



FORVIS

2022 Rural Telecommunications Benchmark Study

BY FORVIS

Results prepared by iLumen, Inc.

Not Just Another Telecom Study

The **2022 Rural Telecommunications Benchmark Study by FORVIS** (study) is unique in that it has data from 168 rural telecommunications companies in 18 states and provides insights into:

- The financial and operational performance of the telecommunications industry
- How an individual company's financial performance compares to their peers
- How a company's financial and operational results can improve

When combined with previous studies by FORVIS and the Telergee Telecommunications Benchmark studies, we have 21 years of valuable financial and operational information for the rural telecommunications industry.

2021 – Year of Broadband Infrastructure Grants

Every year the study provides an in-depth look at how the rural telecommunications industry has performed. **This year we take a deeper dive into the impact of broadband services and broadband grant programs.**

While broadband internet services have been available for over 20 years, what stood out in 2021 was the expansion of broadband infrastructure grant programs both at the state and federal levels. A May 2022 report by the Government Accountability Office (GAO) found that 15 federal agencies have more than 100 programs supporting broadband internet expansion efforts. Twenty-five of these programs have broadband internet as their main purpose. According to the report, these programs have invested \$44 billion from 2015 through 2020. By comparison, 2021 saw the passage of two significant federal legislative acts, the *American Rescue Plan Act of 2021 (ARPA, March 2021)* and the *Infrastructure Investment and Jobs Act (IIJA, November 2021)* that will, through government broadband grants, more than double the \$44 billion invested from 2015 to 2020 by the federal government. This estimate does not include state-sponsored grant programs and other federal grant programs funded in 2021 such as the Rural Utilities Service ReConnect Program.

The study provides benchmark results for the balance sheet and income statement and over 30 other key metrics. Peer groups for comparison of your results to the industry include:

- Commercial/Cooperatives
- Form of Regulation – Legacy Rate of Return/ACAM I/ACAM II
- Revenues (Five Groups)
- Access Lines/Connections (Five Groups)
- Employees (Five Groups)
- Debt/No Debt
- Geographical Regions (Three Groups)
- Investment Income (Less than and More than \$1 Million)
- All Companies

Study Methodology

The study accumulated financial and operational information for the years 2016 through 2021. The study is powered by a third party, iLumen, Inc., and the data is securely and confidentially maintained. The averages used for various financial and operational benchmarks are based on the median. Every rural telecommunications company that participated in the study obtained a company specific benchmark report.

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Executive Summary

Broadband Grant Programs

Sixty-nine companies participating in the study reported accepting federal, state, and local government broadband grants totaling over \$336 million. These broadband grant programs include state-administered broadband grant programs utilizing state funds and state-apportioned federal CARES and ARPA funds along with federal broadband grant programs administered by National Telecommunications and Information Administration and Rural Utilities Service. Through 2022, the median average broadband grants accepted was \$2.5 million, with 11 companies reporting total grants accepted of over \$10 million each.

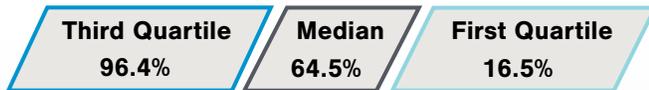
Broadband Rating

New this year, the study generated a broadband rating for every company participating. Three financial metrics drive the rating:

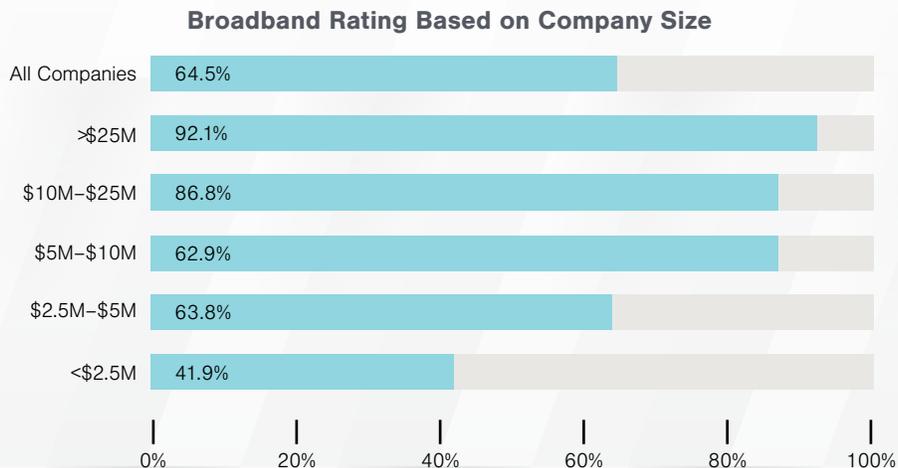
- Operating income as a percentage of network access revenues
- Broadband internet revenue growth
- Operating income growth

The higher the broadband rating the better. The goal of the rating is to focus on growth but also include a factor for less dependency on network access revenues.

Broadband Rating Results for 2022

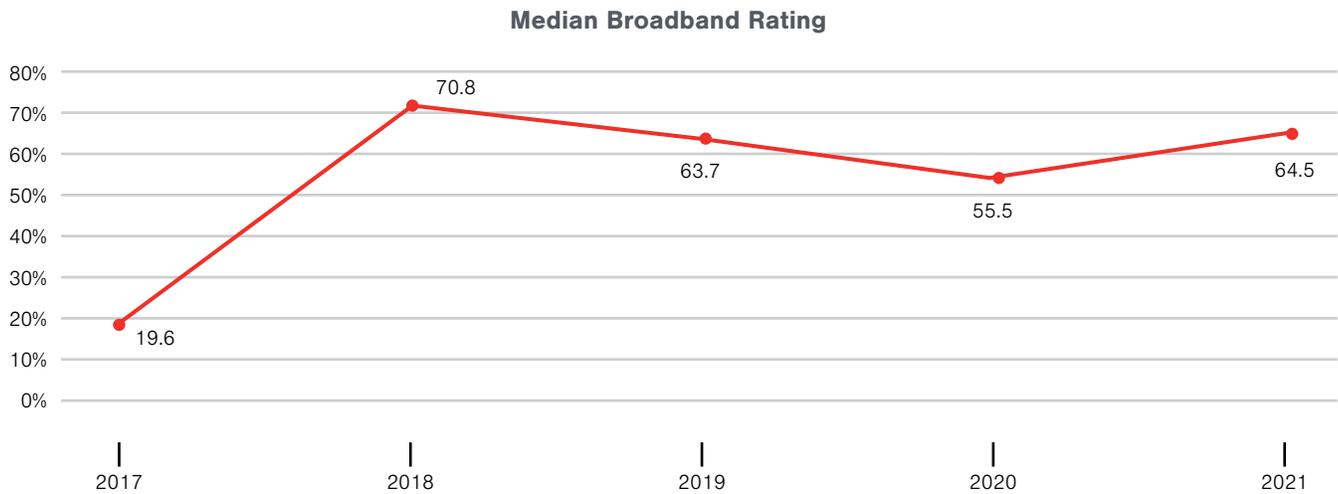


Did size of the company make a difference in the broadband rating? Here are the study results based on revenue size:



Why did large companies (based on revenues) have a higher rating? In digging into the calculations for the largest group (over \$25 million), their higher rating was driven by less dependency on access revenues (as expected) and a higher growth rate of broadband internet revenues. As with all the benchmark metrics, including the broadband rating, it is important to compare your company to the appropriate peer groups.

