



# **3Q 2014 Earnings Conference Call**

October 31, 2014

# Safe Harbor Statement

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This presentation includes “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, regarding, among other things, our business strategy, our prospects and our financial position. These statements can be identified by the use of forward-looking terminology such as “believes,” “estimates,” “expects,” “intends,” “may,” “will,” “should,” “could,” or “anticipates” or the negative or other variation of these similar words, or by discussions of strategy or risks and uncertainties. These statements are based on current expectations of future events. If underlying assumptions prove inaccurate or unknown risks or uncertainties materialize, actual results could vary materially from the Company’s expectations and projections. Important factors that could cause actual results to differ materially from such forward-looking statements include, without limitation, risks related to the following:

- ❑ Increasing competition in the communications industry; and
- ❑ A complex and uncertain regulatory environment.

A further list and description of these risks, uncertainties and other factors can be found in the Company’s SEC filings which are available online at [www.sec.gov](http://www.sec.gov), [www.shentel.com](http://www.shentel.com) or on request from the Company. The Company does not undertake to update any forward-looking statements as a result of new information or future events or developments.

# Use of Non-GAAP Financial Measures

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Included in this presentation are certain non-GAAP financial measures that are not determined in accordance with US generally accepted accounting principles. These financial performance measures are not indicative of cash provided or used by operating activities and exclude the effects of certain operating, capital and financing costs and may differ from comparable information provided by other companies, and they should not be considered in isolation, as an alternative to, or more meaningful than measures of financial performance determined in accordance with US generally accepted accounting principles. These financial performance measures are commonly used in the industry and are presented because Shentel believes they provide relevant and useful information to investors. Shentel utilizes these financial performance measures to assess its ability to meet future capital expenditure and working capital requirements, to incur indebtedness if necessary, return investment to shareholders and to fund continued growth. Shentel also uses these financial performance measures to evaluate the performance of its businesses and for budget planning purposes.



# Chris French

President and CEO

# Q3'14 Highlights

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## ■ Net Income Growth

- Increased 19.1% over Q3'13 to \$8.0 million
- Adjusted OIBDA increased 15.9% to \$33.3 million

## ■ Revenue Growth

- Revenue grew 6.1% over Q3'13 to \$82.3 million

## ■ Customer Growth

	<u>9/30/13</u>	<u>9/30/14</u>	<u>Change</u>
Wireless	400,336	423,102	+22,766
Cable (RGUs)	112,307	120,466	+8,159

# Wireless Highlights

## ❑ Postpaid Growth

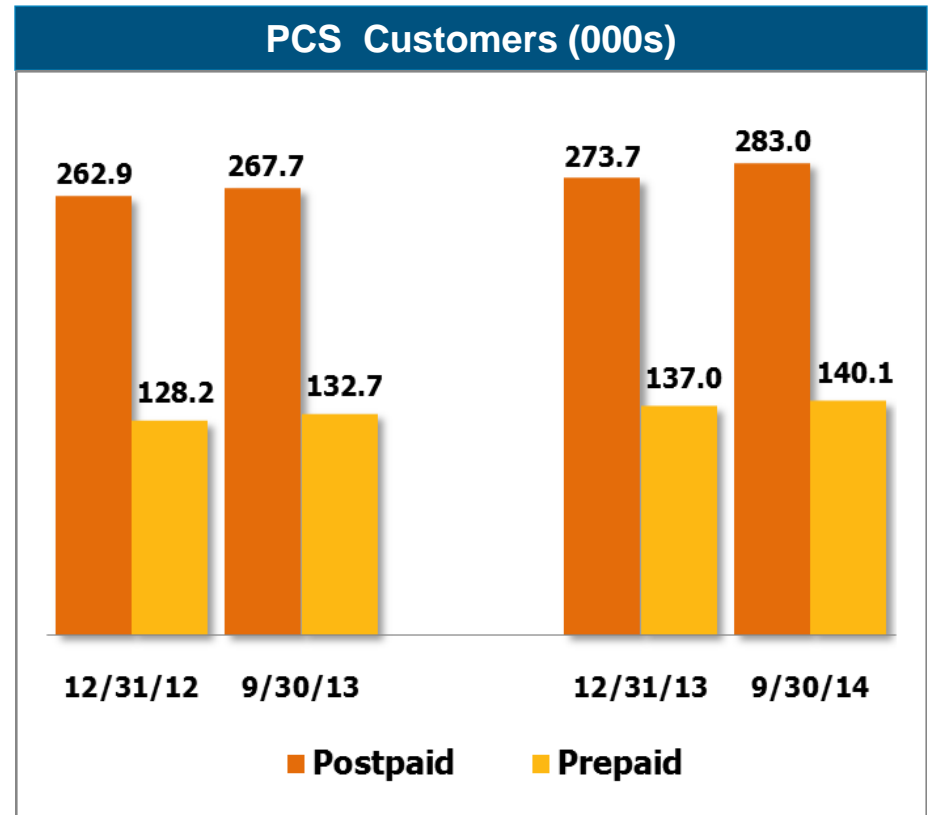
Postpaid customers up 5.7% over last 12 months

## ❑ Prepaid Growth

Prepaid customers up 5.6% over last 12 months

## ❑ Operating Income Increase

Improvement of \$0.9 million, or 5.1%



# Cable Highlights

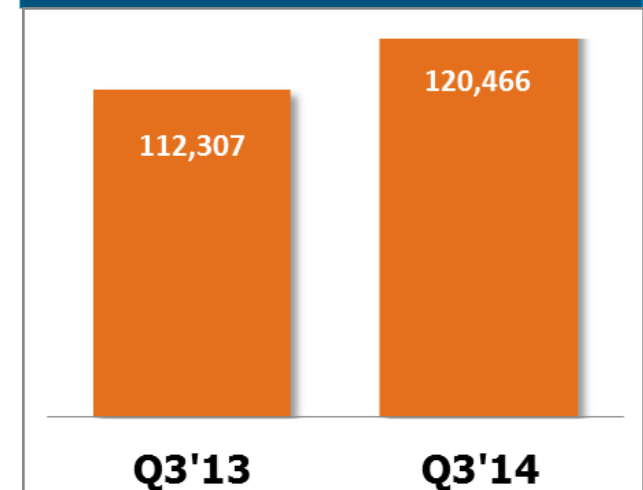
## ■ Revenue Growth

- Operating revenues \$21.0 million, growth of 9.7% over Q3'13
- Q3'14 Adjusted OIBDA \$3.4 million, up 75.2% from Q3'13
- 120,466 RGUs at 9/30/2014, up 7.3% over Q3'13

