

Burlington Telecom FY 2014 Budget

1 July 2013 – 30 June 2014

FY 2013 Operational Highlights and Challenges

- Subscriber numbers grew 6% in the first ten months of FY 2013
- BT wins Redstone Lofts business, the new 400+ student dorm at UVM, and completes its largest wired and wireless project since the network build out
- BT wins Hotel Vermont, which will launch with 100Mbps symmetrical wired and wireless internet service for customers, and capable of 1Gbps for conventions and conferences
- BT launches new web site, and begins to employ social media
- 1 Gbps symmetrical residential service introduced in Burlington, one of only a handful nationwide
- Residential price levels remain unchanged for a third consecutive year
- Residential subscribers continue to reduce video content and phone services as more content is available on the Web and the popularity of streaming and cell phone usage rises
- Replacement program of obsolete GPON equipment begun, due to run through Q2 of FY 2015
- Excessive tiling issues on video content, a problem for the past year now believed resolved
- Two hour appointment window launched by BT. Competitors follow
- Technical support staff upgraded as vacancies allow, and computer repair service introduced
- Internal work continuing to bring historical operational data and records up to date
- Customer service and co-operation across internal customer facing disciplines continues to improve
- The BT Blue Ribbon Committee becomes the Burlington Telecom Advisory Board to provide ongoing oversight and advice to BT, to management, the Administration, and the City Council
- Gary Evans, retires as long time CEO of HBC, a highly successful Fiber to the Home pioneer and over-builder in MN ,and agrees to assist BT on a part time basis, focusing on Customer Service, US Ignite membership and Launch Plan, and Commercial business
- In late March 2013, Bill Wallace, Executive Director of US ignite, a White House initiative to connect and advance Gigabit networks visits Burlington for 2 days and issues an invitation to join US Ignite, as the 9th Gigabit network in the nation

FY 2013 (10+2) Financial Outlook

BT's full year outlook, based on 10 months of actual results and 2 months forecast, remains on course to outperform budget. Highlights include:

- Revenues rise again, albeit slowly, topping \$7 million, after falling to \$6.7 million in FY 2012
- Gross margin improves to 74% from 71.4% in FY 2012 and 72.9% budgeted, through careful cost management
- Operating costs forecast at \$270k below budget - only one of 3 additional budgeted hires made
- EBITDA, projected at \$1.4 million for FY 2013, is \$274k above budgeted levels and \$163k above FY 2012.

- Over the past 3 years, EBITDA has risen by over \$1 million, from \$262k in FY 2010, in spite of lower revenues, annual wage and benefits inflation, annual content cost increases, and NO price increases
- EBITDA % for FY 2013 projected to rise to 20.1%, up from 18.5% in FY 2012 and 3.8points higher than budgeted
- Capital Expenditures at \$624k are \$257k above FY 2012 as BT manages through equipment obsolescence issues, but \$77k below budget
- Cash flow pre debt service is projected to be \$786k for the year. While \$90k below FY 2012 due to higher capital expenditures, it will exceed the FY 2013 budget of \$435k_by \$351k or 81%

<u>Financial Summary</u>							
(\$000's)	Actual FY 2010	Actual FY 2011	Actual FY 2012	Budget FY 2013	Forecast (10+2)FY2013	Budget FY 2014	Variance FY14/FY13
Revenues	7,127	7,189	6,728	6,987	7,027	7,501	474
Gross Margin	4,940	5,156	4,806	5,094	5,199	5,463	263
GM%	69.3%	71.7%	71.4%	72.9%	74.0%	72.8%	55.6%
Operating Costs	4,677	4,244	3,562	3,958	3,788	3,959	171
EBITDA	262	912	1,243	1,136	1,410	1,503	92
%	3.7%	12.7%	18.5%	16.3%	20.1%	20.0%	19.3%
Capital Expenditure	1,081	290	367	701	624	596	(29)
Cash Flow (Pre Debt Service)	(819)	622	876	435	786	907	120

FY 2013 Subscriber Numbers

- BT subscribers continued to grow, rising by 247 or 6%, an upward trend that began in the second half of FY 2012, following subscriber losses in FY's 2010, 2011 and the first half of 2012
- BT is forecasting an overall increase of 300 subscribers, a year on year increase of 7.3% for FY 2013, but a shortfall against FY 2013 budget of 100.
- The absence of a resolution of litigation with Citibank continues to repress potential subscriber growth
- Overall subscribers of 4,342 at 30 April are 390 higher than the low of 3,952 at 31 December 2011
- Residential subscribers have increased to 4,008 from a low of 3,669
- Throughout this period, commercial subscribers and revenues have continued to grow

Subscriber Numbers	1 July	1 January	% change 6 months	1 July*	% change 6 months	% change FY
FY 2011	4,245	4,087	-3.7%	4,016	-1.7%	-5.4%
FY 2012	4,016	3,952	-1.6%	4,095	3.6%	2.0%
FY 2013	4,095	4,285	4.6%	4,342	1.3%	6.0%
* April actual for FY 2013						

FY 2014 Operational Priorities

- Focus on differentiating broadband communications aspects and superiority
- Further improve customer service in all customer-facing areas
- Broaden residential and commercial service offerings, becoming more of a “one stop shop”
- Participate in the Burlington US Ignite Launch Plan, driving adoption
- Continue innovative and cost effective ways to maintain capital equipment
- Implement arrangement with Parks and Recs to provide improved broadband wireless services
- Expand and enhance community involvement program
- Improve internal and external communication
- Hire a controller
- Maintain ongoing tight cost control

FY 2014 Budgeted Financials

- Revenues budgeted to grow by circa \$0.5 million to \$7.5 million, including a \$100k “to solve”
- Additional residential CSR budgeted from July to facilitate increased focus on customer service and enable the two residential sales associates to concentrate on increasing subscribers
- Two additional heads budgeted in June 2014, in installation and technical support, but place markers only and will not be hired unless financial performance warrants
- Slight deterioration in gross margin % due to increased competitiveness in commercial market and assumed further increase in total bandwidth
- Operating costs increased to support budgeted revenue and customer service deliverables, but EBITDA % budgeted to be maintained at 20%, resulting in budgeted EBITDA increase of circa \$100k
- Capital Expenditures slightly below those projected for FY 2013, but meaningfully higher than FY 2012
- Reflects the continued replacement of end of life GPON (Gigabit Passive Optical Network) equipment
- Cash flow pre debt service budgeted to increase by \$121k from \$786k to \$907k

FY 2014 Budget variance to FY 2013 (10+2) Forecast

	(\$000)	
• Gross Margin	263	revenues, less increased provisioning + bandwidth costs
• Pension, COLA, Health Insurance	(70)	mandated annual increases + benefits premiums increases
Additional Headcount	(130)	CSR and Controller
Additional Headcount Reserve	(10)	only hired if revenues justify or necessitate (2 FTE, June)
Other Operating Costs	<u>39</u>	increased sales/marketing

Total Operating Costs	(171)
• EBITDA	92
• Capital expenditures	29
• Net Change in Cash Flow	121

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