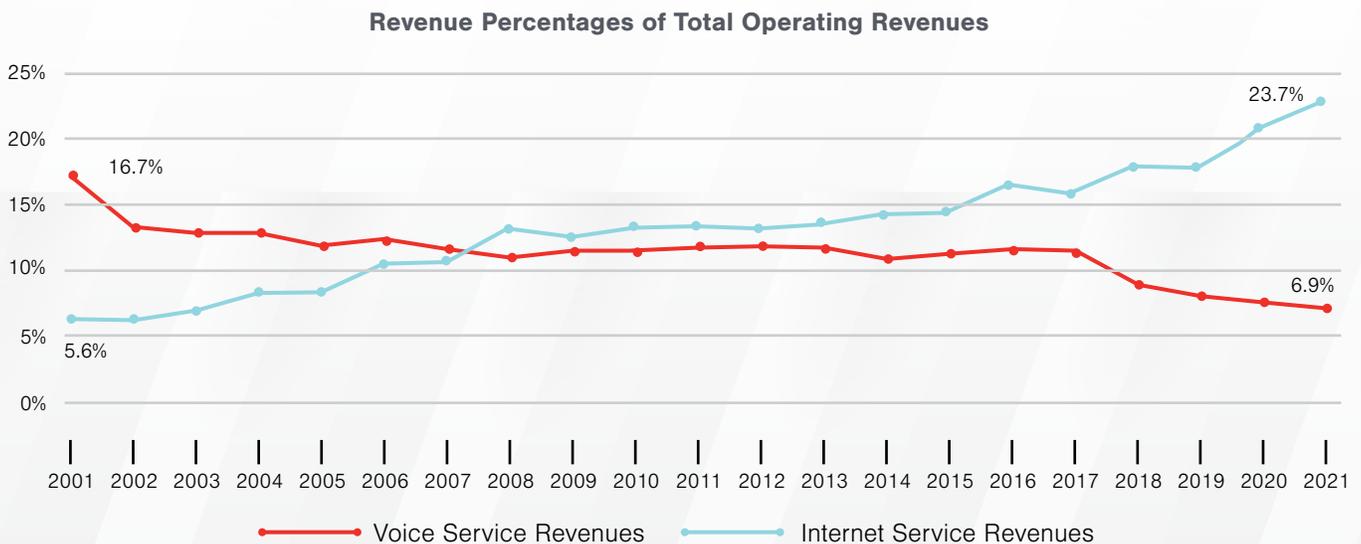
The following graph presents the broadband rating over the last five years.



The 2017 broadband rating is below the other years because two of the three metrics included in the rating performed poorly in 2017. The average company in the study in 2017 had negative operating income growth and the average broadband internet growth rate was only 9%. It was good to see the bounce-back in 2018.

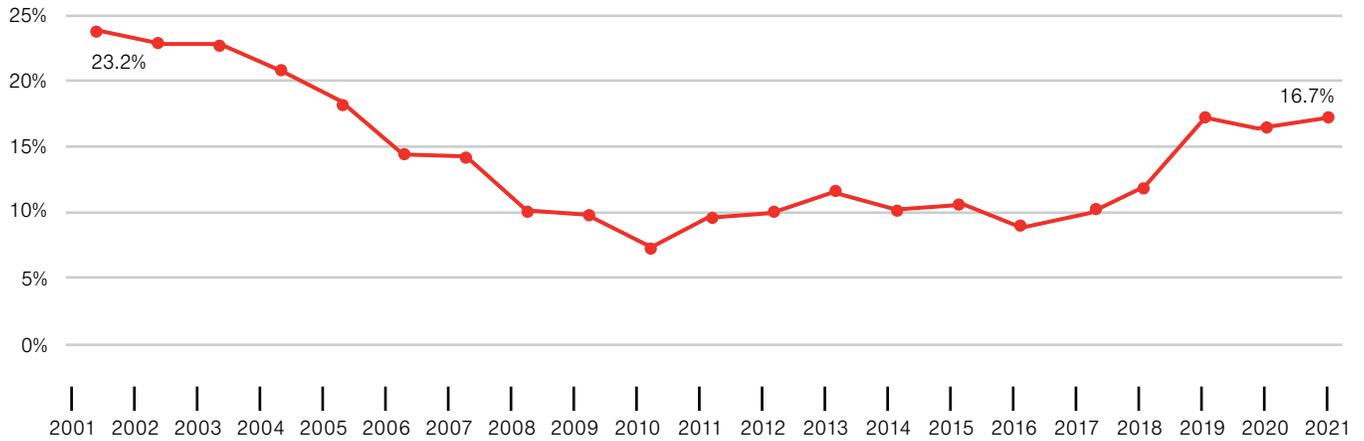
Broadband Services Impact on Financial Results

The increase in access to broadband services over the past 21 years has resulted in increased broadband revenues. The following graph demonstrates the growth in internet service revenues and the decline in voice service revenues over the past 21 years. Internet revenues are the second largest source of revenue only behind network access service revenue.

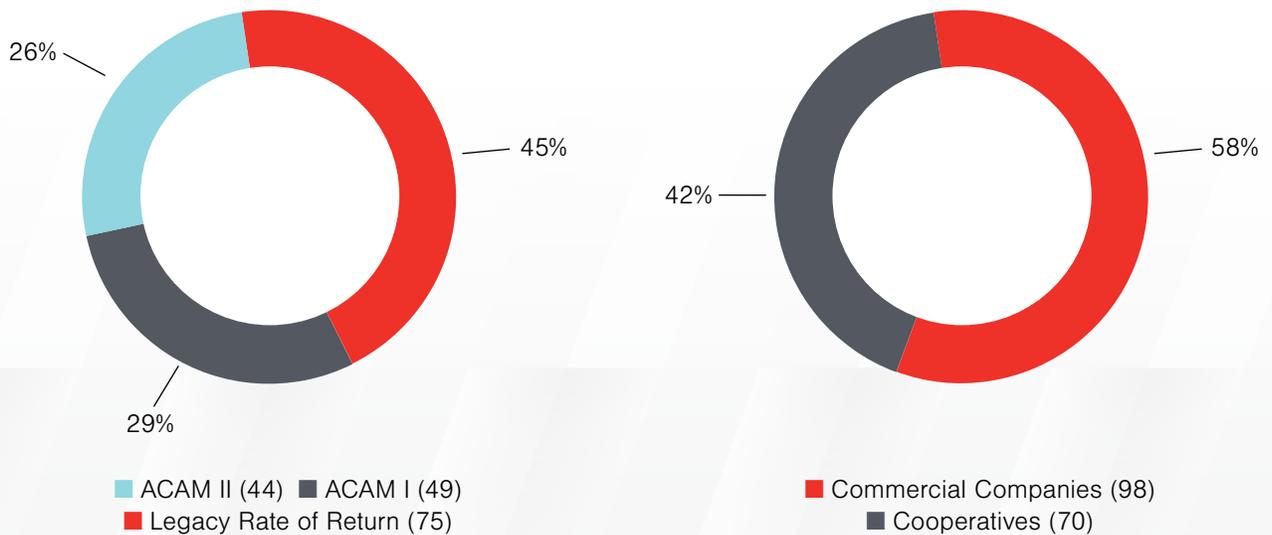


The findings of our fifth annual study show a continuing trend of strong financial results. The graph below provides the average operating income as a percentage of operating revenues for the last 21 years. While the percentage for the last few years is still significantly less than what it was 20+ years ago, it is significantly higher than the 2010 low of 8.6%.