Cable OIBDA (in millions)



Cable RGUs



# Other Highlights

- Fiber Lease revenues \$8.1 million, up 15.7% from Q3'13
- New external fiber lease contracts have more than doubled
- Towers generated \$1.7 million of OIBDA, up 21.5% over Q3'14

## Fiber Lease Revenue (in millions)



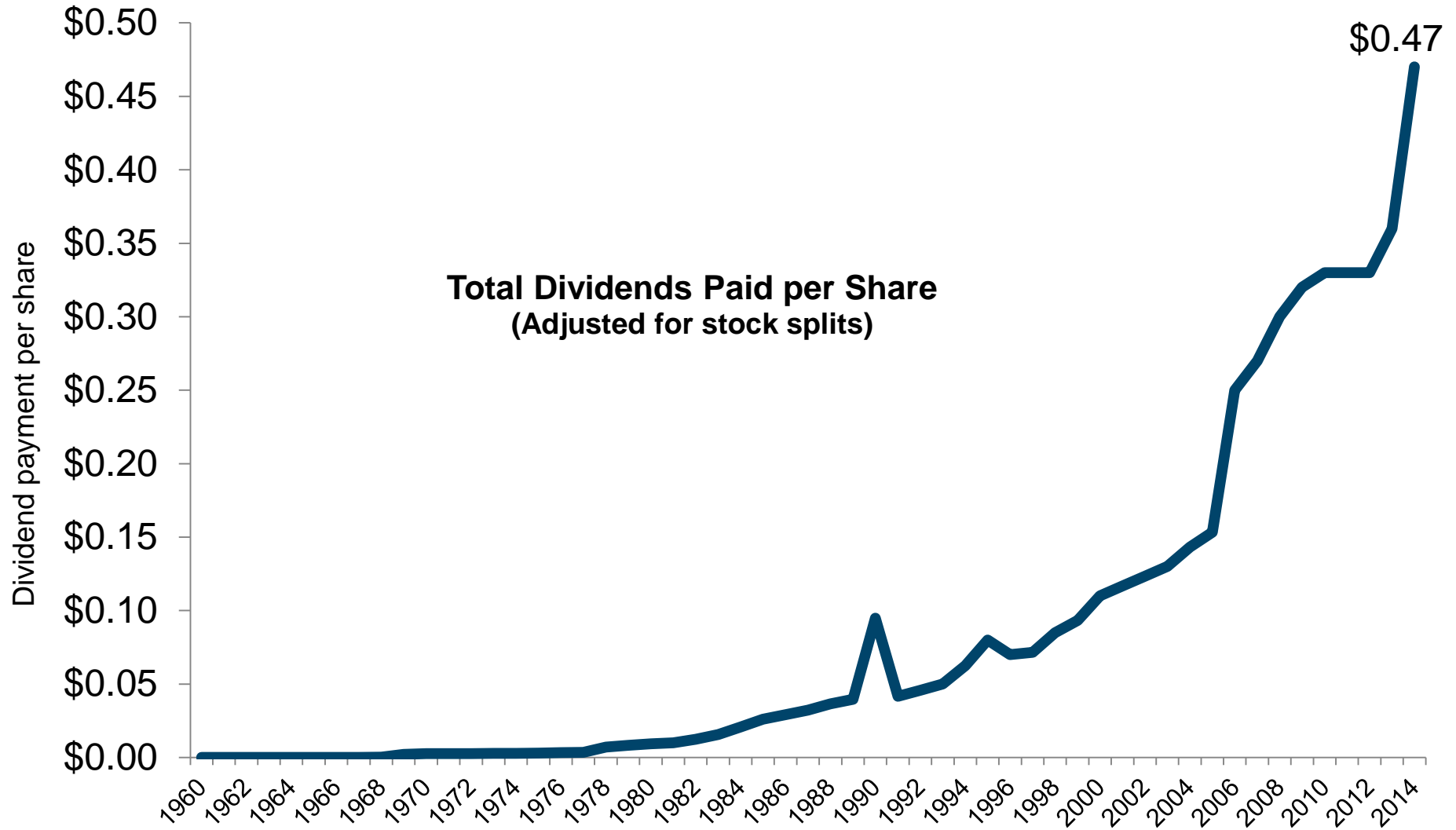
## Mobile Tower OIBDA (\$ thousands)

	<u>Q3'13</u>	<u>Q3'14</u>
Operating Income	\$1,070 *	\$1,380
Depreciation and Amortization	386	391
Share Based Compensation	6	5
<b>Adjusted OIBDA</b>	<b>\$1,462</b>	<b>\$1,776</b>

\* The lower operating income in Q3'13 primarily resulted from a \$0.3 million adjustment to reduce straight-line rent accruals at a small number of sites related to termination of Sprint's iDEN leases.



