

Accord Business Case Capital Investment Deck Steuben REMC Prospectus

Date:

October 10th, 2023

Introduction

JSI was retained to craft a model designed to:

- Capture CAPEX related to the integration of Accord member company networks.
- Create a dynamic “what-if” analytical framework that enabled forecasting of revenue, expenses, margins, required capital and IRR based on a range of assumption factors sufficient to support:
 - Mid-mile grant application
 - Fund raising efforts from participating members

Input Values Driving Results - Revenue

- Input values were provided by Accord management related to:
 - Product Pricing / Average Revenue Per User (**ARPU**):
 - Member Circuits
 - Wholesale Carrier Solutions
 - Installation ARPU
 - Commercial Ethernet
 - Commercial Voice
- Other Revenue developed through referencing revenue compositions posted by other mid-mile networks.
 - Dark fiber leases
 - Other revenue

Input Values Driving Results - Revenue

- Demand Quantity – Market Sizing:
 - JSI captured cell tower locations and quantities and geo located them in proximity to Accord/Accord member fiber (.5 Mile distance)
 - JSI also captured SMB and Enterprise locations within referenced distance of Accord/Accord Member fiber.
 - Commercial Ethernet
 - Commercial Voice
- Other Revenue developed through referencing revenue compositions posted by other mid-mile networks.
 - Dark fiber leases
 - Other revenue

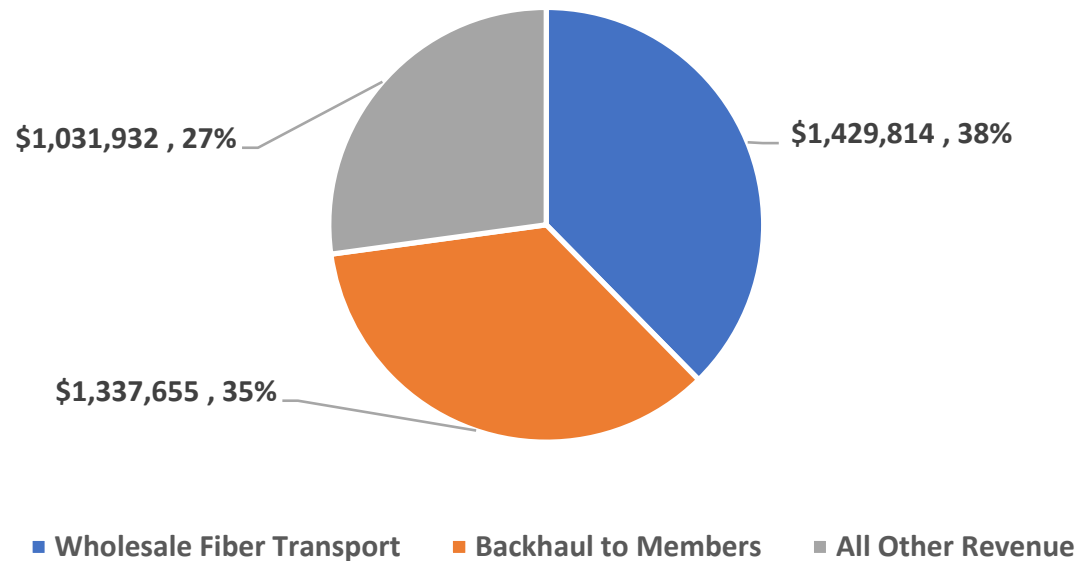
Market Share Assumptions and Acquisition Cadence

		Market Share %			
		Member Backhaul - Accord	Voice Services	Commercial Ethernet Circuits	Wholesale Carrier Services
Year 1	Q1		0.30%	1.00%	
Year 1	Q2		0.60%	2.00%	3.00%
Year 1	Q3	20.00%	0.80%	3.00%	5.00%
Year 1	Q4	30.00%	1.00%	5.00%	7.00%
Subsequent Quarter Over Quarter Growth		10.00%	10.00%	10.00%	5.00%
Terminal Market Share		100.00%	65.00%	65.00%	40.00%
Average Annual Price Change		-2.00%	-1.00%	-2.50%	-2.00%
Forecasted Organic Growth - MARKET		10.00%	2.00%	4.80%	4.00%
Forecasted Churn Rate - CUSTOMER		0.00%	-2.00%	-2.50%	-1.50%