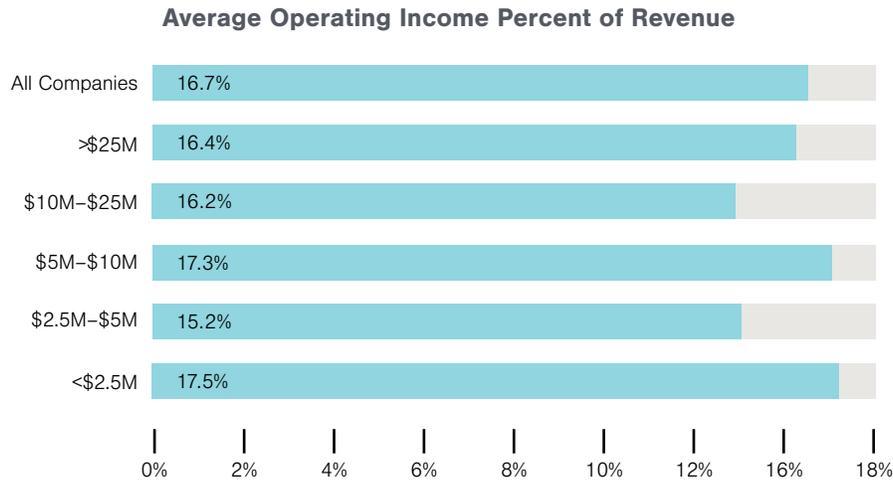
Operating Income as a Percent of Total Operating Revenues



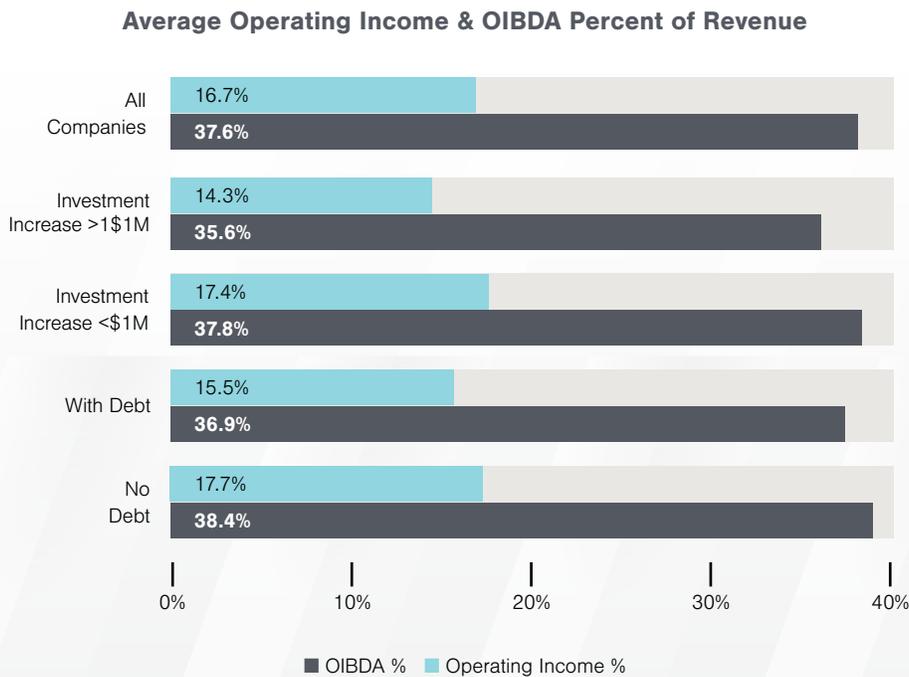
Peer groups for “Entity Type” and “Form of Regulation” are popular benchmark comparisons. Below is the breakdown of the number of companies that participated in the study for those two groups.



As the graph below indicates, the smallest companies based on revenues have the largest operating income percentages, although that gap is decreasing. With most of the companies participating in the study having less than \$5 million in revenues (95 companies), these smallest companies have the biggest impact on the overall results for 2022.

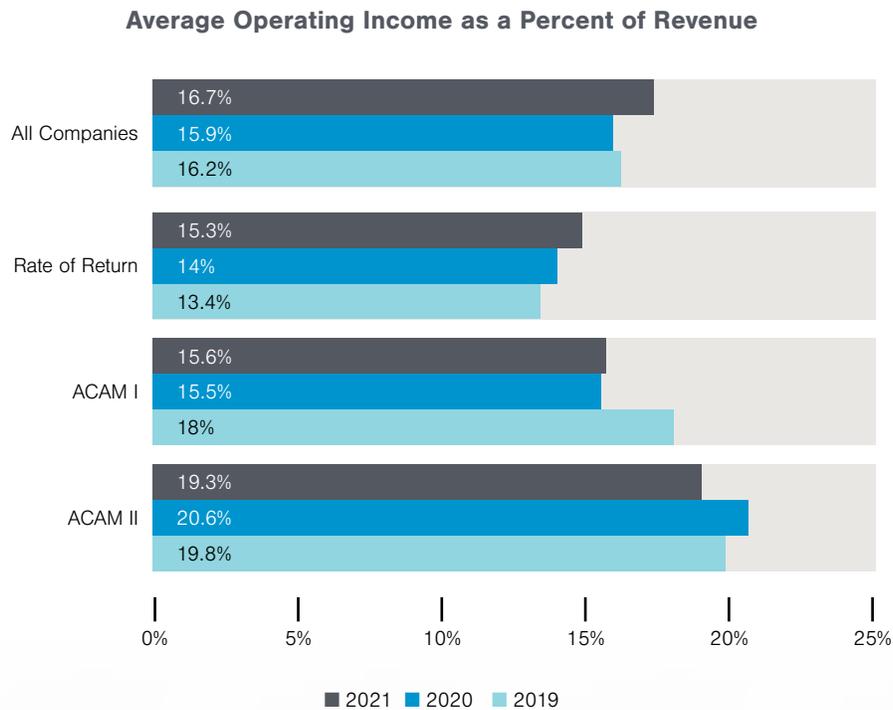


Below are the Operating Income Before Depreciation and Amortization (OIBDA) and Operating Income percentages as a percentage of operating revenues for Debt/No Debt and Investment Income peer groups.



Companies Electing ACAM Continue to Outperform Legacy Rate of Return Companies

Of the 168 companies that participated in the Study, 93 have elected either ACAM I or ACAM II as their form of regulation. The graph below demonstrates, at least early on, that companies electing ACAM have higher operating income as a percentage of operating revenues, but the legacy rate-of-return carriers are closing the gap.