# Annual Dividend Paid Every Year Since 1960





# Adele Skolits

VP of Finance and CFO

# Profitability

## Consolidated Results (\$ in thousands, except per share amounts)

	<u>For the Quarter Ended:</u>		
	<b>9/30/13</b>	<b>9/30/14</b>	<b>Change</b>
<b>Operating Income</b>	\$ 13,262	\$ 14,144	6.7%
<b>Net Income</b>	\$ 6,717	\$ 8,003	19.1%
<b>Earnings Per Share:</b>			
<b>Basic</b>	\$ 0.28	\$ 0.33	17.9%
<b>Diluted</b>	\$ 0.28	\$ 0.33	17.9%

# Profitability

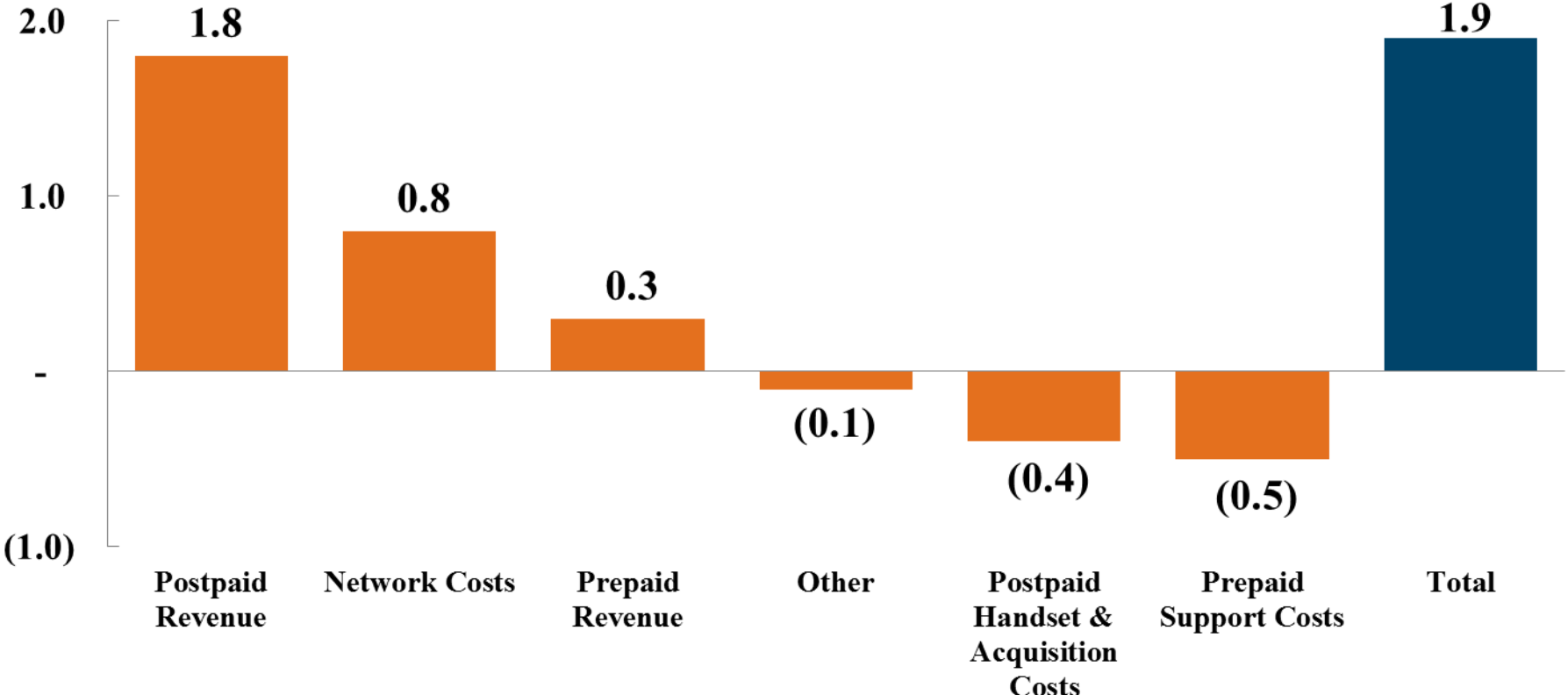
## Adjusted OIBDA (\$ thousands)

	<u>For the Quarter Ended:</u>		
	<u>9/30/13</u>	<u>9/30/14</u>	<u>Change</u>
Operating Income	13,262	14,144	882
Depreciation and Amortization	14,992	16,731	1,739
Share Based Compensation	431	325	(106)
(Gain)/Loss on Asset Sales/Disposals	18	2,053	2,035
<b>Adjusted OIBDA</b>	<b>28,703</b>	<b>33,253</b>	<b>4,550</b>

