



2024 Rural Telecommunications Benchmark Study

Results powered by iLumen, Inc.

forv/s
mazars

Not Just Another Telecom Study

The 2024 Rural Telecommunications Benchmark Study (Study) from Forvis Mazars is unique in that it has data from 157 rural telecommunications companies and provides insights into:

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

When combined with past studies, we have 23 years of valuable financial and operational information for the rural telecommunications industry.

Each year, the Study provides an in-depth look at how the rural telecommunications industry has performed. This year, we continued benchmarking the impact of inflation on expenses and continued looking at the expansion of broadband services and broadband grant programs.

Expansion of broadband services and broadband grant programs continued in 2023. The National Telecommunications and Information Administration (NTIA) moved forward with the \$42.45 billion **Broadband Equity Access and Deployment (BEAD) Program** which, along with state broadband grant programs, has provided vital funding for the expansion of broadband services.

The Study provides benchmark results for nearly 40 key metrics. Peer groups for comparison of an individual company's 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)
- Broadband Grants/No Broadband Grants
- Debt/No Debt
- Geographical Regions (Three Groups)
- Investment Income (Less Than & More Than \$1 Million)
- All Companies

Study Methodology

The Study accumulated financial and operational information for the years 2016 through 2023. 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 obtained a company-specific benchmark report.



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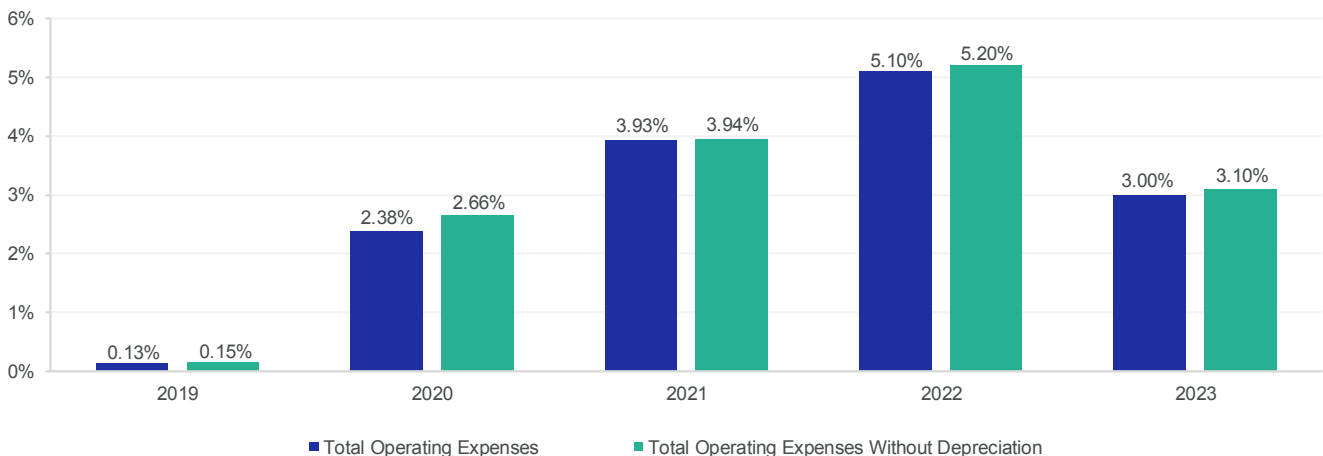
Executive Summary



Impact of Inflation & Increasing Costs

The 2024 Study calculates the percentage increase in operating expenses both with and without depreciation expense. Total operating expenses increased 3% in 2023 and, without including depreciation expense, operating expenses increased 3.1%. For comparison purposes, the graph below shows the increase in operating expenses with and without depreciation for the last five years. After several years of relatively modest growth in expenses, 2020 through 2023 have seen expense increases reflective of a higher inflation rate.

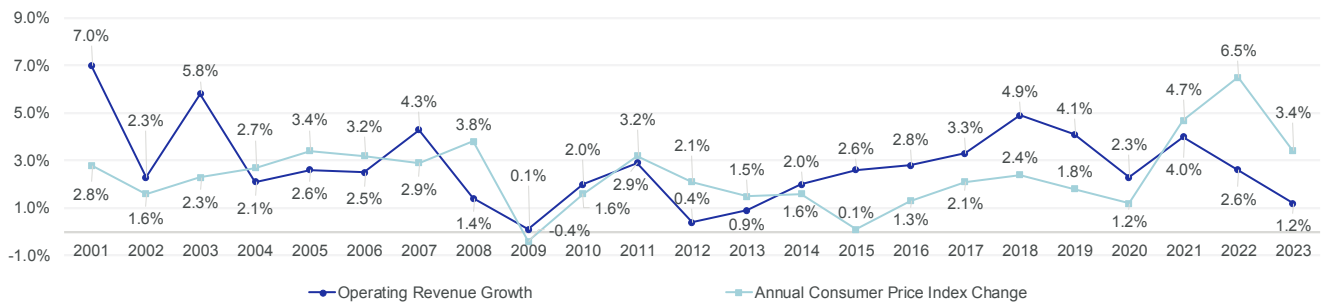
Increase in Operating Expenses



Executive Summary

The increase in operating expenses also is more than double the 2023 1.2% increase in total operating revenues. As the graph indicates below, the increase in operating expenses is slightly under the 3.4% rate of inflation as calculated using the annual Consumer Price Index (CPI). The graph provides a historical perspective of percent change in total operating revenues for the industry compared to inflation measured by the CPI change.

Revenue Growth Trend With Consumer Price Index



Broadband Grant Programs

As of June 2024, participating companies accepted \$950 million of federal, state, and local government broadband grants compared to \$600 million in grants as of 2022. This represents a 50% increase in broadband grants over the amounts for 2022. These grant programs include state-administered broadband grant programs utilizing state funds, state-apportioned federal CARES Act funds, and American Rescue Plan Act funds, along with federal broadband grant programs administered by the NTIA and the Rural Utilities Service (RUS).

Broadband Rating

Three financial metrics drive the broadband 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 broadband internet revenue and operating income growth but also to include a factor for dependency on network access revenues.