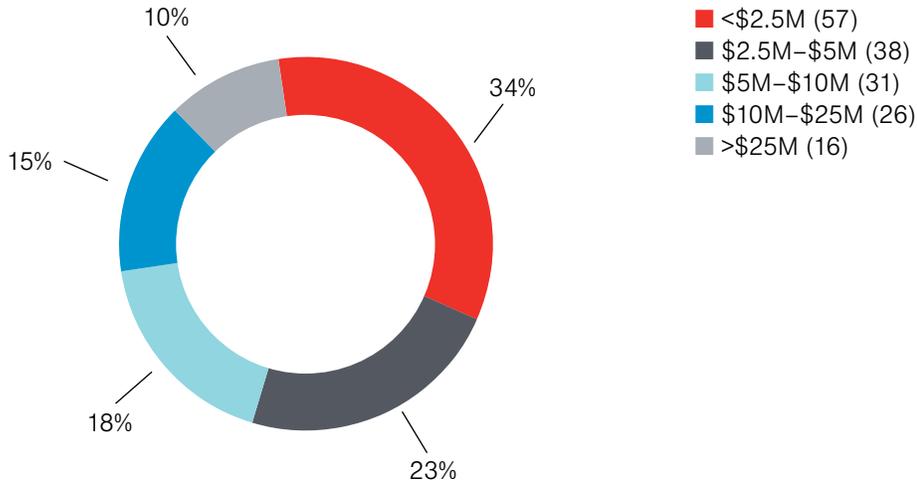


It will be interesting to see if the companies electing ACAM II can stay ahead of the ACAM I and legacy rate-of-return carriers as their buildout obligations increase in future years.

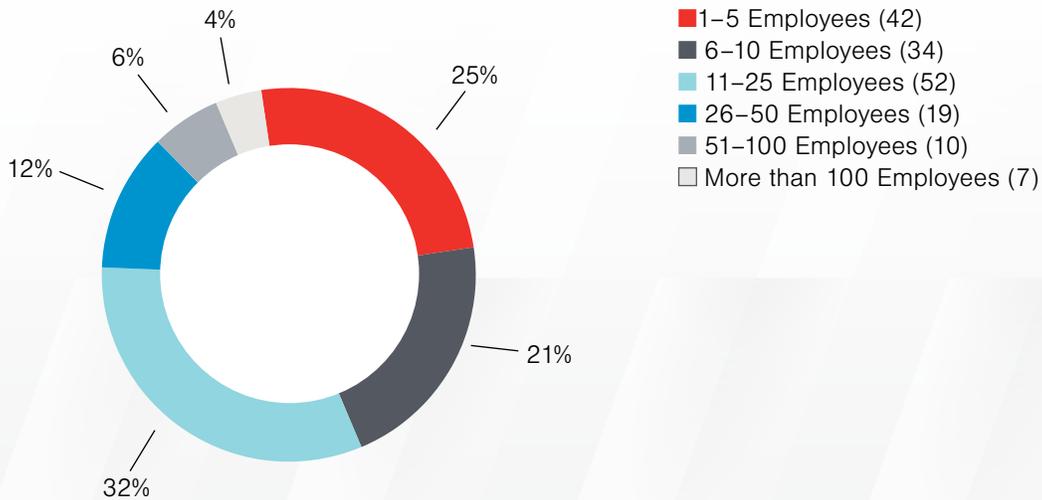
Section I: Participant Demographics

Participating Companies Based on Revenues

A total of 168 companies participated in the study. Fifty-seven companies have consolidated revenues under \$2.5 million (a decrease of five from the 2021 Study) and 16 companies had consolidated revenues in excess of \$25 million (an increase of four from the 2021 Study).



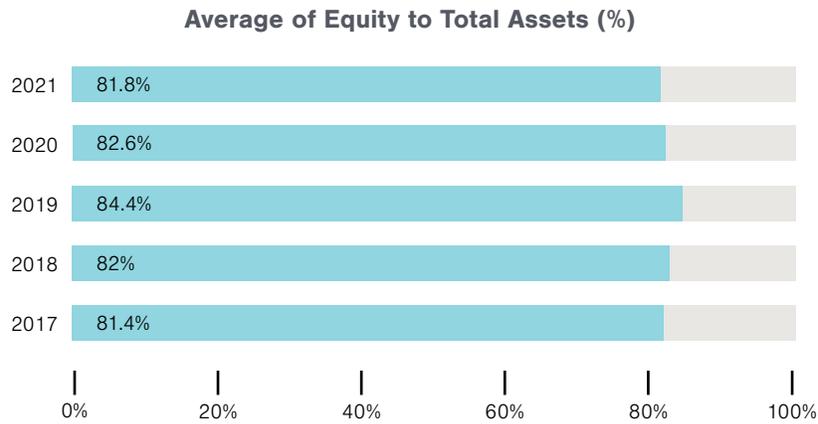
Participating Companies Based on Number of Employees



Section II: Key Financial Benchmarks

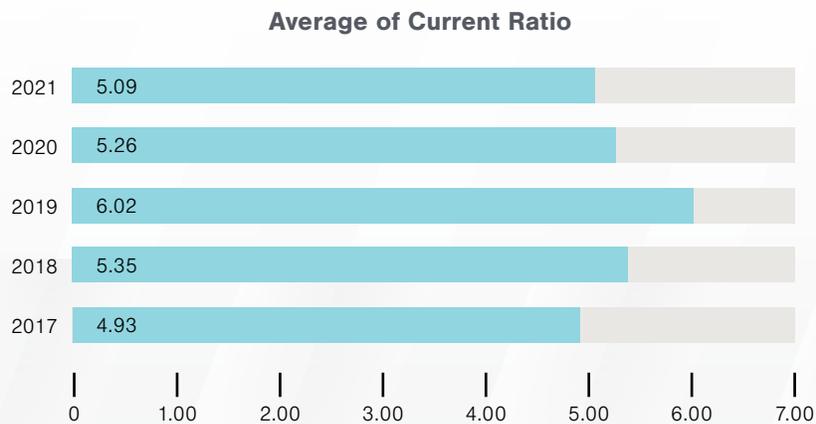
Average Total Equity to Total Assets

The trend has been an increase in equity for rural companies and a strong ratio of over 80%, which is a very good sign for the industry.



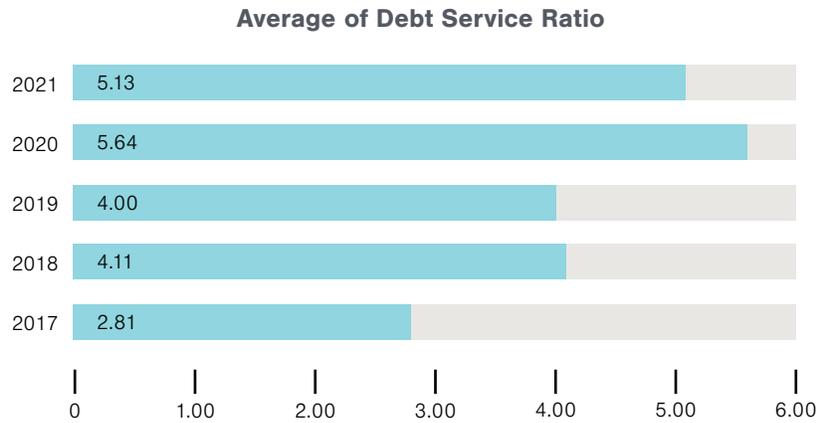
Average Current Ratio

While the current ratio is not a ratio that garners a lot of attention in the industry, it is still very important for measuring liquidity. The average ratio has remained strongly above 5.00 the last four years.