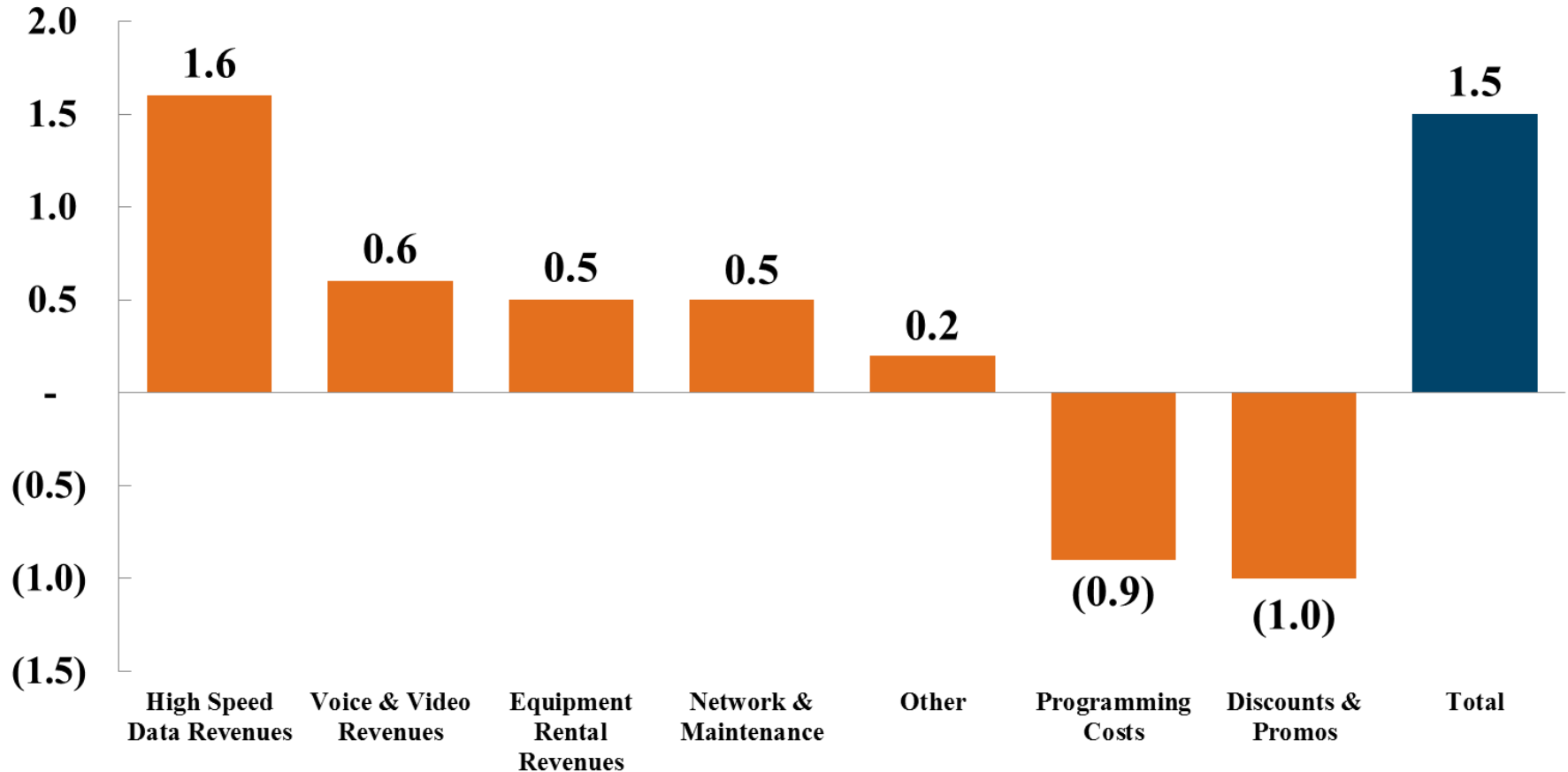
# Adjusted OIBDA by Segment (\$ millions)

	<u>Wireless</u>		<u>Cable</u>		<u>Wireline</u>	
	<u>Q3'13</u>	<u>Q3'14</u>	<u>Q3'13</u>	<u>Q3'14</u>	<u>Q3'13</u>	<u>Q3'14</u>
Operating Income	\$ 16.5	\$ 17.3	\$ (3.5)	\$ (4.1)	\$ 3.5	\$ 4.4
Depreciation and amortization	6.8	7.9	5.3	5.9	2.9	2.9
Plus (gain) loss on asset sales	-	-	(0.1)	1.5	-	0.5
Share based compensation	0.1	0.1	0.2	0.1	0.1	0.1
<b>Adjusted OIBDA</b>	<b><u>\$23.4</u></b>	<b><u>\$25.3</u></b>	<b><u>\$ 1.9</u></b>	<b><u>\$ 3.4</u></b>	<b><u>\$6.5</u></b>	<b><u>\$ 7.9</u></b>
Percent Change		8%		75%		21%

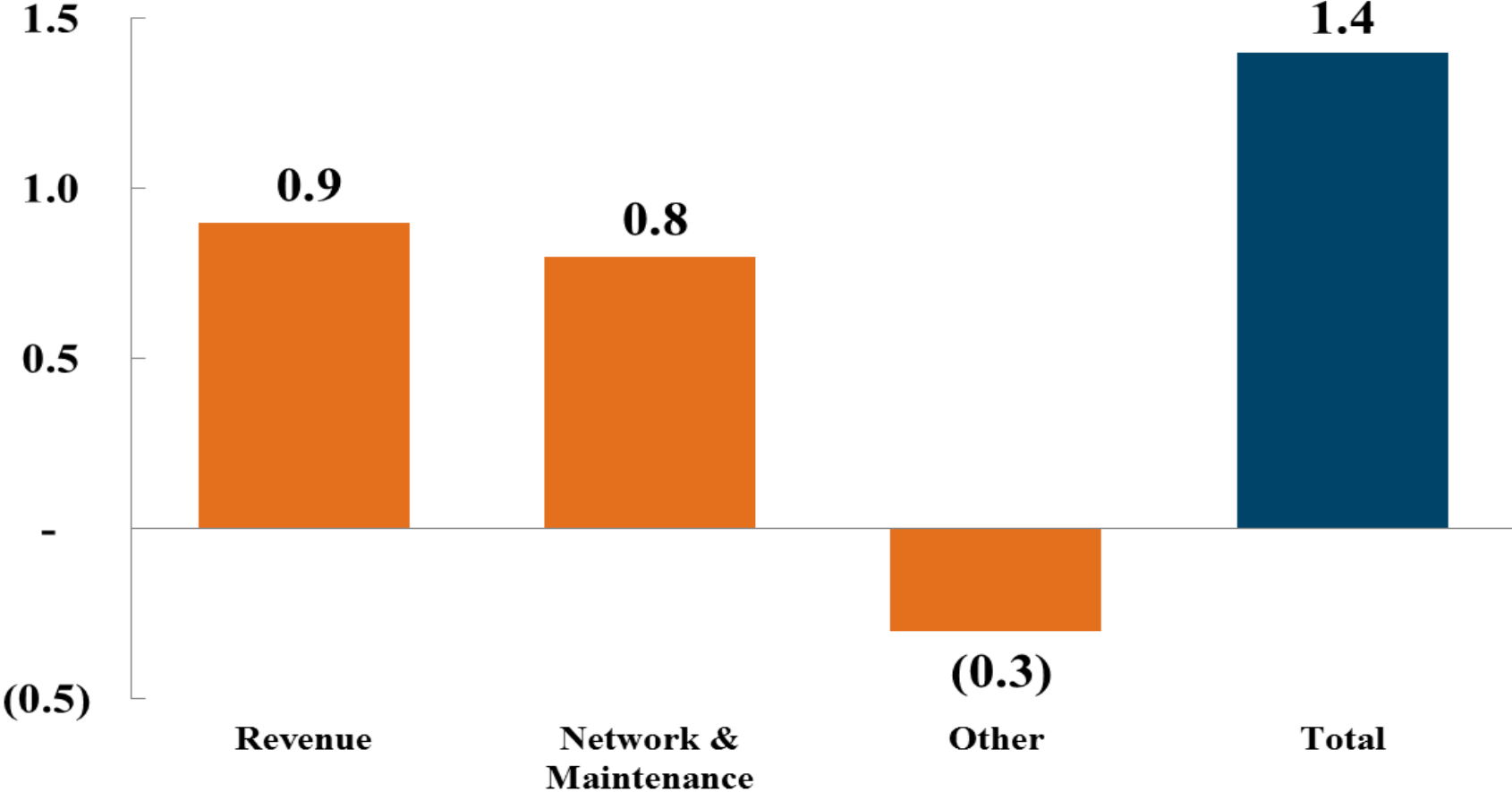
# Wireless Segment – Change in Adjusted OIBDA Q3'14 vs. Q3'13 (\$ millions)