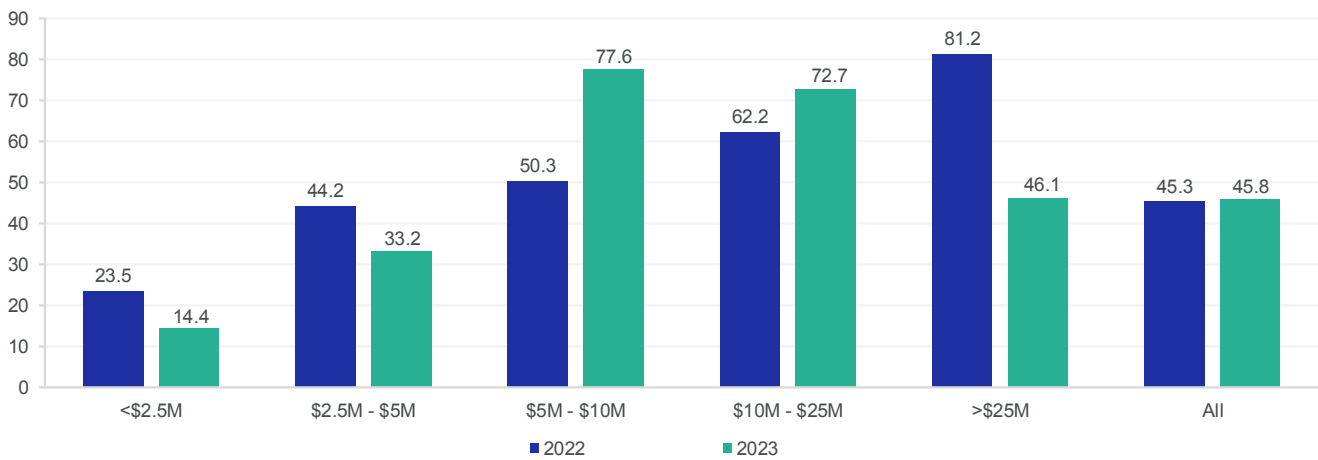
Broadband Rating Results for 2024

First Quartile = **0.1** Median = **45.9** Third Quartile = **93.5**

Executive Summary

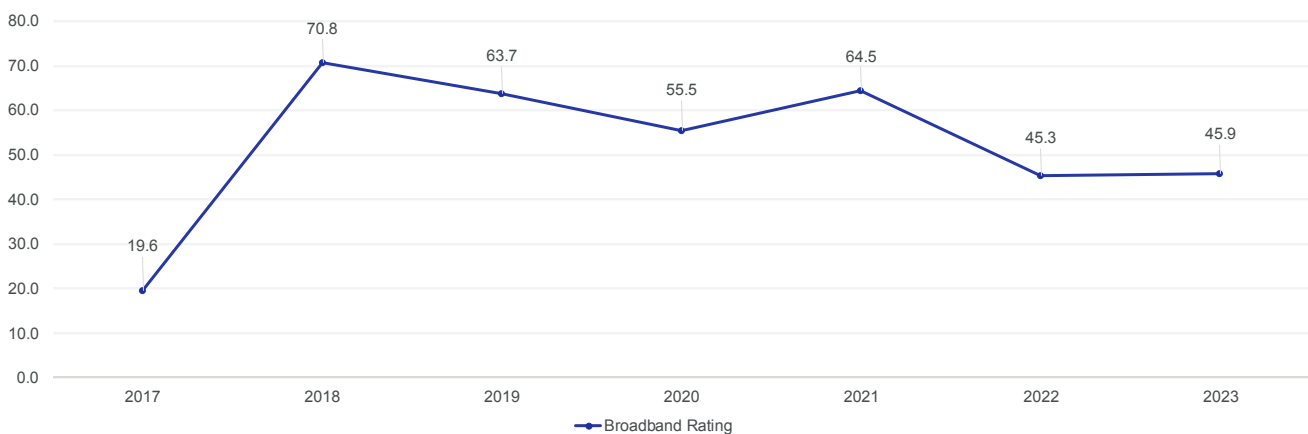
Did company size make a difference in the broadband rating? The following graph includes the Study results based on revenue size for both 2023 and 2022. The rating was down for the smaller and largest revenue groups due to the decline in operating income as a percentage of revenues and slower growth of broadband internet revenues in 2023.

Broadband Rating Based on Company Size



Why did midsize companies (based on revenues) have a higher rating? In digging into the calculations for the midsize groups (\$5 million to \$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 companies to the appropriate peer groups. The following graph presents the broadband rating over the last seven years.

Broadband Rating Historical Trend

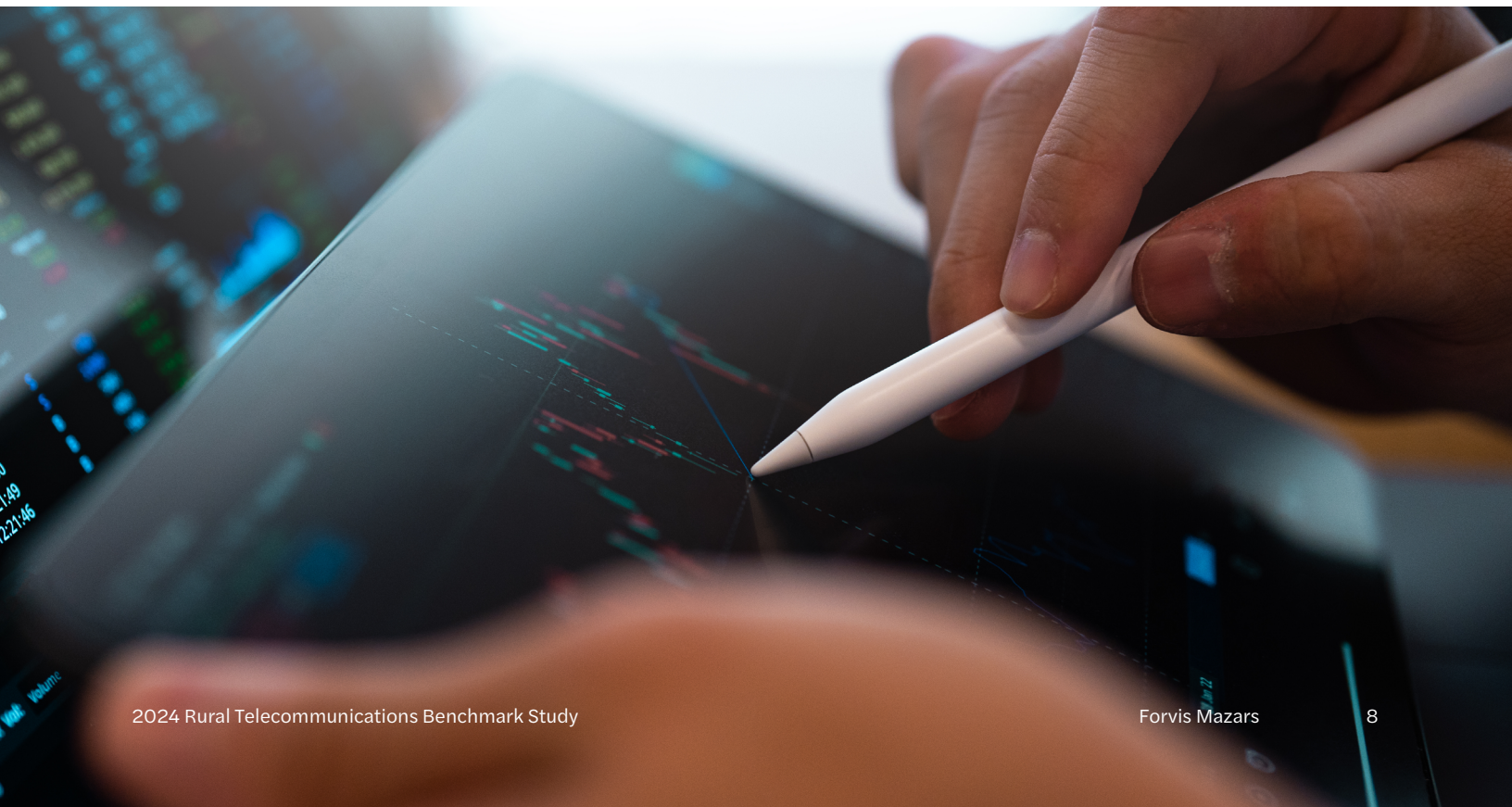
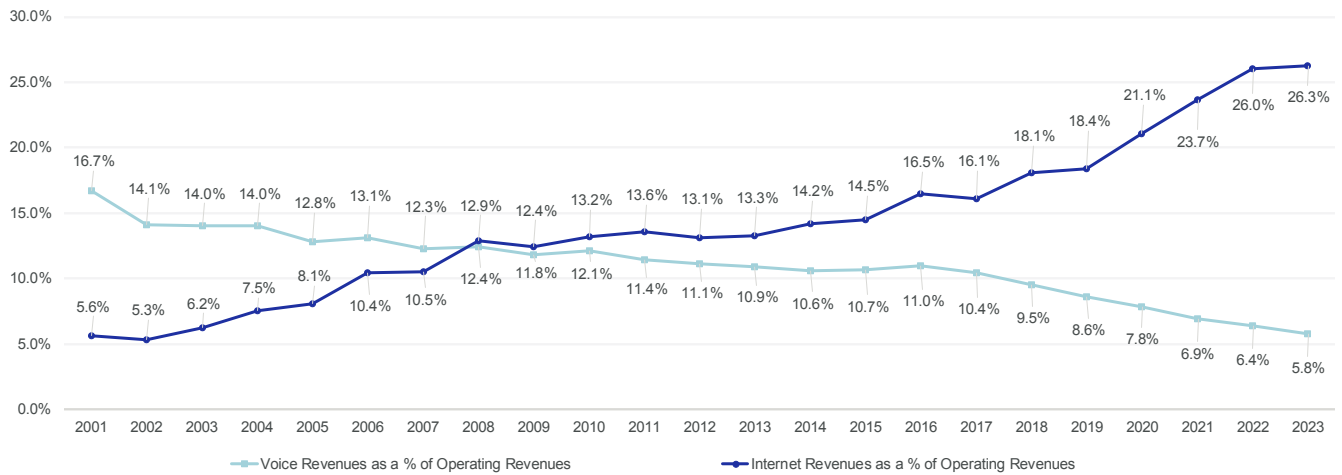


Executive Summary

Broadband Services Impact on Financial Results

The increase in access to broadband services over the past 23 years has resulted in increased broadband revenues. The following graph illustrates the growth in internet service revenues and the decline in voice service revenues during this time. Internet revenues are the second-largest source of revenue only behind network access service revenues.