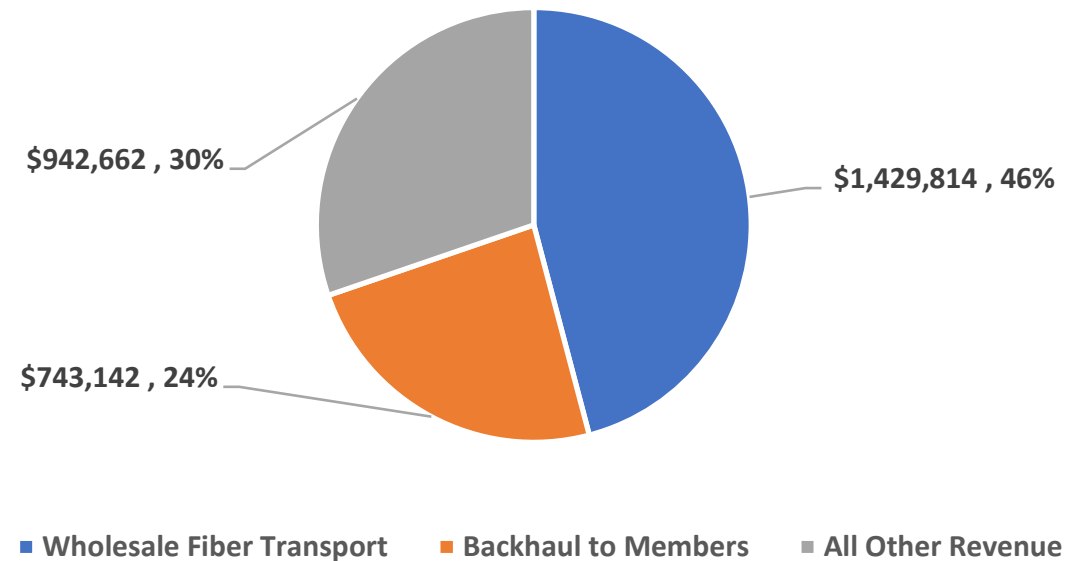
- Member Circuits – Can Accord Continue to Grow Membership, and Sell More Bandwidth to Existing Members
- Wholesale Transport – Can Accord Differentiate its Services and Capture Cell Backhaul at Forecasted Levels?

Forecasted Revenue Composition – Year 5 Snapshot

Revenue Composition - Original ARPU



Revenue Composition - Adjusted ARPU



Total Forecasted Revenue

\$ 3,799,400

Delta

-18%

Total Forecasted Revenue

\$ 3,115,617

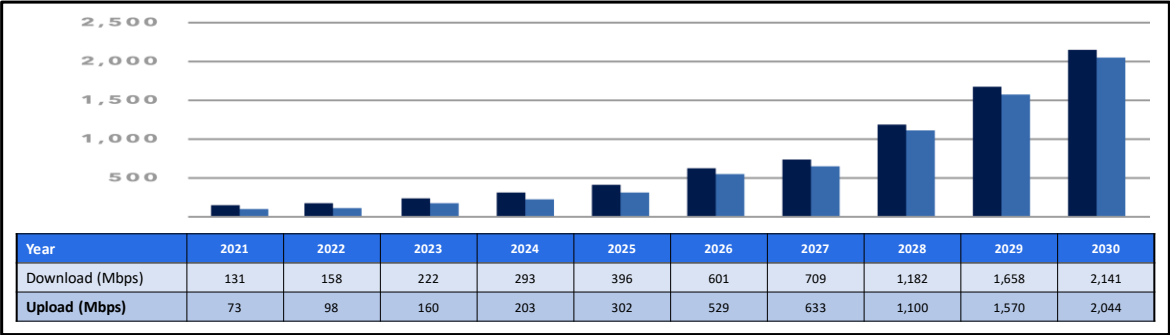
Adjusted ARPU EBITDA % - 24% Year 5 – Max Value – 49%

Business Risk Factors – Pricing Compression

- Pricing compression is real and has been material over the last number of years. In conjunction with another mid-mile engagement 2 years ago, the organization noted that roughly 20% of their contracts came up per year, with each contract leveraging down 10%-15% relative to re-negotiated pricing levels.
- Nevertheless, there is a minimum level of contribution required to operate a mid-mile network and pricing cannot continue to fall in absolute price per circuit terms indefinitely.
- Interplay between bandwidth increases, and pricing pressure will define relative decline.
- Private equity-based companies in particular will feel pressure to produce returns. OPEX optimization may impact execution which could enhance opportunities for other players.

