

The **Town** *of*
Davidson

College Town. Lake Town. *Your Town.*

Continuum Update



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Continuum Update
November 13, 2018

How did this all start?

- Citizens critical of poor service and lack of broadband
 - 2006-07 Town of Davidson was receiver of citizen complaints regarding cable due to franchise agreement
- Adelphia Cable declares bankruptcy
- Time Warner tells towns they will not enhance system's broadband capabilities
- Towns initiate right of first refusal to purchase system; Financial studies showed the system was viable
- Mooresville and Davidson purchase the system and form MI-Connection via interlocal agreement in August 2007

Purchase Financing

- Town of Mooresville is holder of Continuum debt
- The initial financing required a borrowing of \$80 million (including a required \$10 million reserve) in 2007
- An additional \$12.5 million was borrowed in 2008 to initiate system enhancements and operational needs
- In 2015, the original borrowing was refinanced with a lower interest rate, elimination of the reserve fund, and a prepayment option
- The \$12.5 million installment loan was also refinanced with a lower interest rate

Principal and Interest

As of November 1, 2018

Loan	Current Principal	Loan Maturity	Interest Rate Percent
COPs	\$55,750,000	2033	3.243
Installment	\$5,165,000	2023	2.36



Financials

	Revenues (\$)	EBIDA* (\$)	Debt Service Contribution (\$)	Total Debt Service (\$)	Towns' Contribution (\$)
FY 2014	18,414,527	4,019,769	1,600,000	7,279,709	5,679,709
FY 2015	19,768,878	4,960,832	2,400,000	7,179,855	4,779,855
FY 2016	20,897,433	5,679,091	2,800,000	6,336,395	3,536,395
FY 2017	21,476,183	5,388,865	2,919,000	6,357,148	3,438,148
FY 2018	21,345,661	5,261,937	3,150,000	6,378,967	3,228,967
FY 2019 Budget	22,011,453	6,047,000	3,477,000	6,413,690	2,936,690

- Since FY2014, Continuum's contribution to debt service has nearly doubled

* EBIDA is earnings before interest, depreciation and amortization. GASB accounting standards require recognition of non-cash pension liabilities which increased EBIDA by \$40K in FY16 and decreased EBIDA by about \$100K in FY17 and FY18



Davidson's Obligation

- Davidson modified interlocal agreement in 2013 to lock in Davidson's financial interest at 30%
- Capped the town's annual payment at \$1 million
 - Represents 8.4% of town's FY2019 budget
 - Town contributed \$2.34 million in 2012
- 30% of current principal = \$18.275 million
- Deferred liability to Mooresville = \$1.8 million
- The Board of Commissioners has set aside \$1 million for expenses related to Continuum

Continuum Board of Directors

- Agency created by interlocal agreement subject to Local Government Commission oversight
- Town Managers are members of the board
- Davidson and Mooresville town boards appoint 5 additional voting members for 2 year terms
- Cornelius town board appoints a non-voting member
- CEO of Continuum is a non-voting member
- Board meetings are public and held quarterly
- Annual audit is required

Looking Forward



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How does TOD make projections?

- Best information we have available, and subject to change
- Updated as significant changes occur
- Key metric in industry is EBIDA
- Industry standards for EBIDA and margin, as a percentage of revenues
- Projections also require estimate of capital expenditures required to stay competitive in the marketplace
- Certain Continuum data falls under the NCGS 132-1.2, and therefore is not public information. Some of this data could be beneficial to Continuum's competitors in the marketplace, and therefore harmful to the Town of Davidson if released.

Financial Projections From Davidson Staff

- Davidson's deferred liability due to Mooresville could be paid off in FY2023 (without spending the \$1 million reserve)
- Continuum will see a significant drop in required contributions in FY2024 (may not require any town contributions)
 - Combination of payoff of installment loan (2023) and projected growth in EBIDA

Projected System Valuation & Debt

- Key projected target: System valued higher than the debt owed
 - 1-3 years
 - 10X – 7X EBIDA
- Another projection: System valued higher than debt owed and repay both towns for investment
 - 2026 if valued at 10x EBIDA

Your Local Choice Is Your Best Choice.



CONTINUUM

Local. Limitless.