# Cable Segment – Change in Adjusted OIBDA Q3'14 vs. Q3'13 (\$ millions)



# Wireline Segment – Change in Adjusted OIBDA Q3'14 vs. Q3'13 (\$ millions)







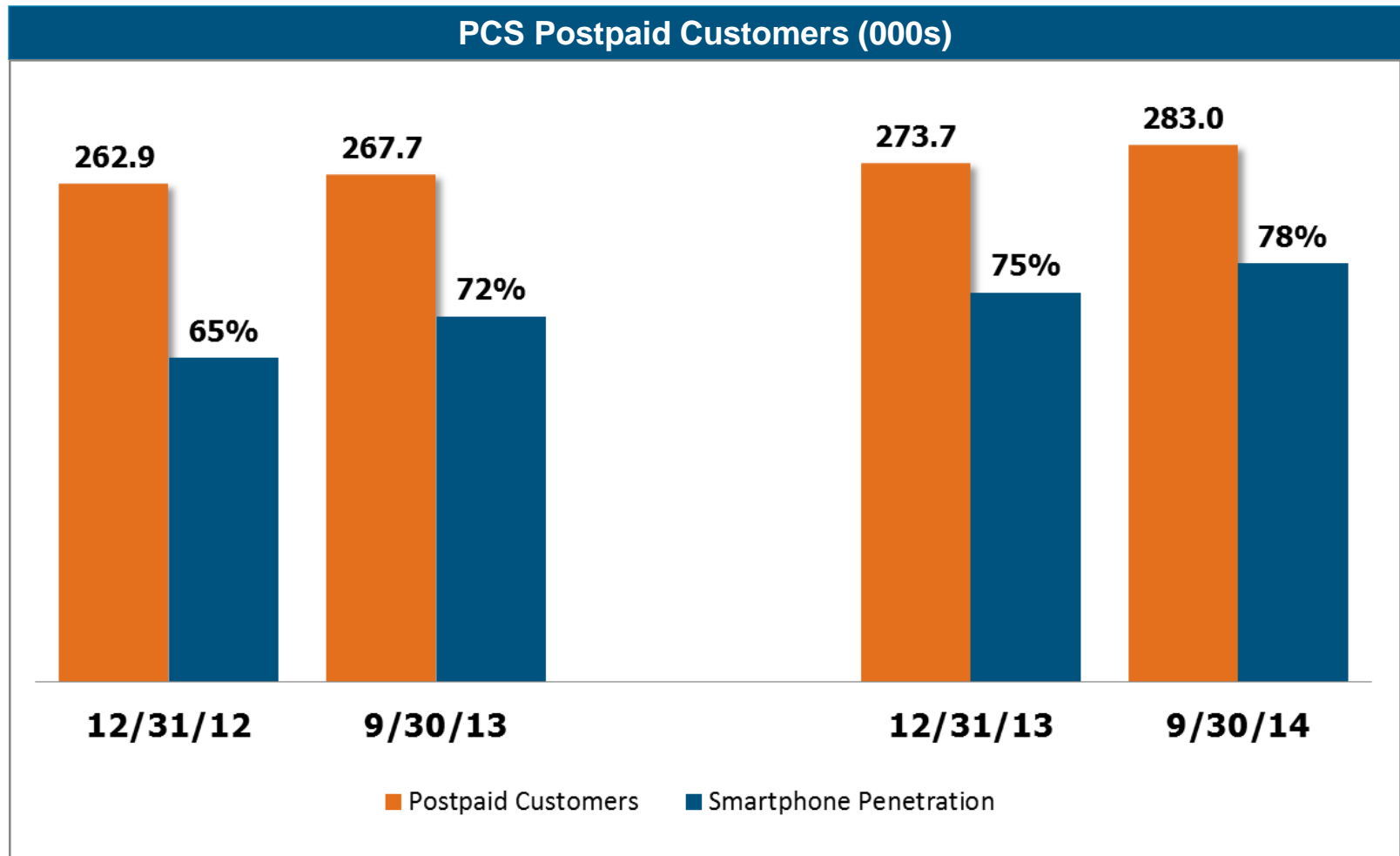
# Earle MacKenzie

EVP and COO

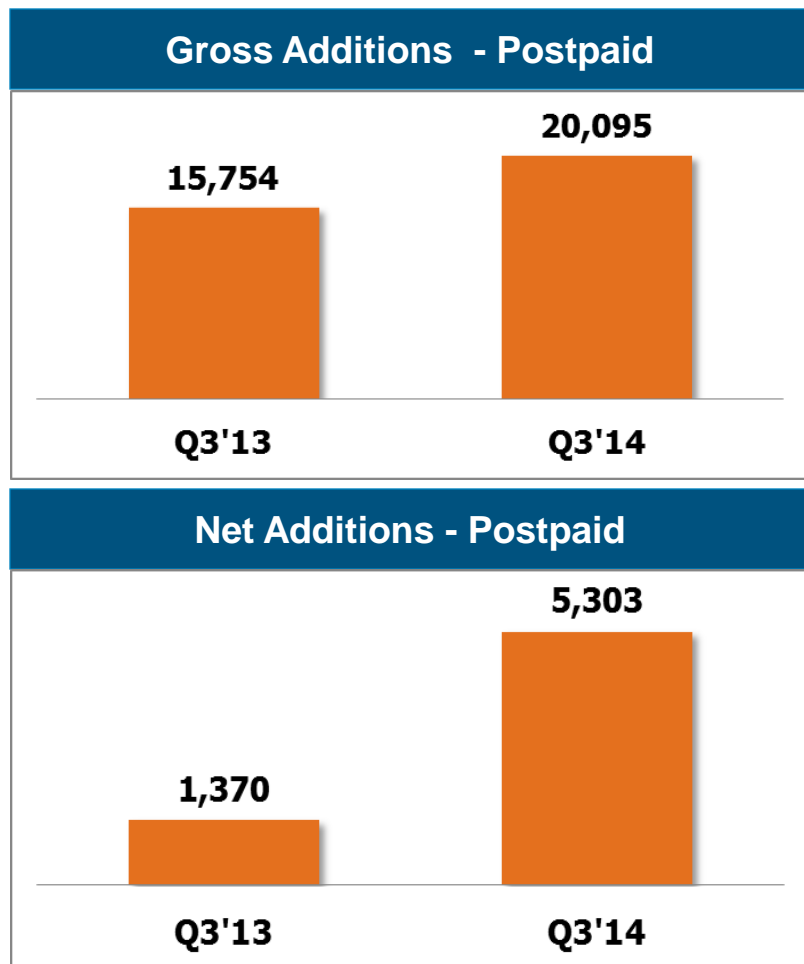


