

HistCLD vs. RepINLD

CASE STUDY: Cable Assets

TFI Communications Technology
Asset Valuation Conference and
Seminar 2015



Purpose

- How to apply TFI factors to historical cost and to replacement cost to arrive at value
- Compare the value results of a Cable Company
- Explain the differences
- Summarize

Presented at *TFI Communication Technology Asset Valuation Conference*, January 28-29, 2015
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Topics

- Cost Basis
 - Historical
 - Replacement
- Translating Historical Cost to RCN
- RCNLD/Effective Age
- Comparing Methods
 - HistCLD
 - ReplCLD

Cost Basis

- | <u>Historical</u> | <u>Trend</u> | <u>Replacement</u> |
|---|--|--|
| <ul style="list-style-type: none">• Financial Reporting<ul style="list-style-type: none">○ Original Build Cost○ Cap Replacement○ Purchase Price○ Subject to writeoffs• Yesterday's<ul style="list-style-type: none">○ Cost○ Technology○ Economics• Retrofits | <ul style="list-style-type: none">• Convert to Replacement• Trends fall short<ul style="list-style-type: none">○ Retrofits○ Operating Efficiency○ Ghost Assets• Should be used only as a predictor | <ul style="list-style-type: none">• Appraisal Purpose<ul style="list-style-type: none">○ Mimics New Build○ Optimized○ Most efficient (TCO)• Today's<ul style="list-style-type: none">○ Cost○ Technology○ Economics• No Retrofits |

Translating Historical Costs to RCN

<u>Age</u>	<u>Historical Cost</u>	<u>Trend</u>	<u>Estimate</u>	<u>RCN Adjustment*</u>	<u>RCN</u>
0.5	5,000	0.949	4,743	0.903	4,285
1.5	10,000	0.854	8,538	0.737	6,293
2.5	20,000	0.768	15,369	0.601	9,242
3.5	30,000	0.692	20,748	0.491	10,180
Total	65,000	0.760	49,498	0.607	30,000

- Adjustment factor corrects trend factor shortfalls (i.e. retrofit, ghost assets, etc.)
- Quantifying the adjustment factor using constant exponential rate impacts older assets greater - Weighted Average Age is 2.7 yrs, Modified Age is 2.0 yrs.
- *Example: RCN Adjustment is -18.4% CAGR

RCNLD/Effective Age

<u>Age</u>	<u>RCN</u>	<u>% Good</u>	<u>RCNLD</u>
0.5	4,285	93%	3,985
1.5	6,293	78%	4,909
2.5	9,242	63%	5,822
3.5	10,180	49%	4,988
Total	30,000	66%	19,704

Ave. = 71%, EA ~ 2.0 yrs

- Apply Applicable % Good to RCN to determine RCNLD
- Compare Total RCNLD to Total RCN
- Ratio provides weighted percent good
- Weighted % Good is matched to nearest ½ year

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Comparing Methods: HistCLD

<u>Category</u>	<u>HC</u>	<u>Composite Percent Good</u>	<u>HCLD</u>
Electronics	\$252,772,850	12%	30,350,248
Outside Plant	365,228,474	29%	106,158,606
CPE	369,455,115	17%	62,544,989
Total	\$987,456,439	20%	199,053,844

HCLD Application:

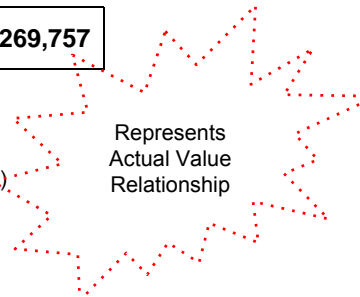
1. Composite trend is used (including pricing and functionality adjustments)
2. Actual cost by vintage is applied.
3. Weighted Percent Good is displayed
4. Value not adjusted for (retrofits, operating efficiencies, and ghost assets)

Comparing Methods: RepICNLD

<u>Category</u>	<u>HC</u>	<u>Untrended Percent Good</u>	<u>RCNLD</u>
Electronics	\$93,576,032	24%	\$22,230,879
Outside Plant	212,218,508	46%	98,421,094
CPE	148,396,315	35%	52,617,784
Total	\$454,190,854	38%	\$173,269,757

RCNLD Application:

1. Use cost trends and RCN adjustment trend to determine RCN by vintage
2. Use Untrended Percent Good (excludes cost trend)
3. If RCN is same functional replacement then also exclude (functionality adjustment)
4. Final result removes retrofits and ghost assets
5. Further analysis required to determine operational efficiency adjustment



Represents
Actual Value
Relationship