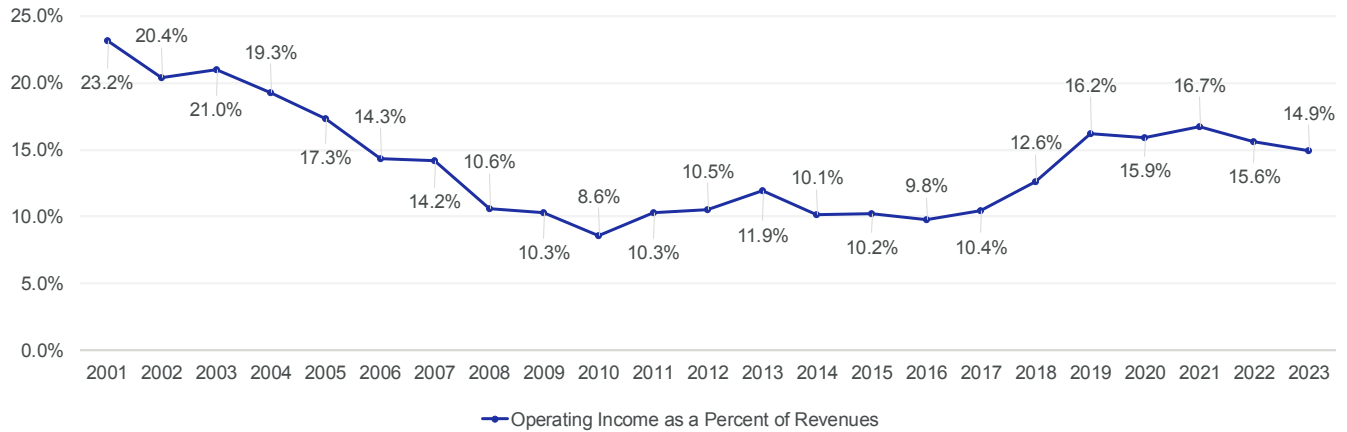
Voice & Internet Services Historical Trends



Executive Summary

The findings of our 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 23 years. While the percentage for the last few years is less than what it was 20-plus years ago, it is still significantly higher than the 2010 low of 8.6%.

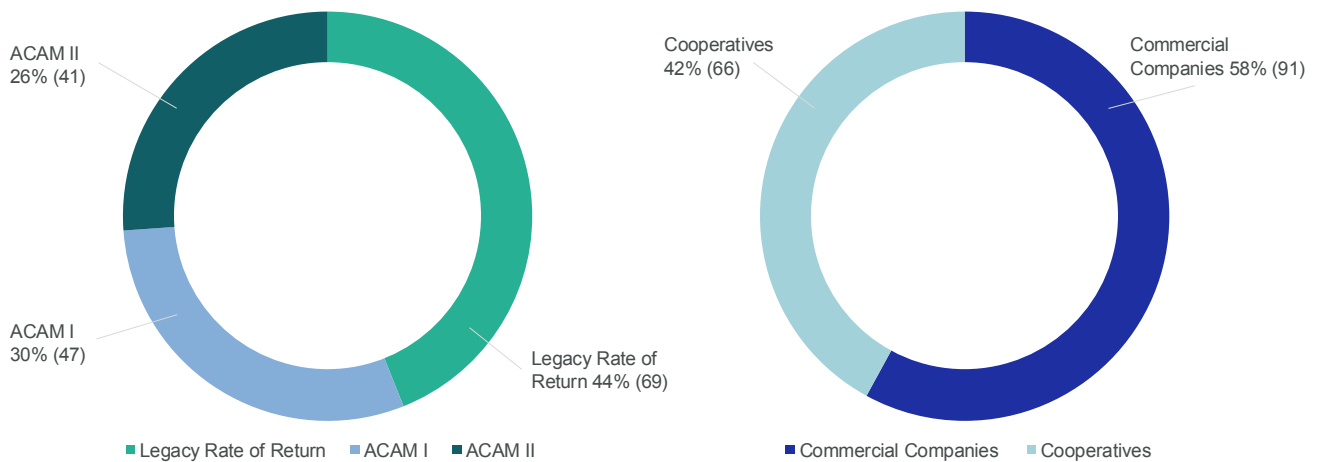
Operating Income Historical Trends



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.

Study Peer Groups

Form of Regulation Left, Commercial/Cooperatives Right



Executive Summary

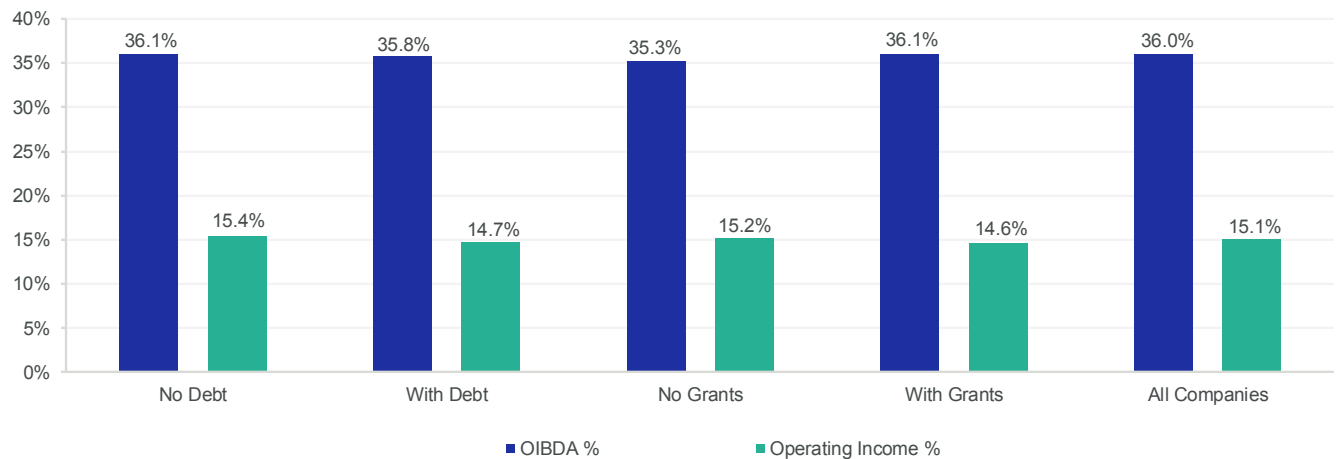
As the graph below indicates, the largest companies based on revenues had the greatest drop in operating income percentages from 2022 to 2023. However, with most of the companies participating in the Study having less than \$5 million in revenue (85 companies), these smallest companies have the biggest impact on the overall results.

Average Operating Income Percent of Revenue



The following includes the Operating Income Before Depreciation and Amortization (OIBDA) and Operating Income percentages as a percentage of operating revenues for the Debt/No Debt and Grants/No Grants peer groups.

Average Operating Income & OIBDA Percent of Revenue

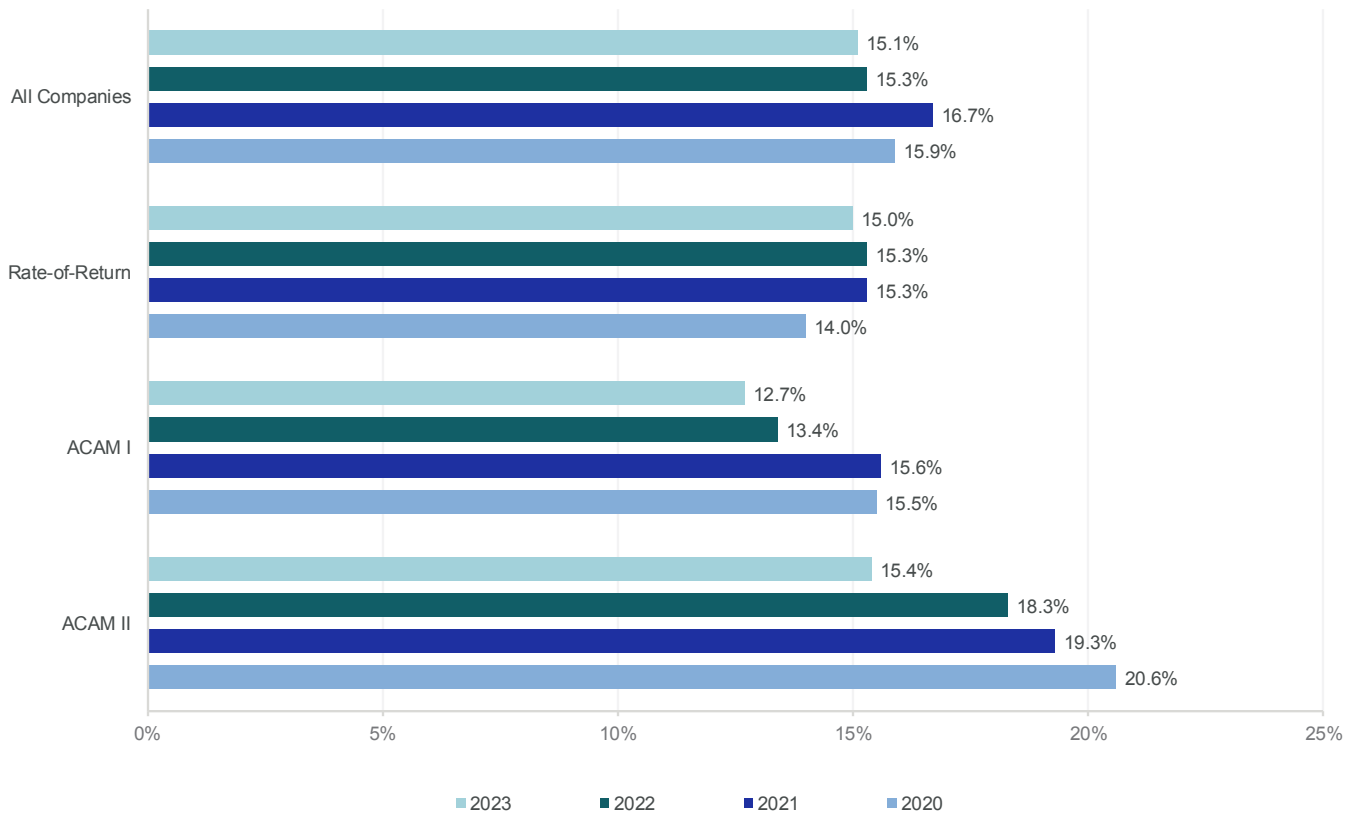


Executive Summary

Companies Electing ACAM I See a Decline in Operating Income

Of the 157 companies that participated in the Study, 88 have elected either ACAM I or ACAM II as their form of regulation. The following graph demonstrates early on that companies electing ACAM had higher operating income as a percentage of operating revenues, but during 2023 the legacy rate-of-return carriers outperformed the ACAM I companies.

