CITY OF
ASHLAND

Memo

DATE: May 18, 2004
TO: Ashland Budget Committee
FROM: Dick Wanderscheid, Director, Electric and Telecommunications
RE: Sales Value of Telecommunication Networks

At the Budget Committee meeting on 5/5/04, the Budget Committee had a discussion about the potential value of the Ashland Fiber Network if the city were inclined to sell it. After discussing this with our consultants at Navigant we found that there is little track record of sales of competitive or over build systems like Ashland's.

Never the less staff has done some preliminary research to try and come up with some baseline numbers to consider in this analysis. Recently Charter Communications which is the competitive provider in Ashland, has been selling some of their 'geographically non strategic assets that don't fit into the company's long term plans.' On September 3, 2003 Charter sold a group of east coast cable TV systems serving 235,000 customers for $765 million which works out to $3,255 per subscriber.

According to Ted Henderson a media industry analyst with Stifel, Nicolaus & Co. in Denver 'prices above $3,000 a subscriber are clearly paying a premium.' The sale made to Atlantic Broadband LLC included the highly desirable Miami market which according to Henderson is probably 'priced at $4,000 per subscriber, while other cable markets in the package would have been priced lower.' This sale to Atlantic Broadband is the largest for Charter to date but in October 2003 they also sold the Port Orchard, Washington system, which has 25,500 subscribers for $91 million or $3,600 per subscriber. This system was sold to WaveDivision Holdings, LLC of Kirkland, Washington.

Recently Champion Broadband California, LLC purchased Altrio Communications in April 2004. Altrio is located in the Los Angeles area and provides digital Cable TV, high speed internet and local and long distance phone service to about 7,000 customers. Their system is a privately constructed overbuilt system much like Ashland's. While the sale price wasn't disclosed Linda Haugsted of Multi Channels News is quoted as saying 'over builds often sell for much less than incumbent cable systems.'

As discussed at the budget meeting last week staff recently became aware of the recent sale of the Marietta Fiber Network a Division of Marietta Lights and Water, a Municipal

Electric Utility of the City of Marietta, Georgia. This system was sold to American Fiber Systems, Inc. (AFS) a privately held firm. They are a provider of metropolitan infrastructure and wholesale transport services. AFS has deployed over 76,000 miles of high capacity, high bandwidth metropolitan in several cities including Cleveland, Kansas City, Mo; Nashville, Salt Lake City and Minneapolis/St. Paul.

Marietta FiberNet (MFN) is a full service utility serving only business customers with voice, data and internet services. No residential service is provided and they provide business products on 450 route miles of fiber covering Cobb County, Fulton County, Atlanta and Norcross, Georgia. Their Operation center is staffed 24/7 and they respond to calls in 20 minutes and will dispatch a technician within 4 hours if necessary. This system was sold for $12.2 million cash and sale is expected to close by June 30, 2004.

Staff discussed this sale with MFN Director Ed Godshall on 5/11/04 and he indicated that MFN started building the network in 1997. It is funded entirely by Electric Utility reserves and the total cost to build the network was $35 million. Revenue for the current year will be about $6.7 million. The network has been in positive cash flow since July 2001. The network is in the process of being sold as the new Mayor and City Council felt that the city should not be competing with the private sector in this type of business.

While MFN is vastly different from AFN in customer makeup since the MFN system is business only and AFN is mainly residential, some comparisons can still be made to this sale to give some general idea of AFN's present market value.
In trying to determine a comparable sales price for AFN using the data from this sale there are up with a couple ways of doing this. MFN was sold for $12.2 million which is 1.82 time their projected current revenue estimates. AFN revenue projected for FY 04-05 is $2.77 million. Using the 1.82 ratio sited above would yield a sales price of $5.04 million. Another way would be to consider the $12.2 million sales price as a percentage of total network capital investment of $35 million. This ratio is 34.9% and applying this same ratio to AFN's capital expense of $8.4 million yields $2.93 million.

Staff also discussed this issue with Nelson Hyde from Navigant. His feeling was that over built competitive broadband systems could sell for $2,000 per subscriber, maybe $2,500 at best. Assuming AFN has 4,000 revenue generating customers which purchase one or both of our services, the upper price range could be between $8 million and $10 million.

In conclusion, staff has tried to analyze as much information that we could gather quickly to try and address the questions discussed by the Budget Committee. While it is hard to find truly comparable situations we think that the data we were able to find shows that sale for AFN for enough money to retire the total outstanding debt isn't feasible at the present time.