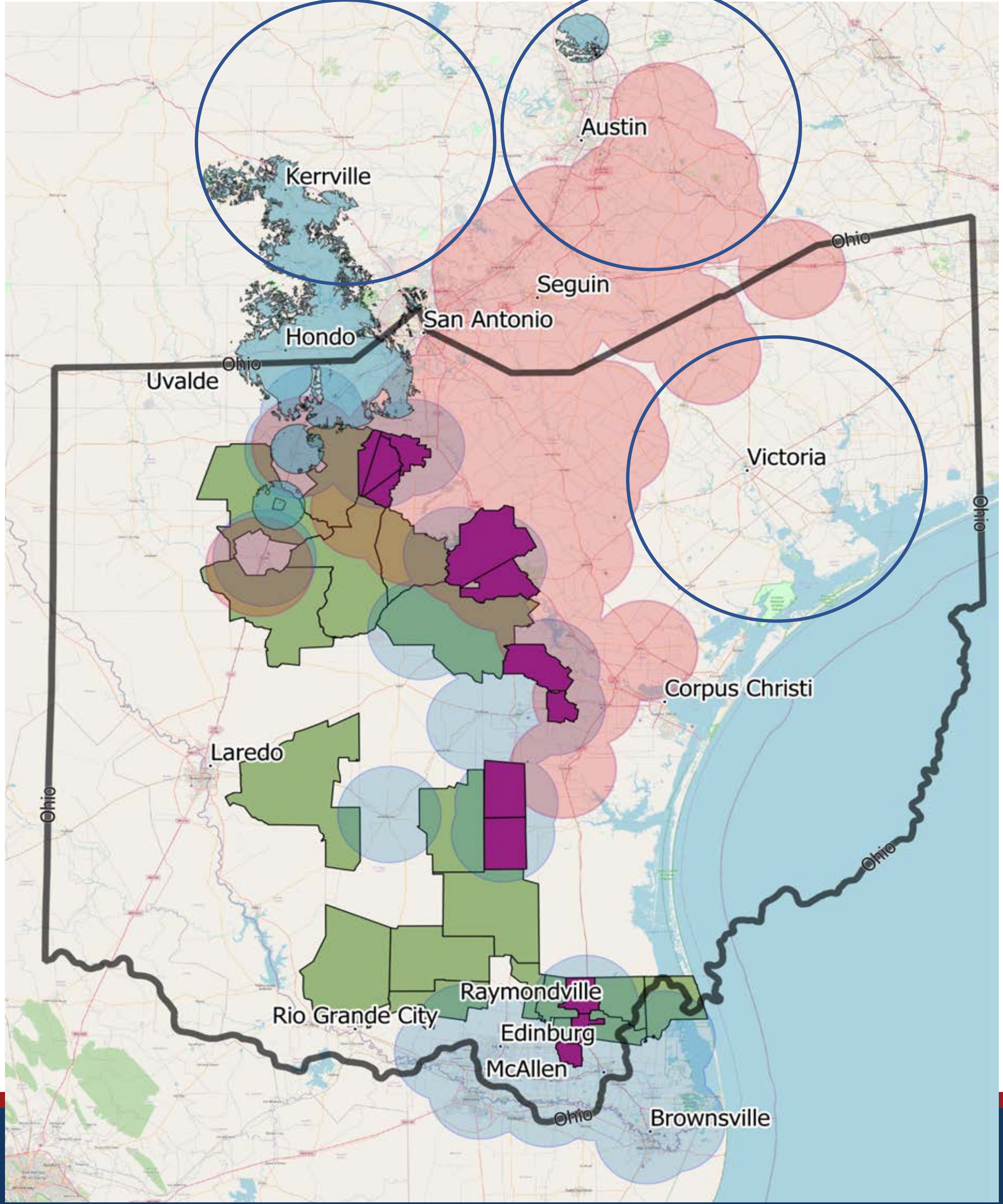
Requirements for WISP Acquistions

<u>Four overarching goals</u>:

1. Within our existing footprint
2. Adjacent to our existing footprint
3. High growth compatible companies near our footprint
4. Try to find WISPs where the owners will stay on for a while

Current Footprint

Indicates current acquisition targets



VTX1 Companies

- Founded in 1952 as Valley Telephone Cooperative
- HQ Raymondville, Texas
- Currently 26,000 subs over 41,500 square miles; soon to be ≈40,000 subs over 47,500 square miles after the acquisitions
- Will have ≈ 29,000 WISP subs after acquisitions
- Currently 232 employees; soon to be 307
- Currently 230 towers; soon to be 344

Acquisition Lessons Learned

- Most WISPs are very small and are cash vs. accrual accounting and not audited
  - Conduct a Quality of Earnings Study
    - Reconstruct the EBITDA to include depreciation not taken
    - Review bank records to be sure they match up to the accounts receivables and revenues
  - Review federal and state tax returns
  - Look at owner expenses, e.g., salaries, bonuses, purchases, and adjust EBITDA accordingly

Acquisition Lessons Learned

- Do not expect small WISPs to have documented procedures in place
  - Human Resources
  - Accounting
  - Network Planning
  - Operations

- Expect the owner(s) to make 100% of the decisions with little or no documentation or records

Acquisition Lessons Learned

- Do not expect to see any regulatory reports filed:
  - FCC
    - 499s
  - TPUC
    - Annual Earnings Monitoring Report

Acquisition Lessons Learned

Towers:

- Do not expect the employees to be fully trained:
  - Climbers not OSHA-certified
  - Technicians not manufacturer-trained
- Make sure there are no liens on equipment
- Determine status of leases and tower rights
- Watch for handshake deals and trades
- Identify any liabilities and disputes with 3rd parties
- Verify no rights of first refusal or consents required

Acquisition Lessons Learned

- Do not expect the equipment, trucks, etc. to be as well-maintained as your company:
  - Towers not maintained well; overgrown with grass; rusty guy-wires with rusty connectors
  - Trucks not serviced as often as specs require
  - Building repairs left undone
  - Inventory not adequately accounted for and documented

Acquisition Lessons Learned

- Expect the owner(s) to be uninformed or ill-informed regarding acquisition procedures:
  - Common EBITDA multiples for WISPs vs. tower companies
  - Stock Purchase Agreements vs. Asset Purchases
  - Tax implications of acquiring a C-Corp vs an LLC or Subchapter S Corp
  - FCC licensing changes

Acquisition Lessons Learned

Advice:

- Use an M&A Advisor
- Use your attorney for agreements *and* taxes
- Don’t get in a hurry
- Check, recheck, then check again
- Determine whether the owners plan to stay or retire and negotiate non-competes and compensation accordingly

-THANK YOU-

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