Average Operating Income as a Percent of Revenue



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

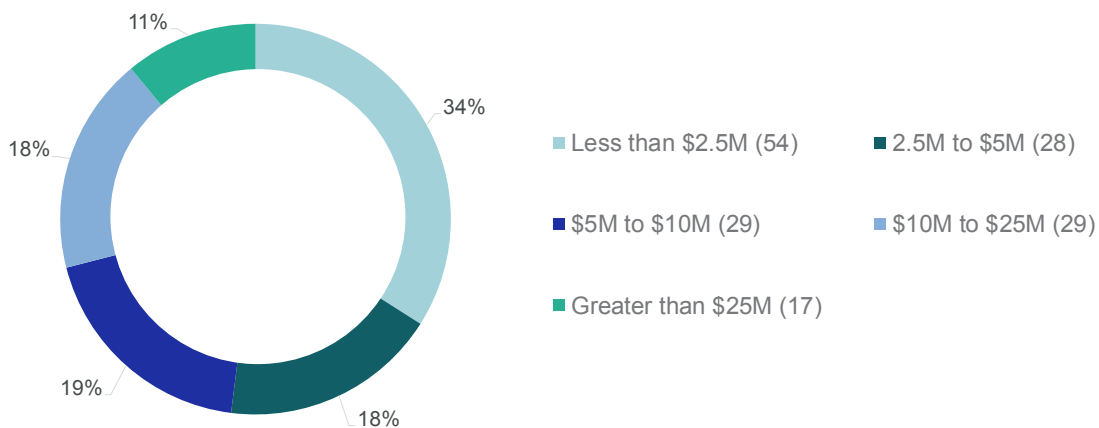
Section I: Participant Demographics



Participating Companies Based on Revenues

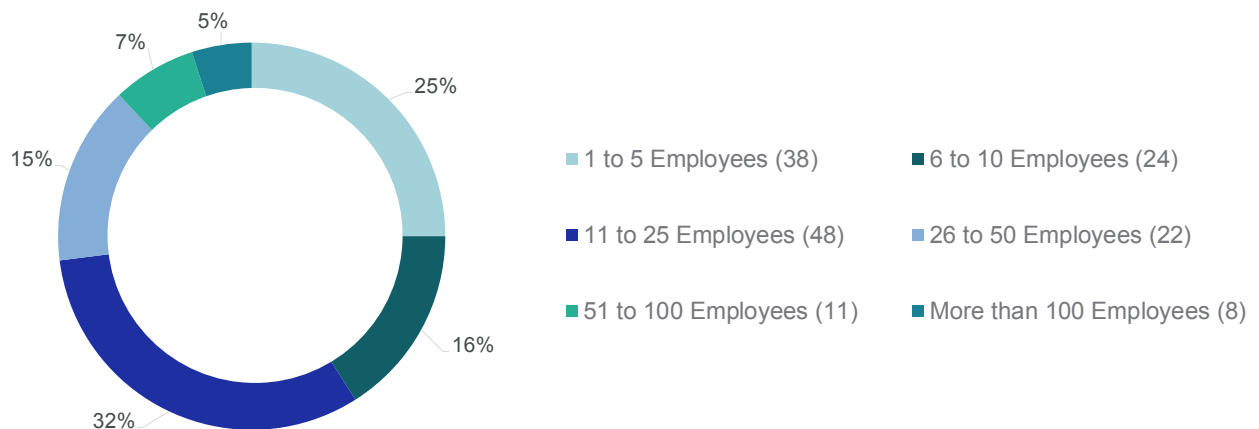
A total of 157 companies participated in the Study. Fifty-four companies have consolidated revenues under \$2.5 million (a decrease of three though an unchanged percentage from the 2022 Study) and 17 companies had consolidated revenues in excess of \$25 million (an increase of four from the 2021 Study). (See Table 1 and Figure 1)

Table 1: Companies Based on Revenues
Figure 1



Participating Companies Based on Number of Employees

Table 2: Companies Based on Employees
Figure 2

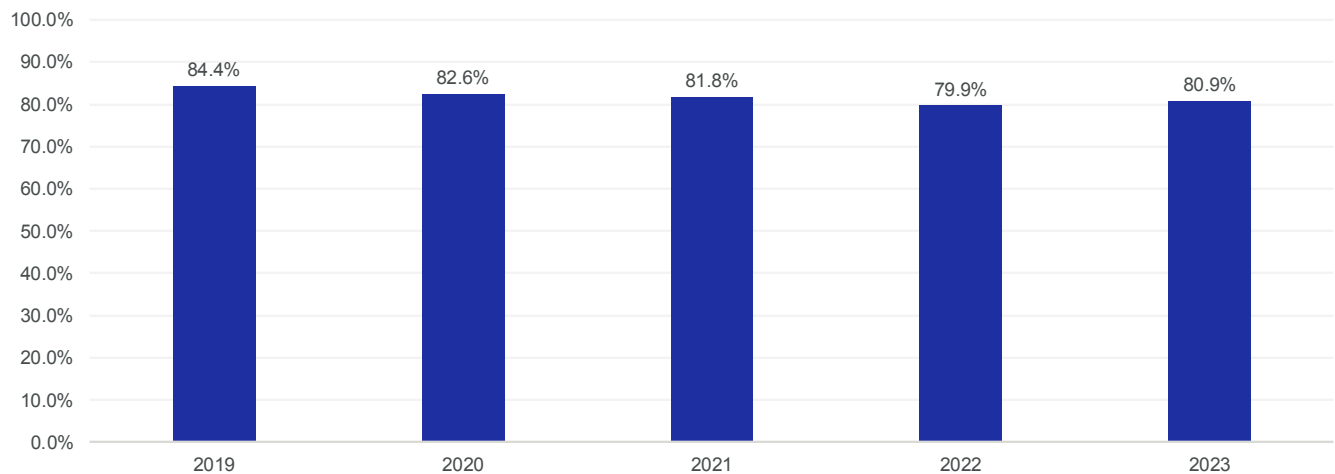


Section II: Key Financial Benchmarks

Average Total Equity to Total Assets

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

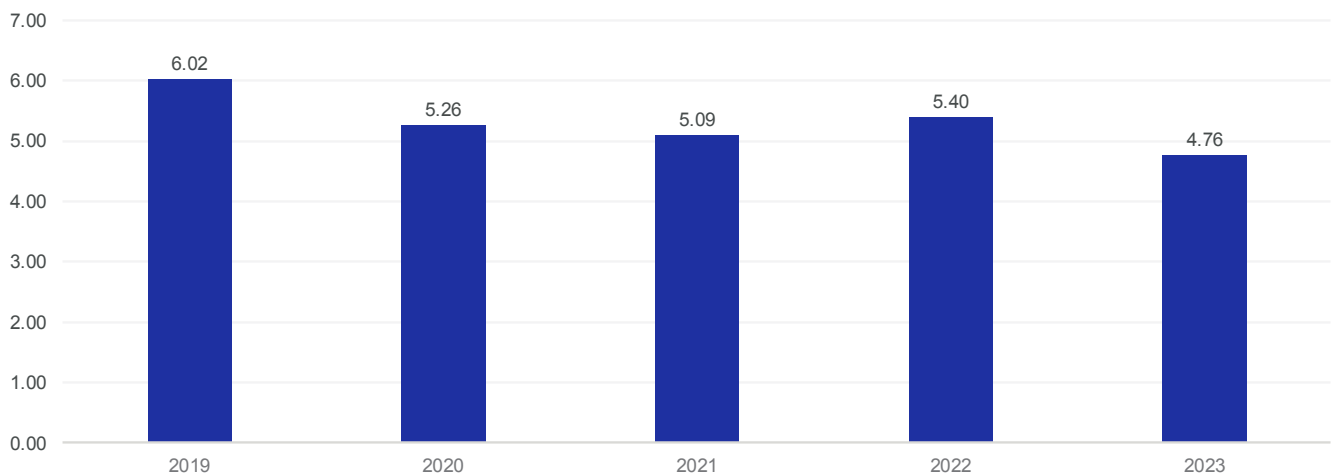
Average of Equity to Total Assets



Average Current Ratio

While the current ratio is not one that garners a lot of attention in the industry, it is still very important for measuring liquidity. The average ratio has remained strongly above 4.00 the last five years.