# Wireless Segment

# Postpaid Customer Growth



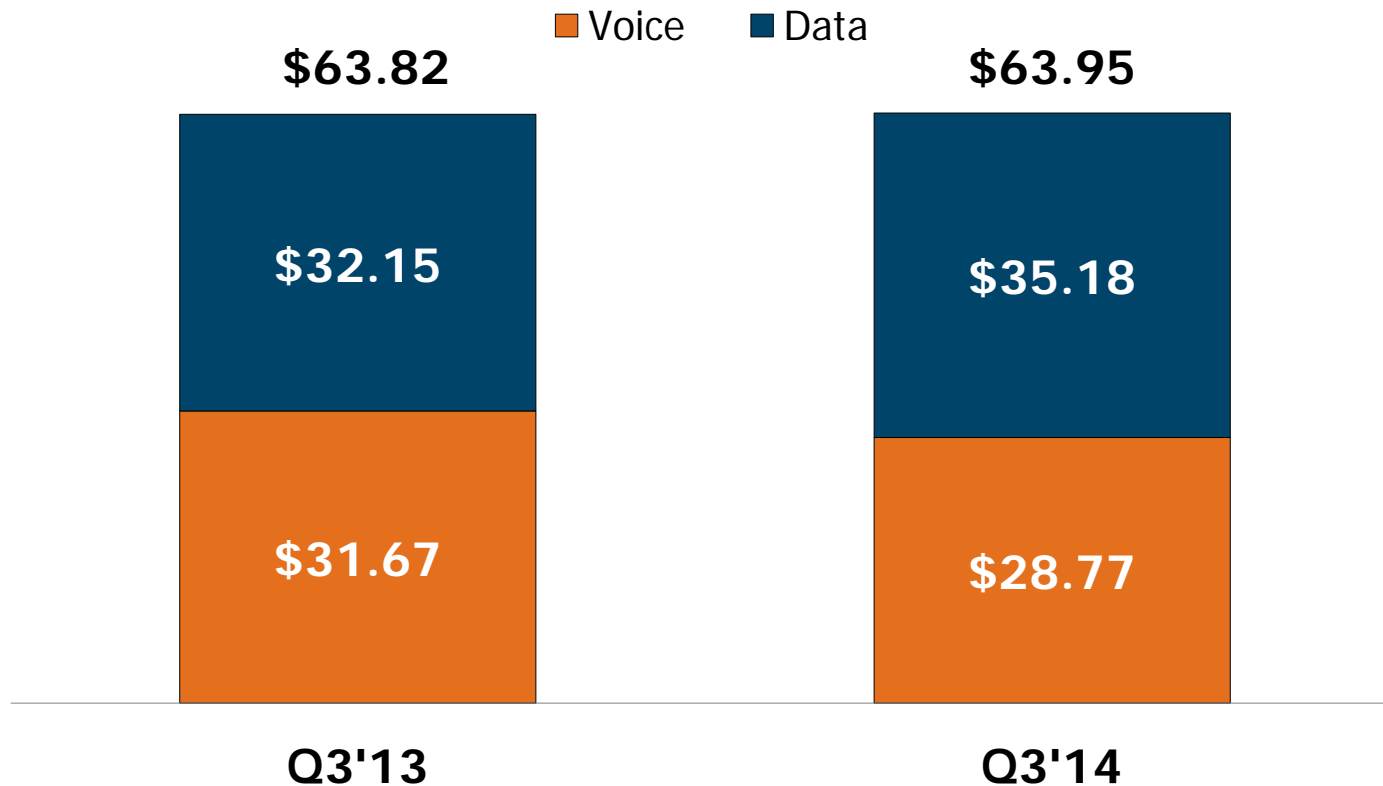
# Postpaid Customer Additions



- Net adds of 5,303 in Q3 2014 versus 1,370 in Q3 2013
- Q3 2014 churn of 1.76% down from 1.80% in Q3 2013
- Shentel-controlled channels produced 49% of gross adds in Q3 2014 and 55% in Q3 2013