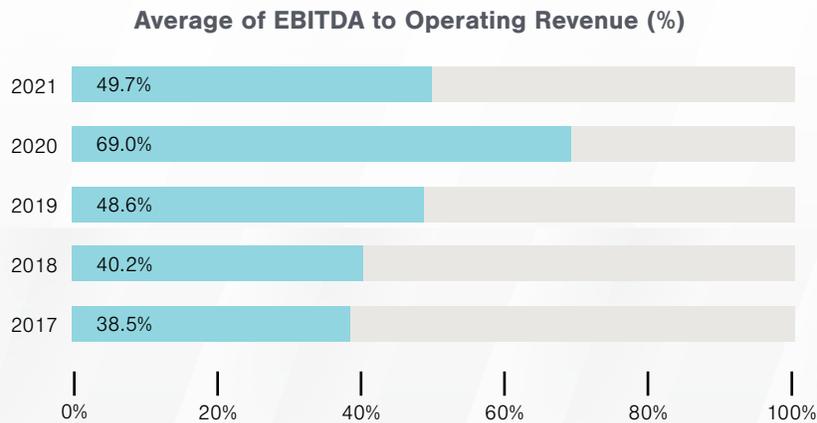
Average Debt Service Coverage Ratio

The debt service coverage (DSC) ratio is probably one of the most important ratios. It is key to determining the company's ability to meet its current debt obligations. The averages in the graph below indicate an increase to over 4.00 for the past four years, and all years are well above the minimum 1.50 required by most lenders.



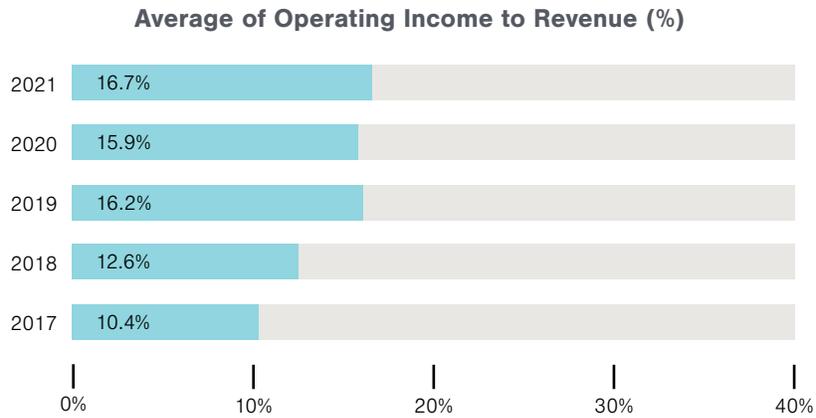
Average EBITDA Percentage to Total Operating Revenue

Twenty years ago, it wasn't uncommon to see an Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA) percentage of revenue more than 50%. But with increased competition over the last twenty years, the average percentage had been on the decline. It is good to see the increase to the average EBITDA over the last five years. The increase in 2020 was fueled by an increase in investment income.



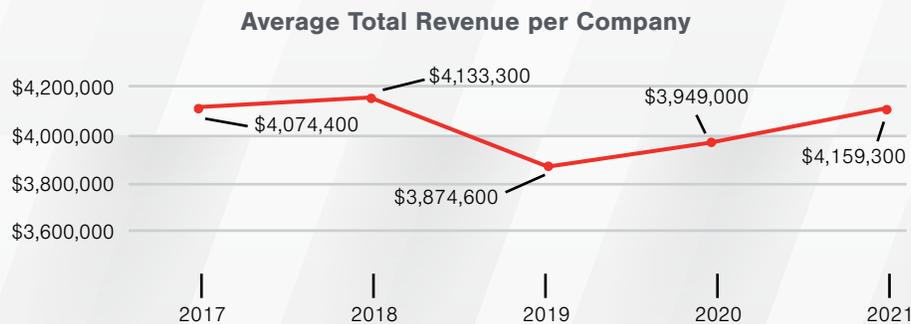
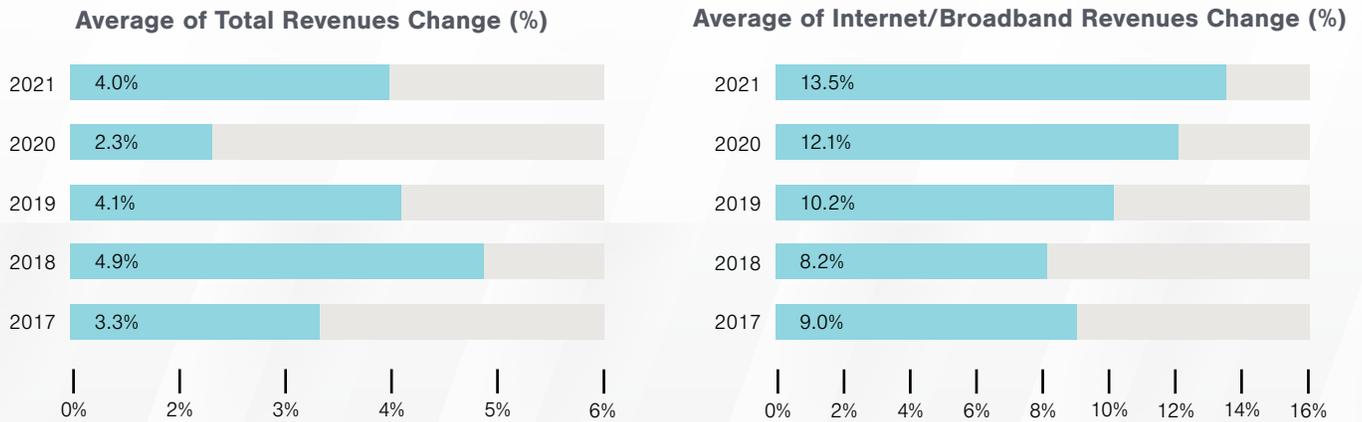
Average Operating Income Percentage to Total Operating Revenue

Growth in operating income as a percentage of revenue is a good indicator on how well the growth in revenue has increased income. As the graph indicates, the overall growth in the operating income percentage for the last four years has been impressive. The percentages for the past three years are almost double the percentage for 2010.



Average Total Operating Revenue Change, Average Total Internet/Broadband Revenue Change, & Average Revenue per Company

Over the past 15 years, the industry has struggled to grow revenues as access revenues, one of the main sources of revenues, have been under constant regulatory scrutiny. As the graphs below indicate, even with declining access revenues total revenues are growing due to growth in internet/broadband revenues.