Average of Current Ratio



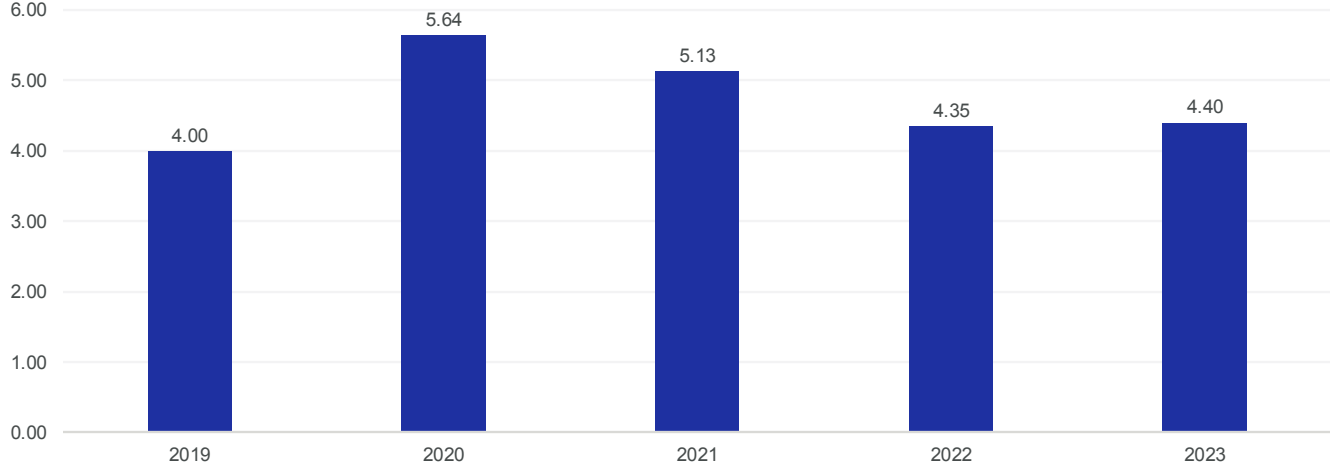
Section II:

Key Financial Benchmarks

Average DSC Ratio

The debt service coverage (DSC) ratio is probably one of the most important ratios. It is key to determining a company's ability to meet its current debt obligations. The averages in the graph below indicate at least 4.00 for the past five years; all years are well above the minimum 1.5 required by most lenders.

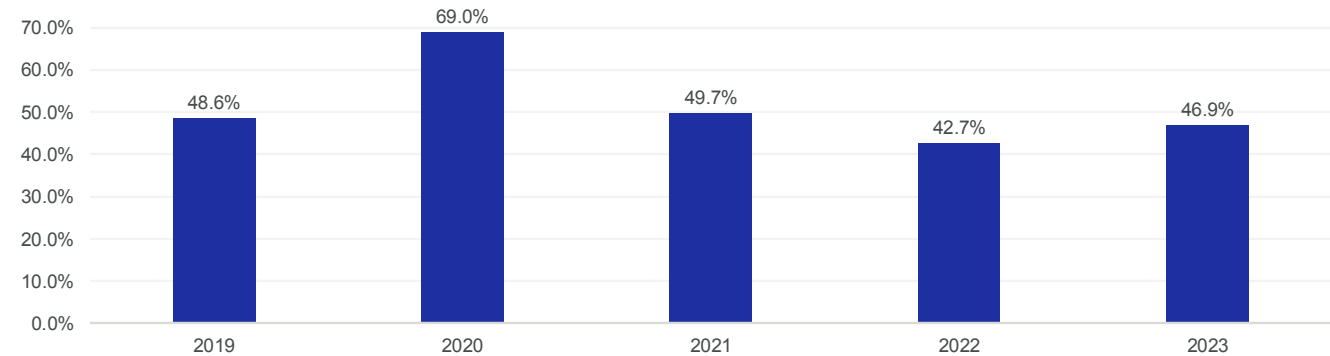
Average of Debt Service Ratio



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 20 years, the average percentage had been on the decline. EBITDA has consistently averaged more than 40% of revenues over the last five years. The increase in 2020 was fueled by an increase in investment income.

Average of EBITDA to Operating Revenue (%)



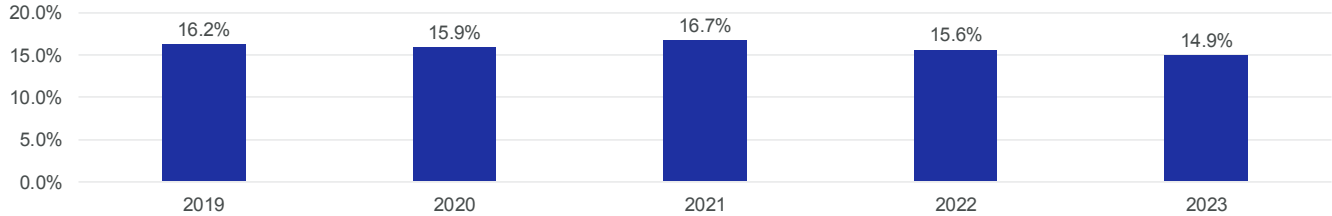
Section II:

Key Financial Benchmarks

Average Operating Income Percentage to Total Operating Revenue

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

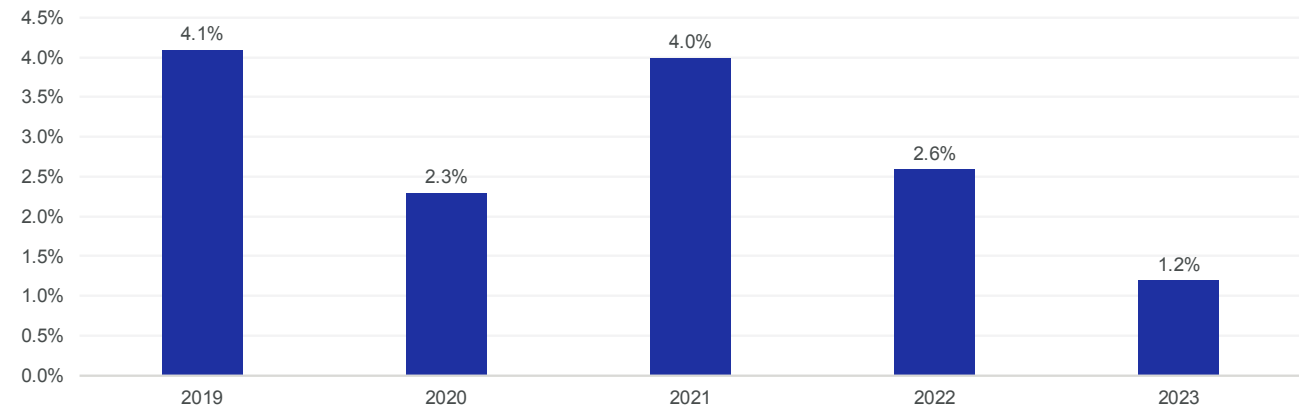
Average of Operating Income to Revenue (%)



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

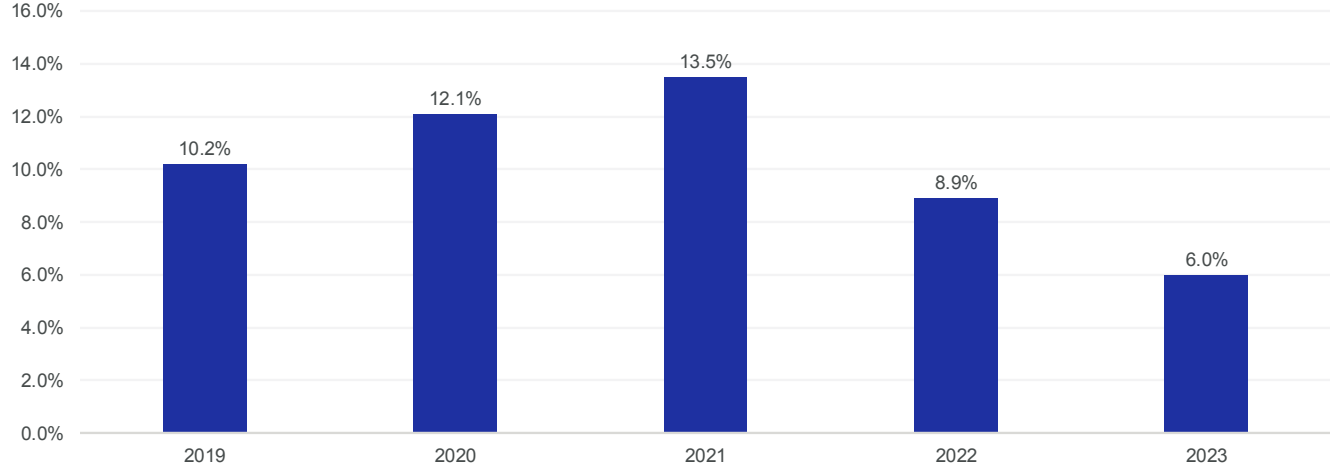
The industry has struggled to grow revenues over the past 15 years as access revenues—one of the main sources of revenues—have been under constant regulatory scrutiny. As the graphs below indicate, total revenues are growing, albeit slowly, even with declining access revenues due to growth in broadband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