Forecast from Fiber Broadband Association

Projected Peak Bandwidth Requirements – Household of Four:



• Does not include early adopters, radiologists, power users/gamers, and others may require much more.
• Source: Fiber Broadband Association Technology Committee.

Unadjusted
for inflation

Adjusted for
inflation

Table 4: NOMINAL
U.S. BROADBAND PRICES

BPI-CONSUMER CHOICE	
PRICE 2015	CHANGE
\$65.62	-29.9%
PRICE 2022	
\$45.97	

BPI-SPEED	
PRICE 2015	CHANGE
\$122.94	-40.2%
PRICE 2022	
\$73.55	

Table 5: REAL
U.S. BROADBAND PRICES
(adjusted for inflation)

BPI-CONSUMER CHOICE	
PRICE 2015	CHANGE
\$65.62	-44.6%
PRICE 2022	
\$36.33	

BPI-SPEED	
PRICE 2015	CHANGE
\$122.94	-52.7%
PRICE 2022	
\$58.12	

The **BPI-Consumer Choice** compares providers' most popular speed tier of broadband service in a given year to its most comparable 2022 service.¹

The **BPI-Speed** compares providers' fastest speed tier option in a given year to the comparable plan in 2022.

Business Risk Factors – Market Share Level and Cadence

- Forecasted Accord OPEX is comprised of both fixed and variable components
- Inability to capture market share at the level and rate forecasted will lead to a negative variance in forecasted results.
- Management feedback has conveyed that material opportunity appears to be present due to a stated desire by Verizon and potentially other major wireless providers to shift business away from a core provider – Zayo.
- Similar to ARPU rate compression, implications of variances in market share levels and cadence could be charted by a structured sensitivity analysis.
 - Define minimum level of EBITDA performance (which drives distributions to shareholders in the current model and is a recognized indexed basis for enterprise value.
 - Chart what set of circumstances / combinations between ARPU and Market Share result in an outcome deemed to be insufficient to move forward.

Business Risk Factors – Variability in Board Expectations

- JSI has participated in a range of turn around exercises involving operating consortia.
- While basis for underperformance often involves a range of varying issues, a consistent common thread is a lack of alignment in expectations among Board members, and/or a commercial / aspirational conflict between consortia members and the consortia.
- This outcome is too often a product of not taking sufficient time to align expectations.
 - Is the objective of the consortium to optimize financial performance of the operating entity?
 - Is the objective to maximize the commercial opportunities directed to participating members?
 - Is the objective to provide products that enhance profitability of members with performance measured by the level to which such products are more economical than other market options?

Business Risk Factors – Variability in Board Expectations (Cont.)

- Separate and distinct from the foregoing recurring theme issues, Accord needs to assess:
 - Can the interests of Accord / Hoosier Net be reconciled or will duplicate assets married to common geographies and business plans dilute the commercial prospects for both entities?
- Important that alignment is a core priority prior to execution of the business case – lack of alignment often results in conflict, and ultimately stagnation of the business case and disillusionment of at least a component of the shareholding base.

Business Risk Factors – Speed to Market Delays

- Market opportunities such as the migration of commercial opportunities away from Zayo are perishable.
- Ability to execute on opportunities as they present themselves is key to any business and in the case of Accord, management has communicated that a material level of opportunity – subject to 7-8 year contracts, is present/unfolding.
- Inability to pursue such opportunities exposes risk to the organization's commercial prospects. Potential sources of speed to market risks:
 - Delay in capitalizing the business,
 - Inability to operationalize business case,
 - Inability to secure and integrate critical operational resources and toolsets; and,
 - Lack of execution.

Conclusions and Recommendations

- Underlying motivation behind Accord Networks remains sound.
 - Integration of existing networks to promote acquisition of incremental revenue and operating scale.
 - Concept has the potential to be extended to additional geographies both within the state and beyond the states borders to enhance operating scale economies and drive additional commercial opportunities.
- Identified risk factors can be either further quantified or mitigated:
 - Sensitivity analysis can further identify under what conditions business case becomes infirmed
 - Simple exercises can ensure alignment of Board expectations
 - Defined project plan and milestones accompanying fund raising exercise can further establish clarity in expectations and anchor what success looks like to the benefit of both board and management.