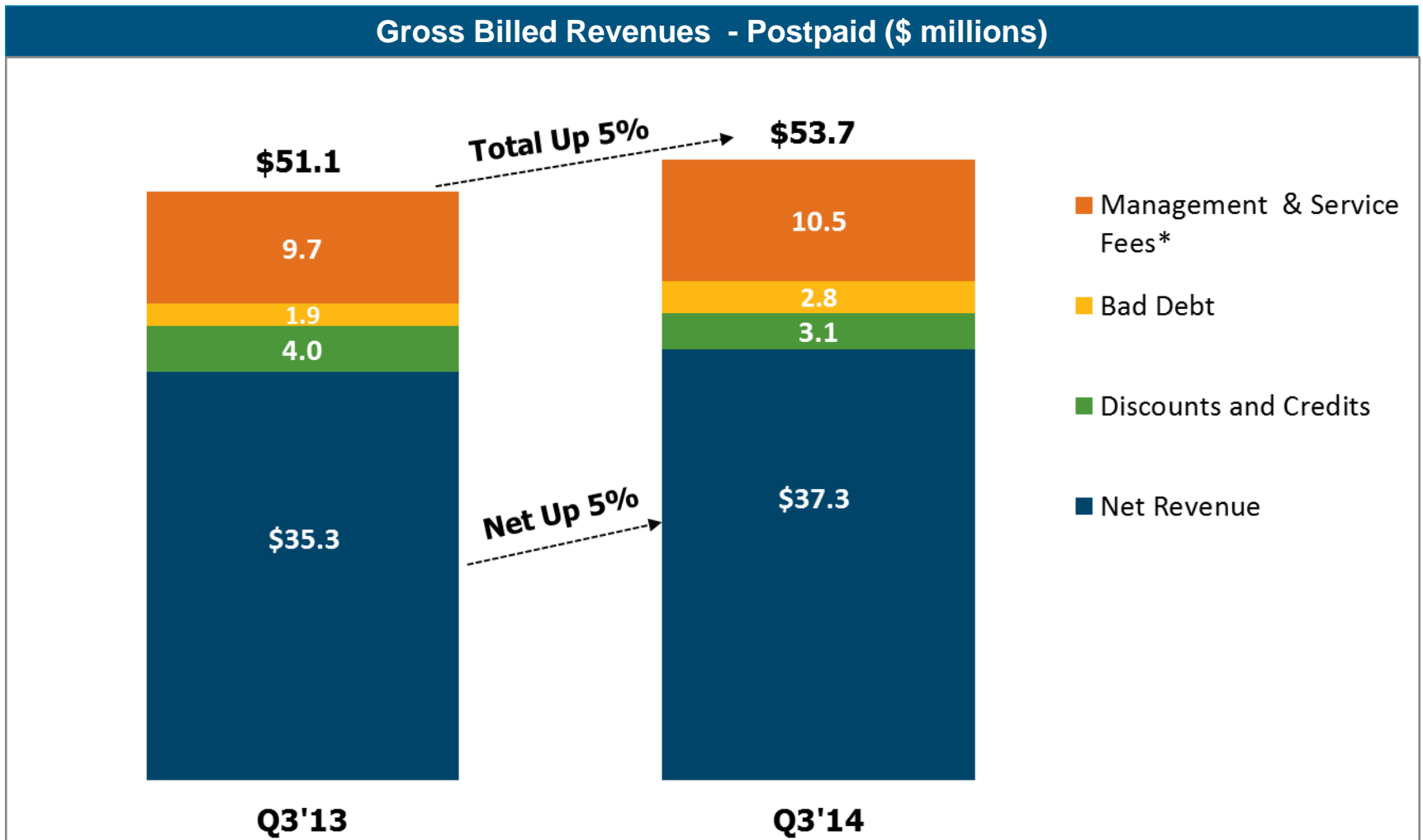
# Total Revenue per Customer Up; Data Usage Increasing