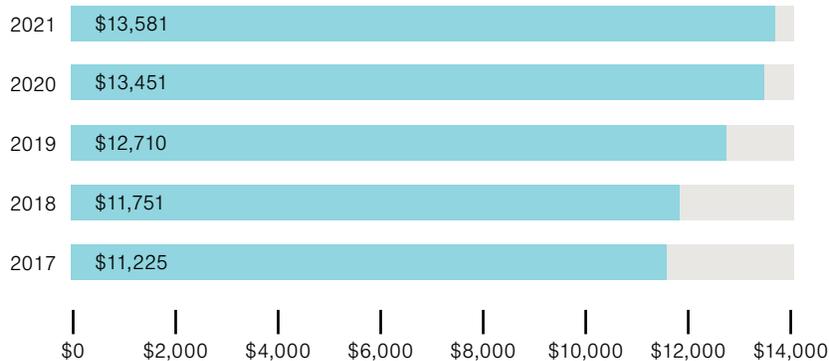


Section III: Key Network Benchmarks

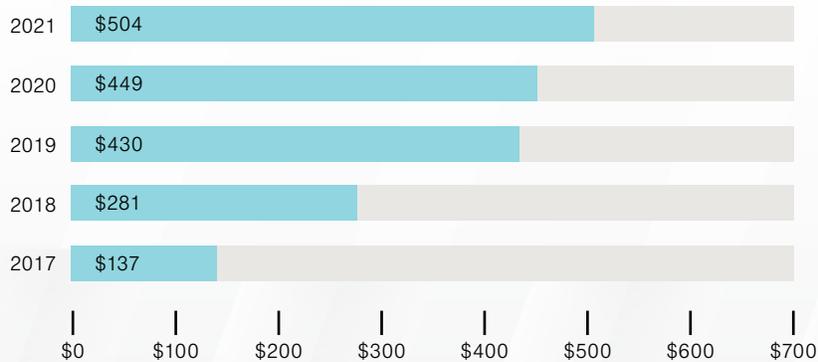
Average Gross Plant Investment per Connection, Average Operating Income per Connection, & Average Number of Connections

Voice access lines were the benchmark of choice prior to advent of the internet. Now the industry is tracking connections or revenue generating units to benchmark results. As the three graphs below indicate, the industry is experiencing significant growth in operating income per connection while at the same time the gross plant investment per connections has increased 21% in five years.

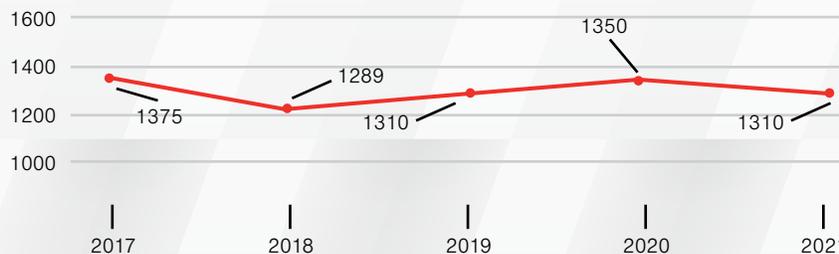
Average of Gross Plant Investment per Connection



Average of Operating Income per Connection



Average Number of Connections

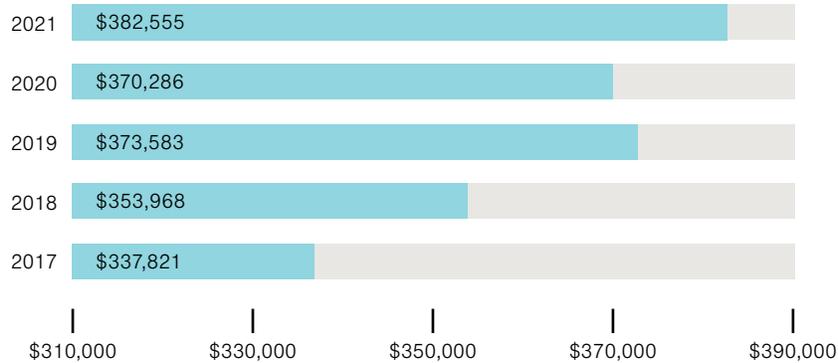


Section IV: Key Staffing Benchmarks

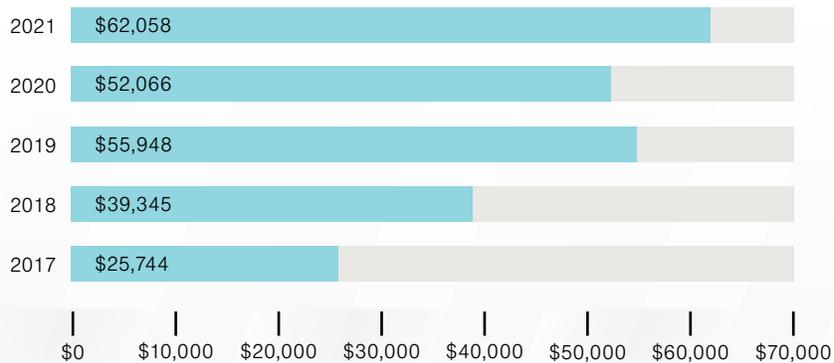
Average Total Revenue per Employee, Average Operating Income per Employee, & Average Number of Employees/FTEs

One thing that has been apparent within the industry is that rural companies must do more with less. The three graphs indicate just that. The trend continued in 2021 of strong revenue per employee and the operating income per employee exceeded \$60,000 for the first time in 2021.

