HistCLD vs. ReplNLD

CASE STUDY: Cable Assets

TFI Communications Technology Asset Valuation Conference and Seminar 2015

correlationADVISORS
Business Valuation & Financial Advisory Services

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

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Topics

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

Cost Basis

Historical

- Financial Reporting
  - Original Build Cost
  - Cap Replacement
  - Purchase Price
  - Subject to writeoffs
- Yesterday's
  - Cost
  - Technology
  - Economics
- Retrofits

Trend

- Convert to Replacement
- Trends fall short
  - Retrofits
  - Operating Efficiency
  - Ghost Assets
- Should be used only as a predictor

Replacement

- Appraisal Purpose
  - Mimics New Build
  - Optimized
  - Most efficient (TCO)
- Today's
  - Cost
  - Technology
  - Economics
- No Retrofits

Translating Historical Costs to RCN

Age	Historical Cost	Trend	Estimate	RCN Adjustment*	RCN
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

Age	RCN	% Good	RCNLD
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

Comparing Methods: HistCLD

Category	HC	Composite Percent Good	HCLD
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: ReplCNLD

Category	HC	Untrended Percent Good	RCNLD
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