Average of Total Revenues Change (%)

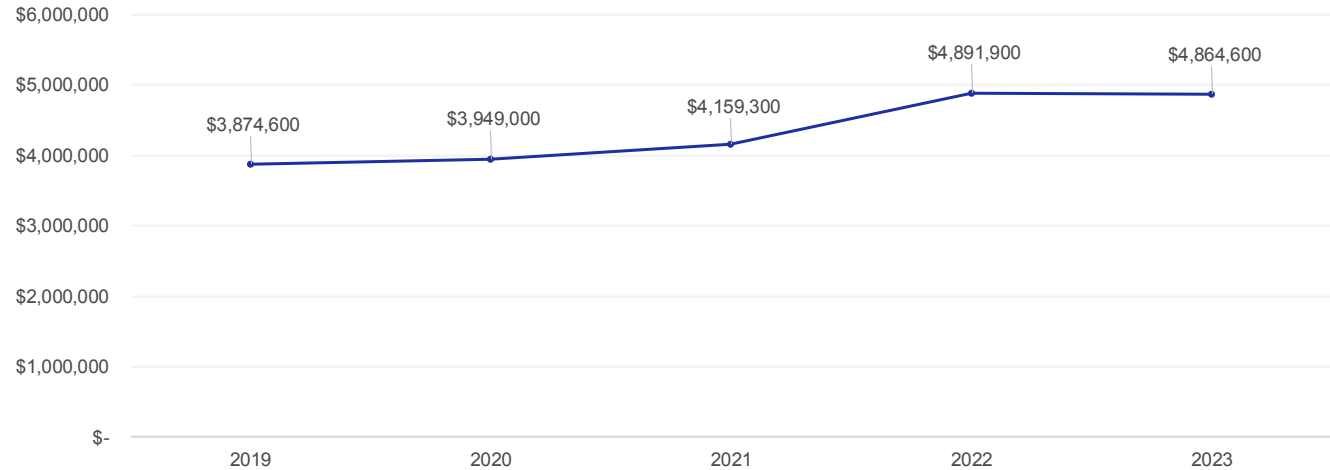


Section II: Key Financial Benchmarks

Average of Internet/Broadband Revenues Change (%)



Average Revenue

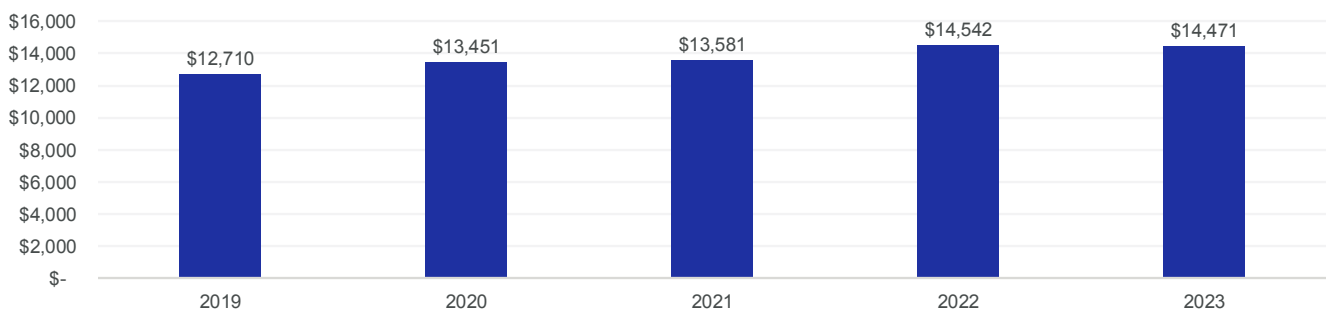


Section III: Key Network Benchmarks

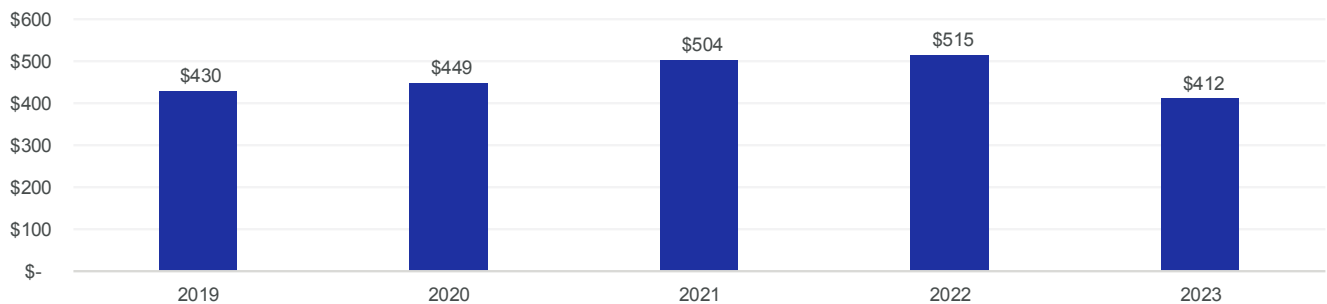
Average Gross Plant Investment per Connection, Average Operating Income per Connection, & Average Number of Connections

Voice access lines were the benchmark of choice prior to the 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 14% in five years.

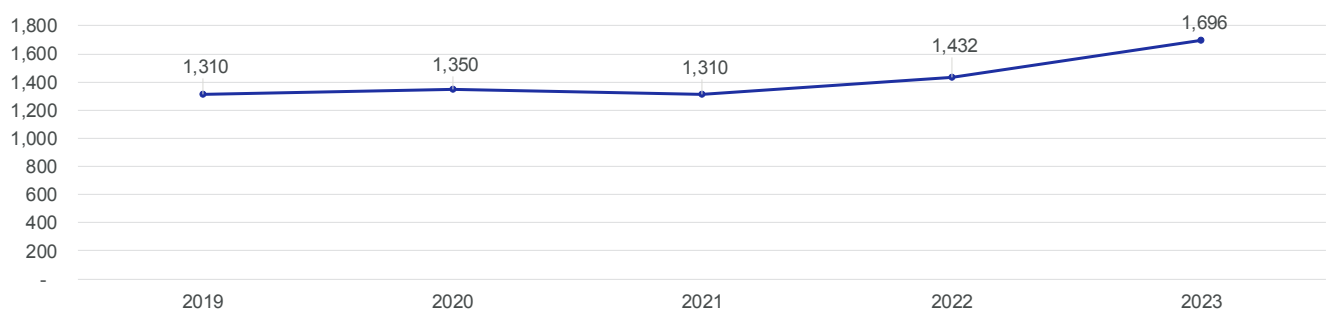
Average of Gross Plant Investment per Connection