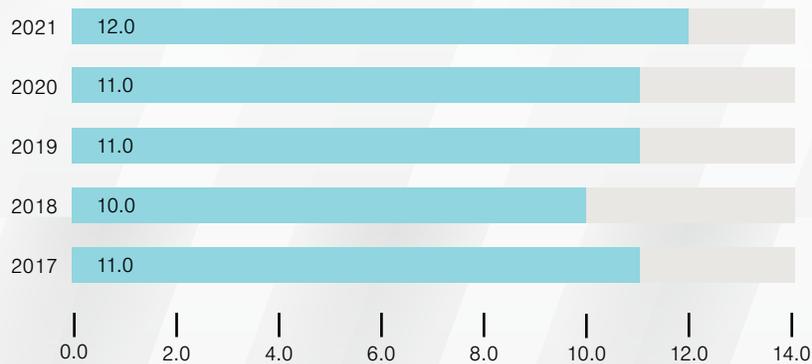
Average of Revenue Per Employee



Average of Operating Income Per Employee

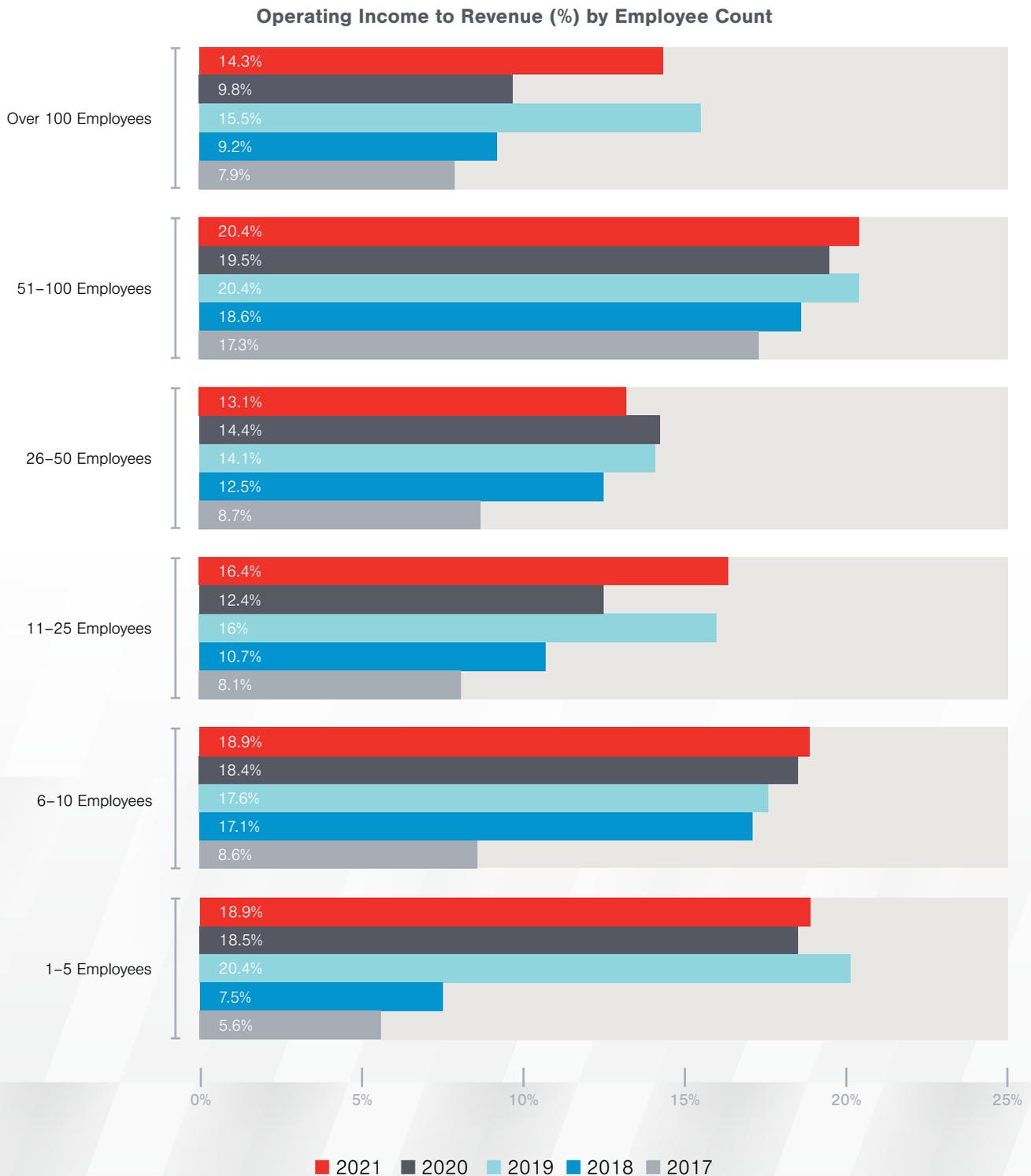


Average of Number of Employees / FTEs



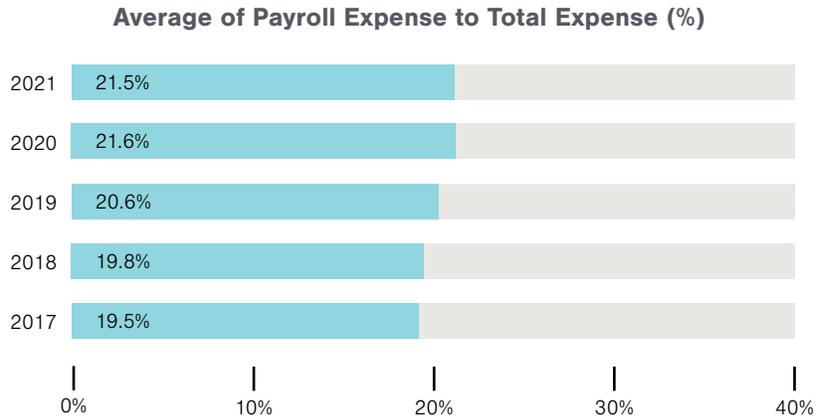
Average Operating Income to Total Revenue by Employee Count

The graph below demonstrates that operating income held strong for all sizes of companies in 2021 with only the companies with 26 to 50 employees having a slight decline.



Average Payroll Expense to Total Expense

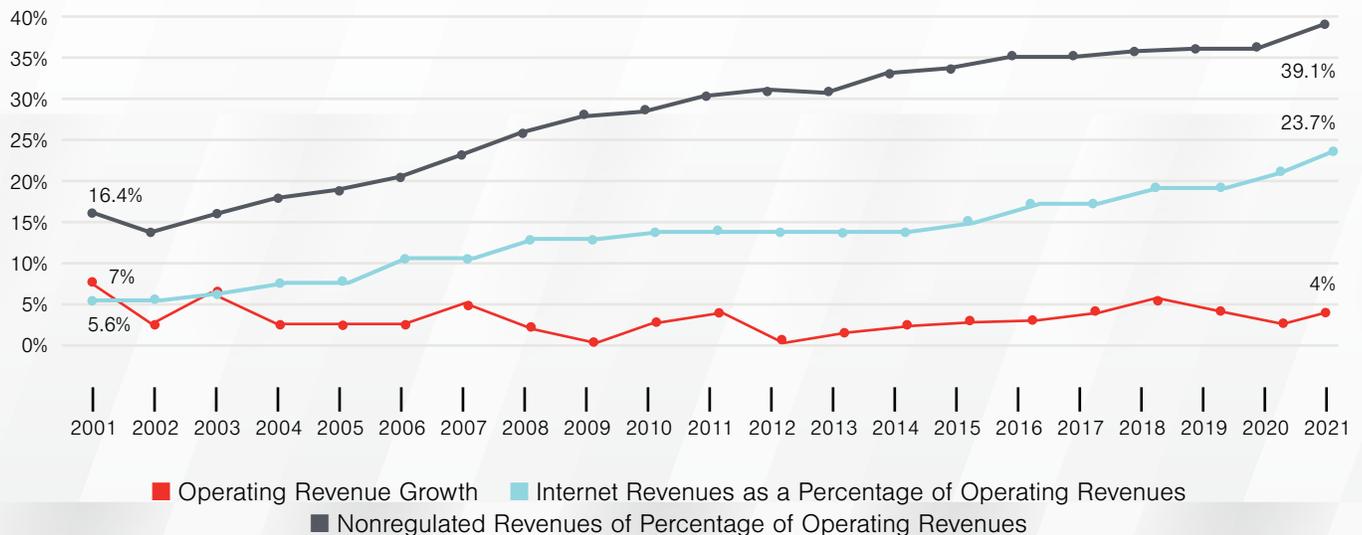
The two largest expenses for the industry are depreciation and payroll expense. Controlling these two costs is important to profitability and cash flows. As the previous employee graphs have indicated, the overall employee counts for the industry are relatively flat. The graph below demonstrates that even with declines in employee counts that overall payroll expense as a percentage of all expenses has remained relatively constant.