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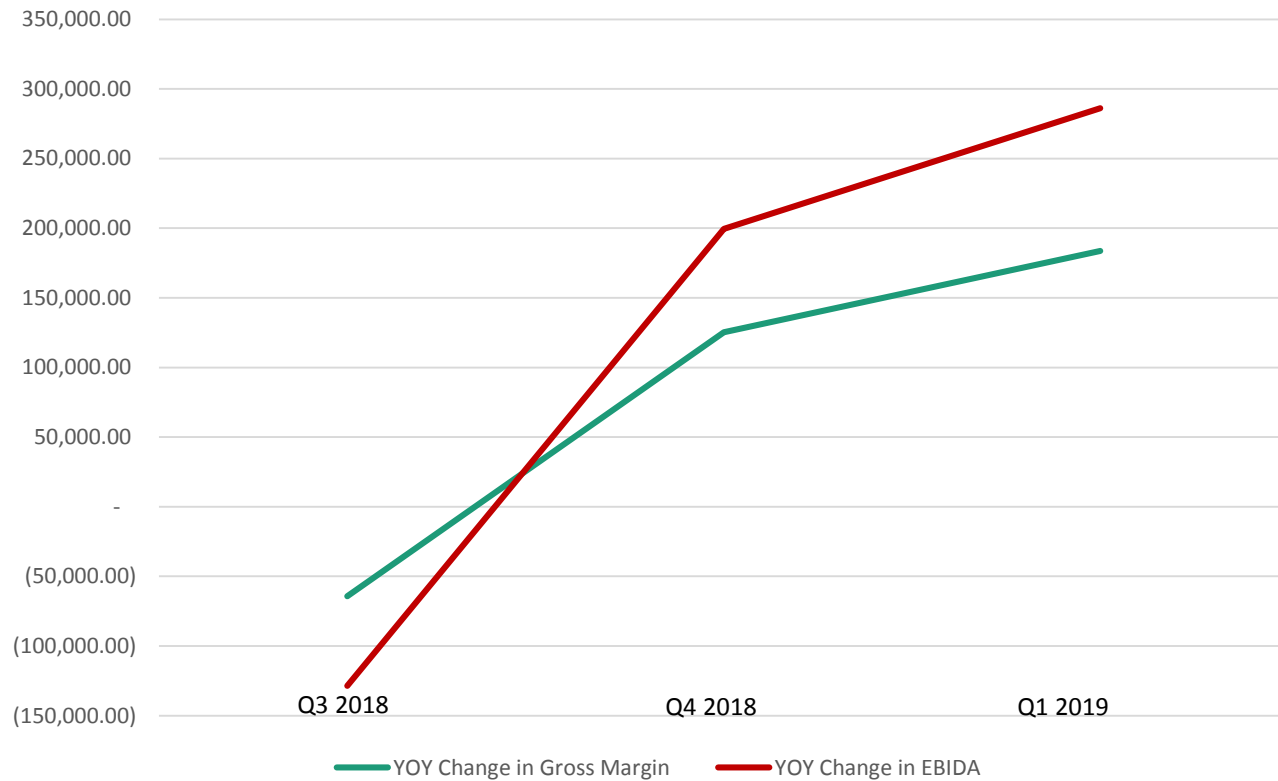


Financial & Trending Discussion

Adjusted Trailing EBIDA 2016-2018

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Reported EBIDA	5,679,091	5,388,865	5,261,937
 <i><u>Notable Non-Cash Impacts</u></i>			
<i>LGERS Cash out vs. Final Pension Exp</i>	<u>(39,668)</u>	<u>99,897</u>	<u>95,288</u>
 <i>EBIDA Adjusted</i>	 5,639,423	 5,488,762	 5,357,225
 <i>Rebranding Effort</i>	 <u>-</u>	 <u>-</u>	 <u>165,000</u>
 <i>EBIDA (Adjusted per above items)</i>	 <u>5,639,423</u>	 <u>5,488,762</u>	 <u>5,522,225</u>

Quarterly Year-Over-Year Trend



Continuum Technical and Operating Enhancements

Customer Experience

- ♦ Customer Happiness Guarantee: On-time appointment guarantee, 30 day money back guarantee, and open internet promise
- ♦ All residential service calls receive a local coupon book
- ♦ On-Line Chat launched November 1
- ♦ Annual Free Summer Movies - VOD
- ♦ Speed Need Calculator feature added to website
- ♦ 100% Local Technical Support 24/7, 365

Continuum Network Scalability Project

- ◆ Continuum Network Strategy Summary
 - ◆ Scalable Hybrid-Fiber Coax Network today can achieve data download speeds of 1 GBPS with a reasonable capital outlay
 - ◆ Continuum is investing in the network to achieve 1 GBPS
 - ◆ All new construction since 2013 is built with Fiber-to-the-Home architecture
- ◆ 500 MBPS Phase Completed
 - ◆ Migrated 10 analog channels to digital on November 10
 - ◆ Increased data allocation of spectrum from 24 channels to 32 channels
 - ◆ November 30 launch

Data Speed Increases

◆ Speed increases and new product offering to launch
November 30, 2018

◆ No additional cost for customers

• 25x5	----->	50x5
• 50x5	----->	100x10
• 75x5	----->	150x10
• 100x10	----->	200x10
• 200x20	----->	300x20
• New Product:		500x20

Internet-Based Video

- ◆ MobiTV to be launched February 2019
- ◆ Internet Delivered, web-based
- ◆ Sophisticated customer interface
- ◆ No converter box required
- ◆ "Skinny Bundles" to be included in offering after February
- ◆ Initial target market---Cord Cutters