Average of Operating Income per Connection



Average Number of Connections

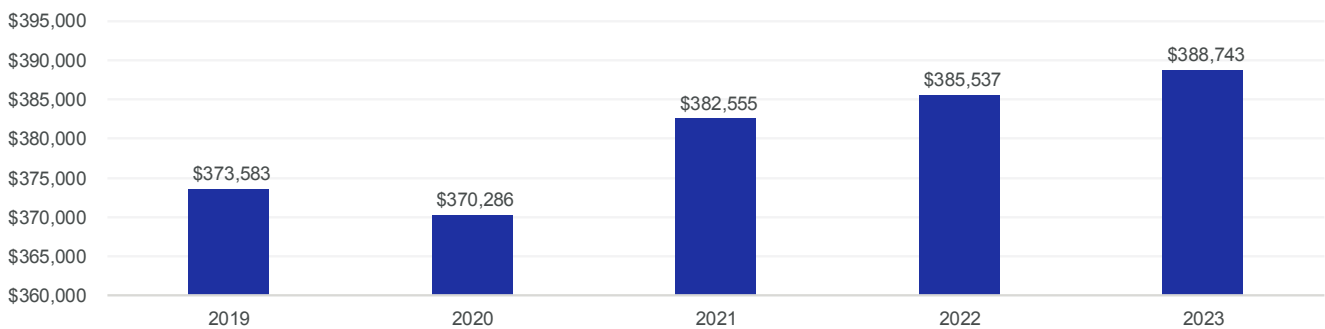


Section IV: Key Staffing Benchmarks

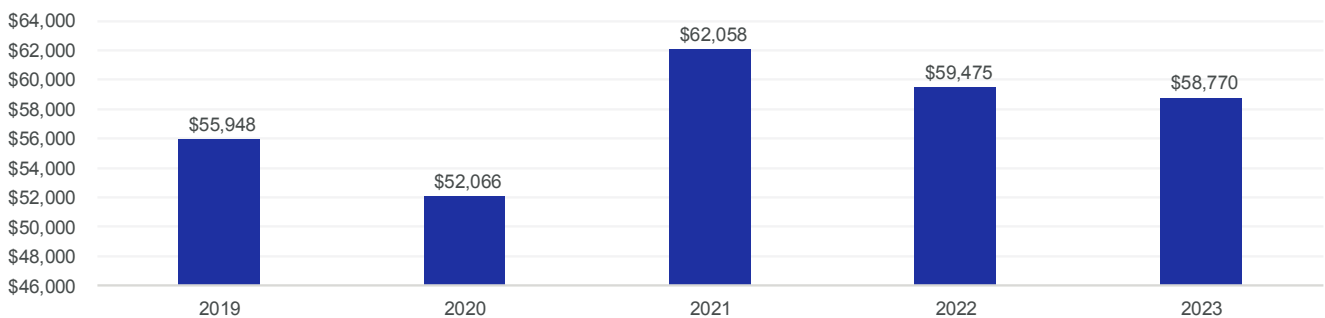
Average Total Revenue per Employee, Average Operating Income per Employee, & Average Number of Employees/FTEs

One thing that has been apparent within the industry is that rural companies must do more with less. The three graphs below indicate just that. The year 2023 continued the trend of strong revenue per employee and operating income per employee.

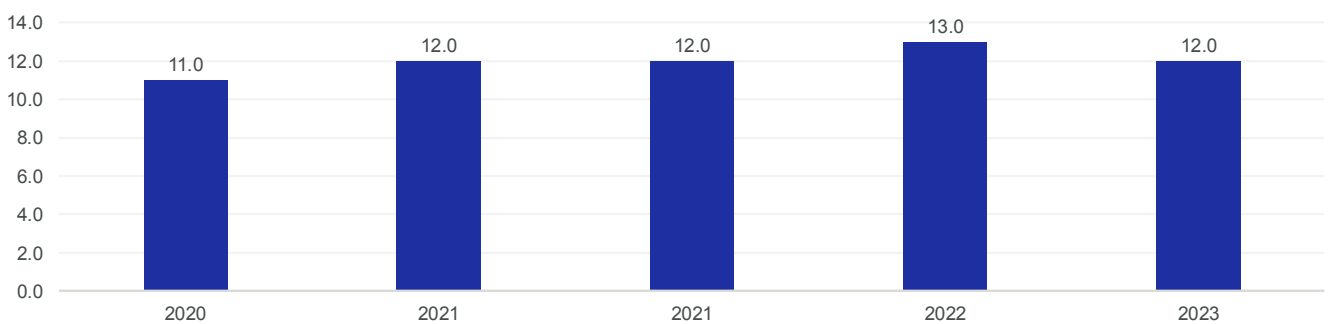
Average of Revenue per Employee



Average of Operating Income per Employee



Average # of Employees/FTEs

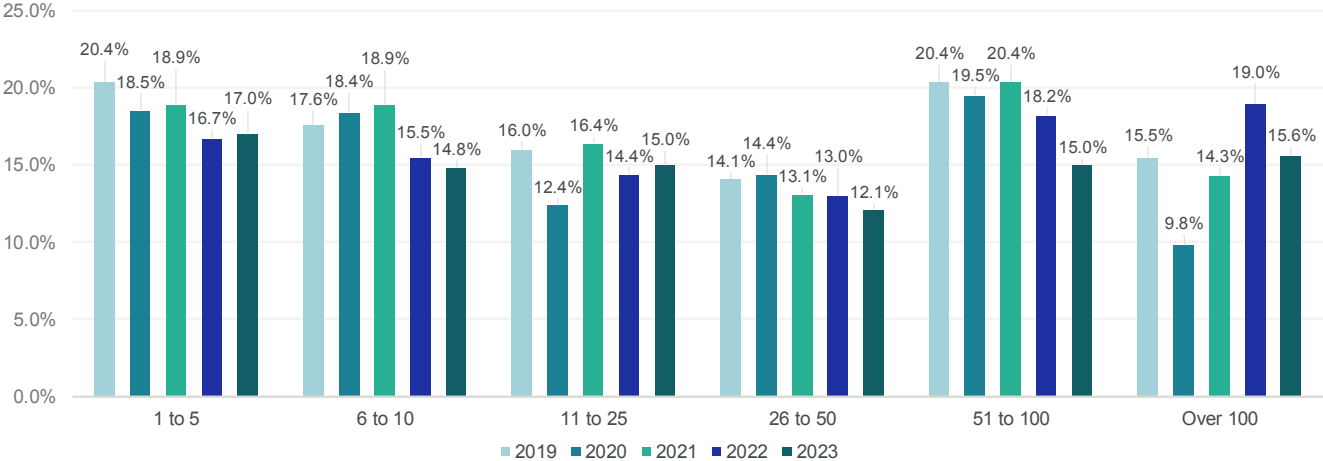


Section IV: Key Staffing Benchmarks

Average Operating Income (Loss) to Total Revenue by Employee Count

The graph below demonstrates that operating income declined for all sizes of companies in 2023 except for the smallest and midsize companies (1 to 5 and 11 to 25 employees).

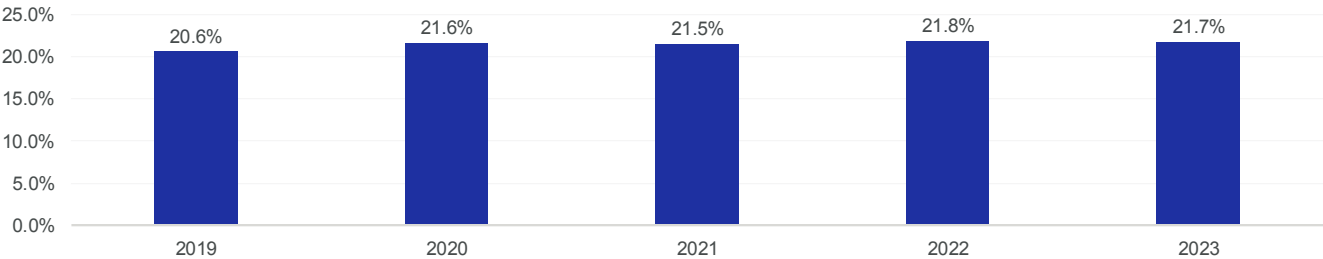
Operating Income to Revenue (%) by Employee Count



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, overall payroll expense as a percentage of all expenses has remained relatively constant.

Average of Payroll Expense to Total Expense (%)

