

# OEM Capital® – COMMUNICATIONS SERVICES MARKET FOCUS

January 2014

## MARKET PERFORMANCE:

Closing Prices at 1/31/2014; P/E is normalized; TEV/EBITDA is LTM

Company Name	Market Cap	Revenue	30 day % Px Chg	YTD % Px Chg	TEV / EBITDA	P/E
Alaska Communications	\$106	\$368	3 ▲	3 ▲	4.6x	8.0x
ATT	174,130	128,752	(5) ▼	(5) ▼	5.0x	10.5x
Atlantic Tele-Network	918	749	3 ▲	3 ▲	1.9x	18.7x
Cbeyond	217	471	5 ▲	5 ▲	3.0x	NM
CenturyLink	17,058	18,136	(9) ▼	(9) ▼	5.0x	17.4x
Cincinnati Bell	720	1,323	(3) ▼	(3) ▼	8.1x	159.3x
Consolidated Commun.	785	633	(0) ▼	(0) ▼	7.9x	22.3x
Fairpoint	337	946	13 ▲	13 ▲	6.9x	NM
Frontier	4,680	4,814	1 ▲	1 ▲	5.5x	22.1x
Hawaiian Telecom Holdco	281	387	(8) ▼	(8) ▼	4.6x	26.3x
Hickory Tech	194	190	12 ▲	12 ▲	7.1x	21.7x
Inteliquest	373	260	2 ▲	2 ▲	7.1x	24.2x
New Ulm	36	37	6 ▲	6 ▲	5.8x	14.3x
NTELOS	346	488	(19) ▼	(19) ▼	5.0x	14.3x
Shenandoah Telecom	603	306	(2) ▼	(2) ▼	6.2x	15.9x
Sprint Nextel	32,519	35,356	(23) ▼	(23) ▼	12.0x	NM
TDS	2,931	5,064	5 ▲	5 ▲	4.3x	50.1x
US Cellular	3,725	4,131	6 ▲	6 ▲	5.5x	47.1x
Verizon	137,433	120,550	(2) ▼	(2) ▼	4.8x	22.1x
Windstream	4,459	6,048	(6) ▼	(6) ▼	6.0x	27.5x

\$ figures in millions unless otherwise noted

## MARKET COMMENTARY:

Communications services providers included in OEM's **CommServ Index** delivered mixed stock price performances in January with 10 of the 20 companies in our index trading higher and 10 trading lower. On the upside, price gainers were **Fairpoint** (+13%), **New Ulm** (+6%), and **US Cellular** (+6%). **Fairpoint** steadily rose during the

### COMMENTARY

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month on no real news; **New Ulm** also rose on no real news and low volume; and **US Cellular** rose on little news except it has been meeting with investors and recently discussed its billing system conversion. Noteworthy decliners included **Sprint** (-23%), **NTELOS** (-19%) and **CenturyLink** (-9%), **Sprint** steadily traded off during the month as uncertainty continues regarding its T-Mobile and other plans; **NTELOS** declined on news it was securing refinancing to repay existing debt and its announced preliminary Q4 results; and **CenturyLink** traded off on no real news. Our **CommServ Index** ended January trading at 1.9x revenue, 5.2x EBITDA (a big drop vs. December) and 8.2x EBIT (a big drop vs. December). On the operating side, our index mean gross margin finished the month at 59%, EBITDA margin at 36% and net income margin at 8%.

## NOTABLE RECENT TRANSACTIONS:

**Liberty Global**, a CATV, broadband and telephony svcs provider, offered to acquire 71.5% in **Ziggo NV**, which provides media/comm svcs in the Netherlands, for \$8 billion. Implied EV/LTM Rev is 6.3x, EV/LTM EBITDA is 11.6x and EV/LTM EBIT is 16.5x.

**Eastlink Cable Systems**, which provides communications, video, TV, and advertising svcs in Canada, agreed to acquire **Bruce Telecom**, which provides local, LD, Internet and business communication solutions in Canada for C\$26.5 million in cash.