Section V: Key 21-Year Benchmarks

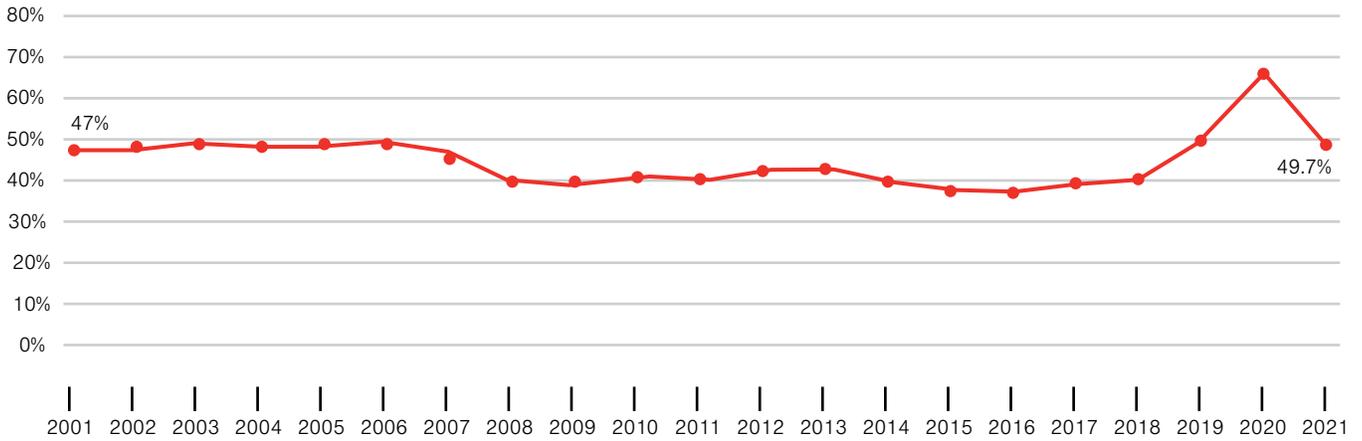
Below are some charts that provide a historical perspective of the rural telecommunications industry.

Nonregulated Revenue Percentage of Total Operating Revenues & Total Operating Revenue Growth

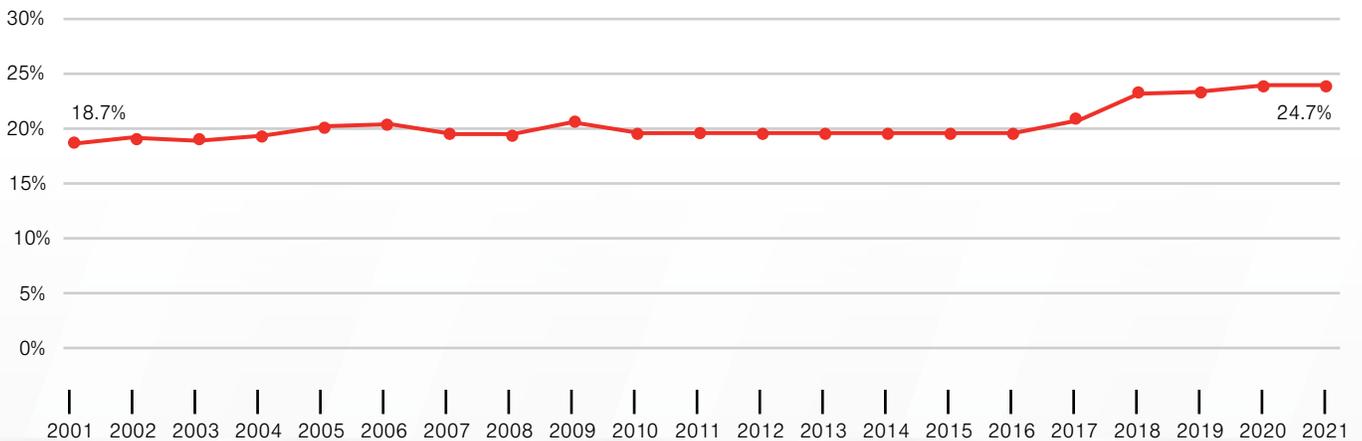


Section V: Key 21-Year Benchmarks

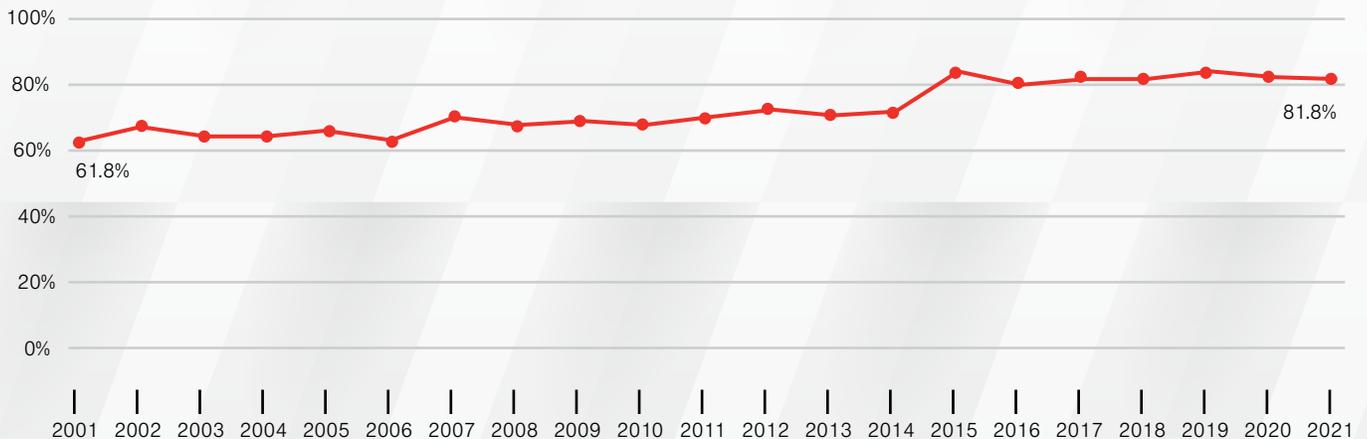
EBITDA as a Percent of Revenues



Depreciation Expense as a Percentage of Total Operating Revenues



Total Equity to Total Assets Historical Trends



Conclusion

The biggest takeaways from the 2022 FORVIS Rural Telecommunications Benchmark Study are that:

- 20+ years after the rollout of broadband services, internet revenues continue to provide growth opportunities for the rural telecommunications industry
- Companies electing the form of regulation ACAM I and ACAM II have benefited financially in the short term from the election
- The industry continues to grow through broadband services
- Rural companies are financially strong
- Even in the face of increased competition and regulatory and legislative uncertainty, the rural telecommunications industry has succeeded in the growth of broadband services, revenues, and operating income

Our Trained Professionals at FORVIS Can Help

For more information and details, please contact **Matt Macdonald** at **608.664.9117** or **matthew.macdonald@forvis.com**, **Marty Fredericks** at **515.223.0159** or **marty.fredericks@forvis.com**, or contact your local representative from FORVIS today.

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