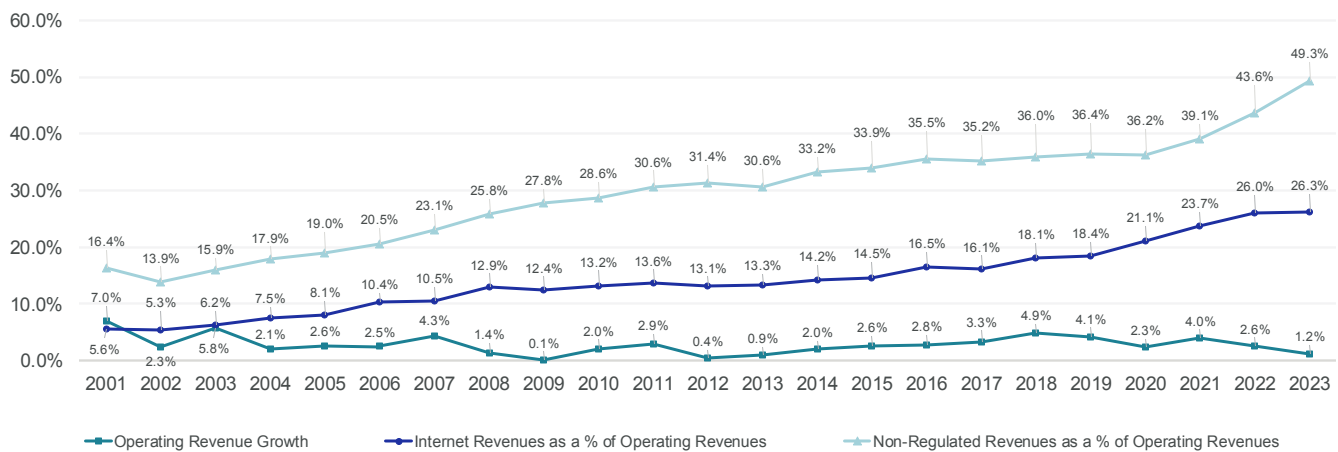


Section V: Key 23-Year Benchmarks

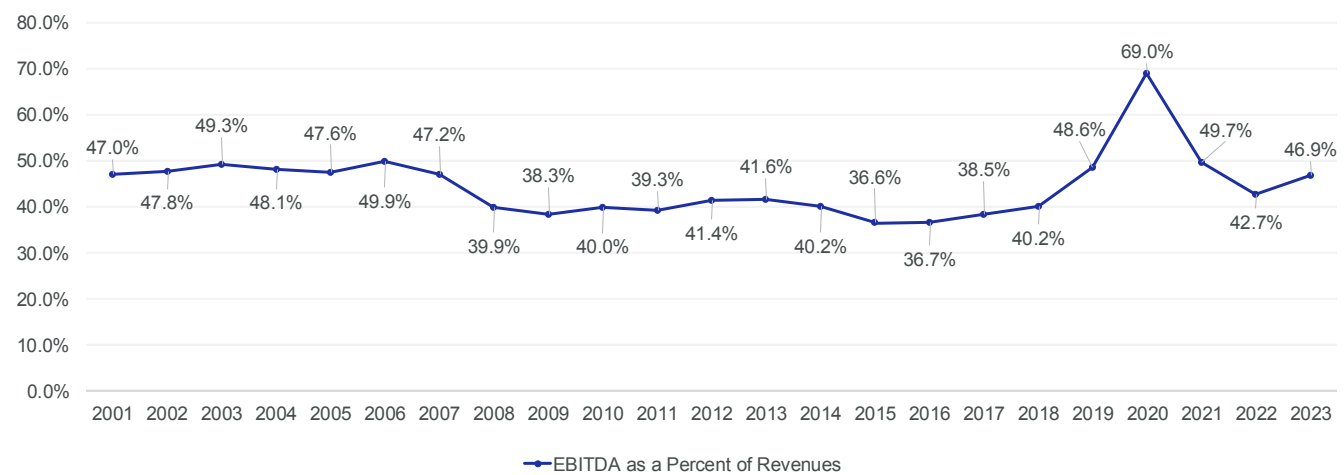


Below are some charts that provide a historical perspective of the rural telecommunications industry.

Non-Regulated Revenues Historical Trends

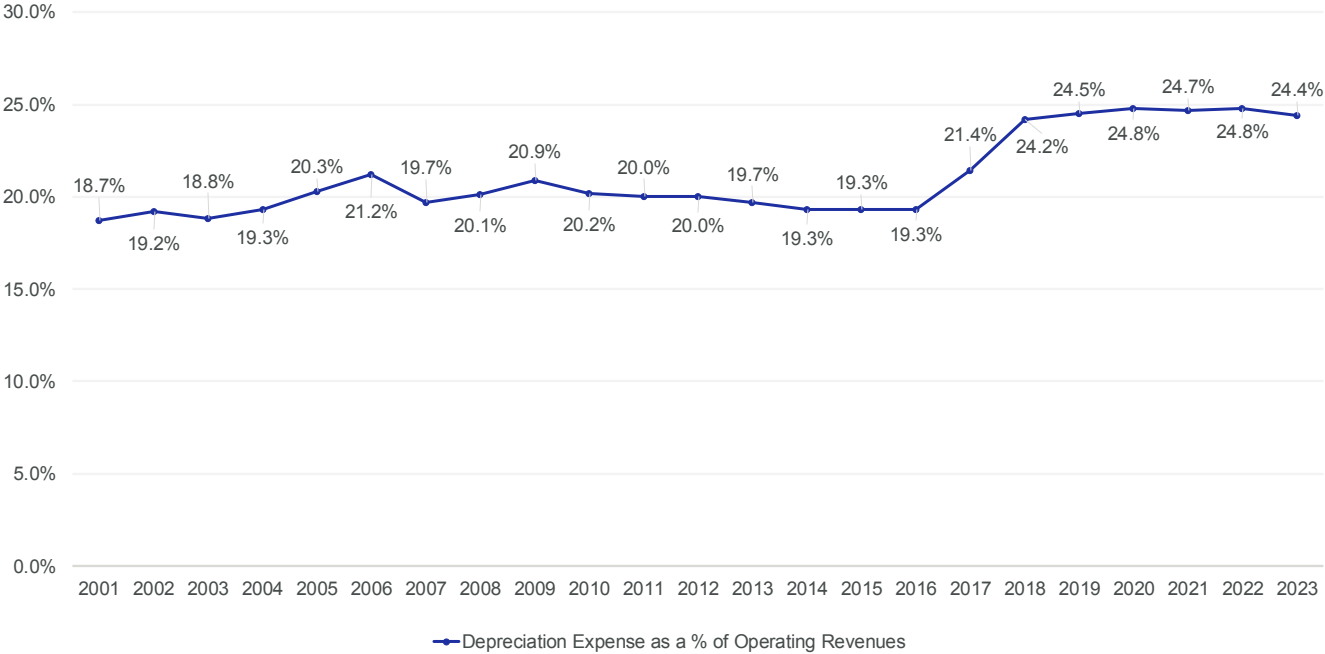


EBITDA Historical Trends

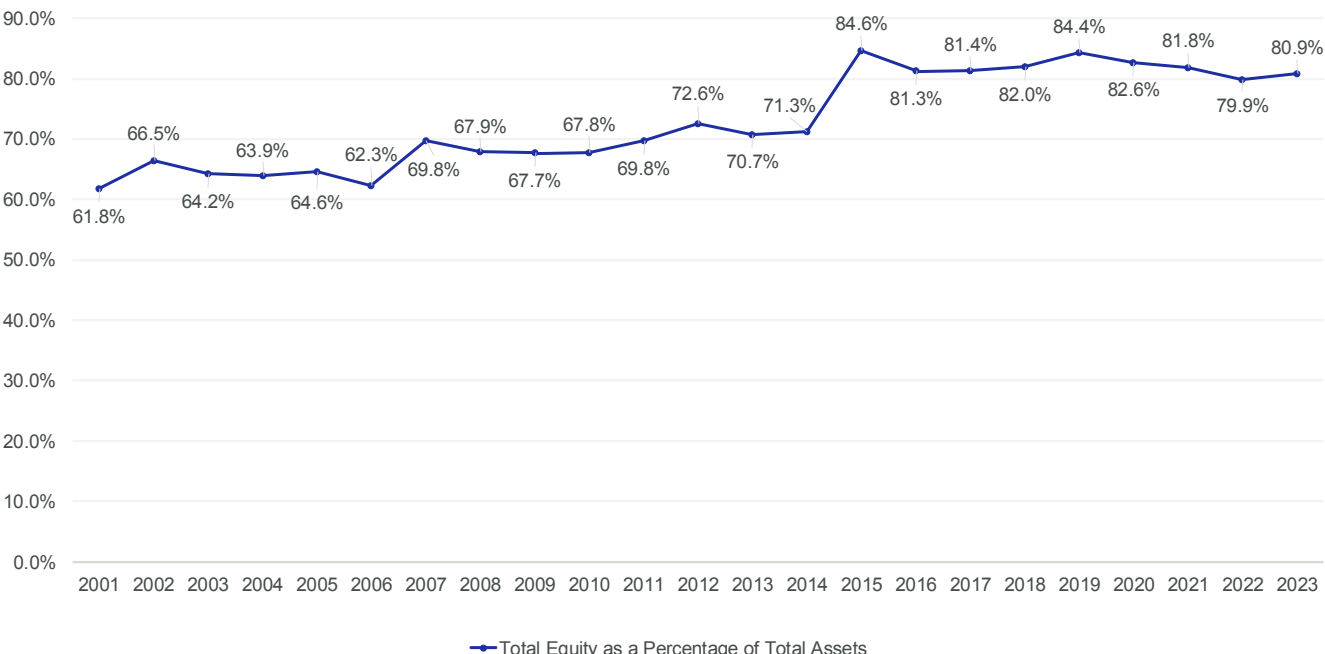


Section V: Key 23-Year Benchmarks

Depreciation Expense Historical Trends



Total Equity to Total Assets Historical Trends



Conclusion



The biggest takeaways from the 2024 Rural Telecommunications Benchmark Study are that:

- Twenty-plus years after the rollout of broadband services, internet revenues continue to provide growth opportunities to the rural telecommunications industry.
- Inflation and increasing costs have had an impact on operating profitability.
- The industry continues to grow through broadband services.
- Total revenue growth is anemic.
- Rural companies are financially strong with balance sheets particularly 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.

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