JSI recommends taking these measures – recognizing the need for timely action

Conclusions and Recommendations

- Risk factors identified are not isolated to Accord. Many existing/prospective Accord shareholders are broadband providers who face many of the same systemic risks. Similarly, new mid-mile networks are in the process of being formed.
- Ultimately the issue of a go/no go decision is a synthesis of quantitative and qualitative considerations
 - Are the assumptions in the business case reasonable?
 - Is it understood under what circumstances the business case becomes infirmed, and what is the likelihood such risks will be realized?
 - Is there confidence in the management team's ability to execute and to effectively innovate / evolve the organization and its product portfolio to meet the evolving needs and environmental conditions of the marketplace.

Member Financial View

Steuben REMC – Equity Table & Round A Schedule

Accord Entity	Operational Status	Investment Level	Pre-FR Round Cash & In-Kind Equity	Pre-FR Round Pro-Rata Equity Share	Round A Minimum Bid	Total Equity Contributions @ Prescribed Minimum Bid Levels	Post-FR Round Pro- Rata Equity Share
Steuben REMC	Broadband Operator	Tier 1 Investor	\$ 298,432	2.89%	\$ 322,619	\$ 621,051	2.84%
Accord Total			\$ 10,342,840	100.00%	\$ 11,500,019	\$ 21,842,859	100.00%

Round A Schedule		
Year	Portion	Installment
2024	35%	\$ 112,917
2025	30%	\$ 96,786
2026	25%	\$ 80,655
2027	10%	\$ 32,262
Total	100%	\$ 322,619

Original ARPU

Steuben REMC – Summary of Investment (Original ARPU)

Round A Capital Investment	\$ (322,619)
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Cumulative Net Cash Flow Generated - Modeled Period	\$ 2,177,805
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IRR / NPV Hurdle Rate	7%
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10 Year IRR	20.46%
10 Year NPV	\$ 307,243

15 Year IRR	25.48%
15 Year NPV	\$ 756,256

Pro-Rata Ownership of Accord

Accord 15-Year Enterprise Value	\$ 63,266,459
Pro-Rata Enterprise Value	\$ 1,798,835
Gain on Round A Capital Investment \$	\$ 1,476,216

IRR and NPV – Round A Investment

- Round A capital investment is used for IRR/NPV calculations to determine returns on hard capital.
- Net cash flow generated from share of forecasted business transactional volume over 15-year period.
- IRR/NPV Hurdle Rate represents required rate of return for IRR and the discount rate used within NPV calculation.

Pro-Rata Ownership of Accord – Equity Gain

- Pro-Rata ownership of 15-year Accord enterprise value. Share % is determined based on total investment, which includes In-Kind Equity contribution.
- Round A Capital Investment used to determine gain from cash investment in Accord
- Gain on equity ownership of Accord is in addition to value from the IRR/NPV generated from cash flows

Steuben REMC – Financial Projections (Original ARPU)

	Cumulative		
	5-YR	10-YR	15-YR
Subscribers / Subscriber Sites	14	50	80
Revenue	\$ 232,649	\$ 951,351	\$ 1,949,257
Net Cash Flow	\$ 300,847	\$ 1,020,808	\$ 2,177,805

Adjusted ARPU

Steuben REMC – Summary of Investment (Adjusted ARPU)

Round A Capital Investment	\$ (322,619)
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Cumulative Net Cash Flow Generated - Modeled Period	\$ 1,838,406
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IRR / NPV Hurdle Rate	7%
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10 Year IRR	16.29%
10 Year NPV	\$ 201,212

15 Year IRR	22.05%
15 Year NPV	\$ 586,317

Pro-Rata Ownership of Accord

Accord 15-Year Enterprise Value	\$ 46,862,026
Pro-Rata Enterprise Value	\$ 1,332,413
Gain on Round A Capital Investment \$	\$ 1,009,794

IRR and NPV – Round A Investment

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Steuben REMC – Financial Projections (Adjusted ARPU)

	Cumulative		
	5-YR	10-YR	15-YR
Subscribers / Subscriber Sites	14	50	80
Revenue	\$ 202,536	\$ 837,743	\$ 1,699,857
Net Cash Flow	\$ 240,734	\$ 847,199	\$ 1,838,406