**Investel Capital**, a distressed investor, agreed to buy **Telephone Navigata-Westel**, which is a facilities-based telecom provider, from **Telephone Corp.** for C\$45mm. Implied EV/LTM Rev is 0.8x.

**Crown Castle**, which owns, operates, and leases shared wireless infrastructure, agreed to buy the wireless-communications towers from the **City of San Antonio** for \$41mm; Crown Castle will own/manage the towers and assume the leases.

## FINANCING NEWS OF NOTE:

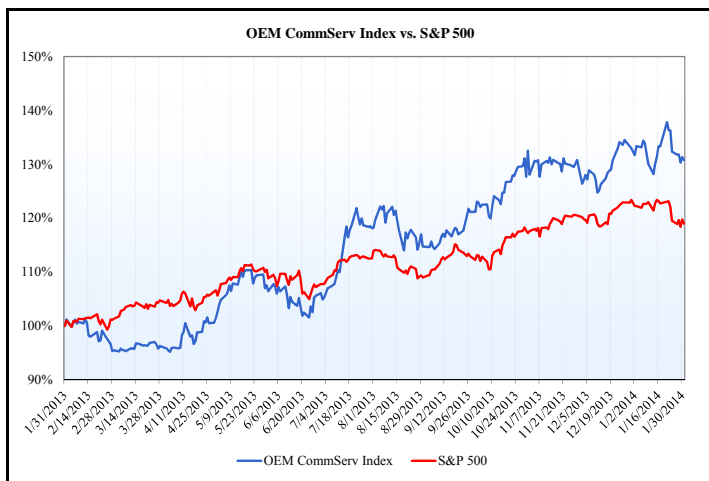
**FON Wireless (d/b/a WiFi community)**, which offers WiFi routers and is UK-based and operates in the US, raised \$14mm in an equity round of funding led by new investor **QUALCOMM Ventures**.

**Focus Mobile**, which provides international 3G Internet svcs like local/global data SIM cards, raised \$1.3mm in equity funding from new investors **Altair Capital Management** and **IML.VC**.

**InterMetro Communications (IMTO)**, which provides VoIP svcs in the US, raised \$2mm in a PIPE deal consisting of convertible pfd shares plus warrants.

**VoAPPs LLC**, which devts voice apps for businesses/consumers, is raising \$1.55mm via membership units from multiple investors.

## OEM CommServ Market Focus Index vs. S&P 500:



## Selected Statistics for OEM CommServ Index Companies:

Trading Multiples:	CY2009	CY2010	CY2011	CY2012	Latest
TEV/Total Revenue	1.8x	1.9x	1.9x	2.0x	1.9x
TEV/EBITDA	5.2x	6.0x	6.7x	7.6x	5.2x
TEV/EBIT	9.6x	11.7x	14.6x	16.9x	8.2x
Margin Analysis:					
Gross Margin %	59.0%	57.6%	56.1%	56.9%	59.3%
EBITDA Margin %	32.1%	30.0%	26.8%	24.7%	35.9%
Net Income Margin %	5.3%	7.1%	1.6%	1.6%	8.2%
Growth Rates:					
Total Revenue, 1 Yr Growth %	2.8%	1.8%	6.4%	4.0%	1.7%
Total Revenue, 2 Yr CAGR %	2.4%	2.3%	4.1%	5.2%	3.3%
Total Revenue, 3 Yr CAGR %	10.6%	2.2%	3.7%	4.0%	4.1%
EBITDA, 1 Yr Growth %	1.1%	-5.1%	-4.7%	-4.4%	47.7%
EBITDA, 2 Yr CAGR %	0.5%	-2.1%	-4.9%	-4.5%	19.0%
EBITDA, 3 Yr CAGR %	10.3%	-1.4%	-2.9%	-4.7%	10.5%

Data Sources: S&P Capital IQ, Thompson Financial, Dealogic, and Pitchbook. Copyright 2014.

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