## Gross Billed Revenue per Postpaid User – Data & Voice <sup>1</sup>



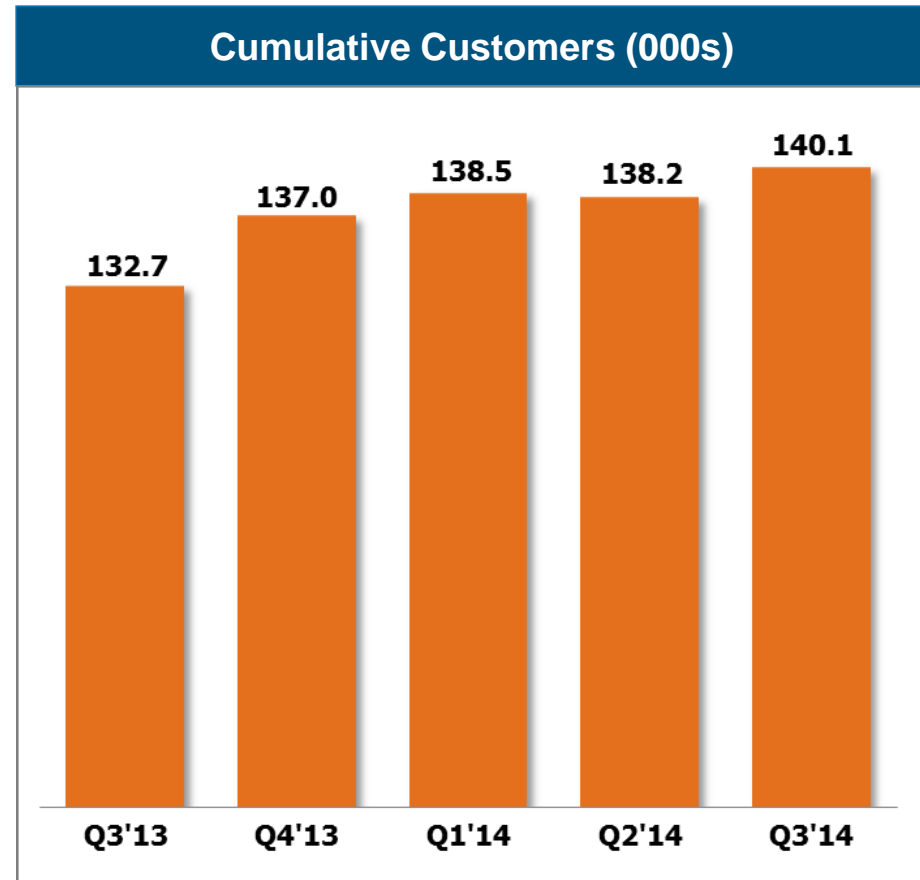
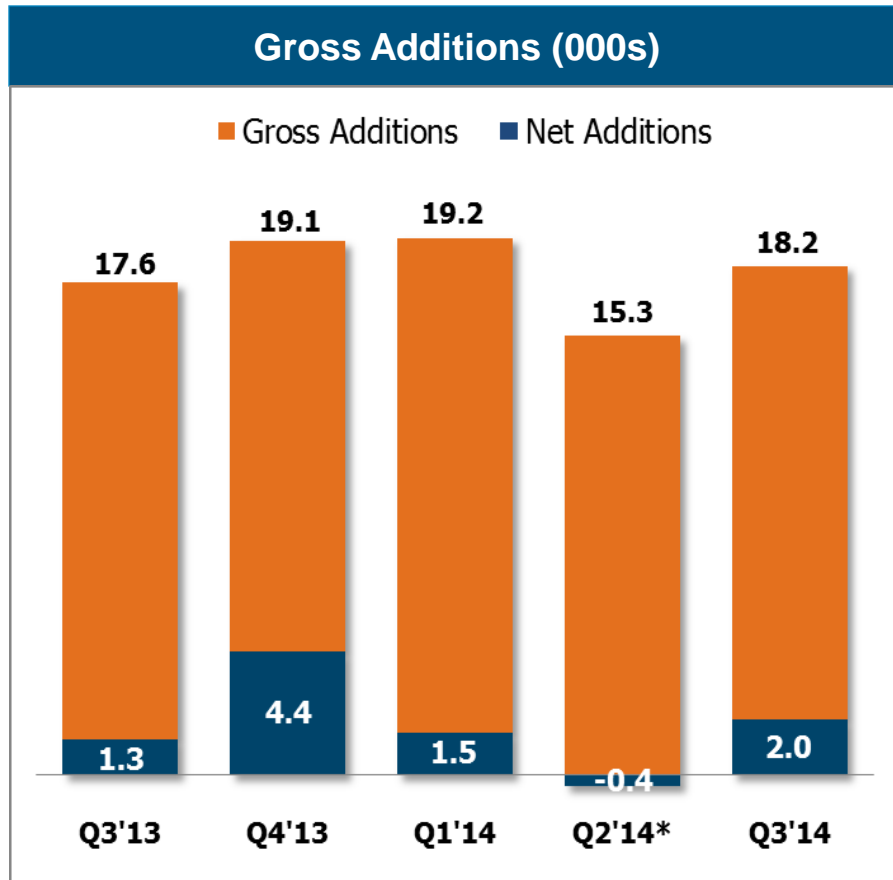
<sup>1</sup> – Before Service credits, bad debt, Sprint Nextel fees.

# PCS Revenues



\*Net service fee increased from 12% to 14% effective 8/1/2013

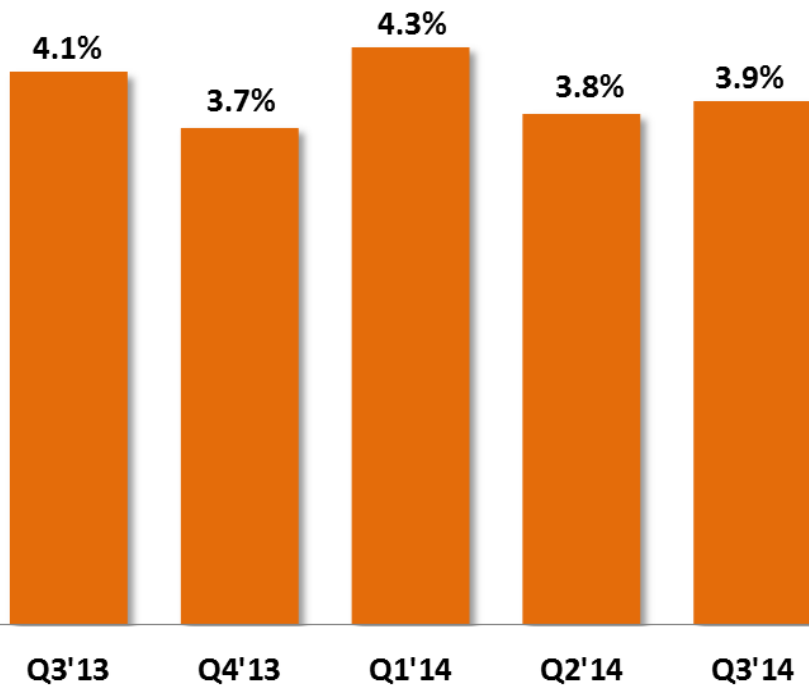
# PCS Prepaid Statistics



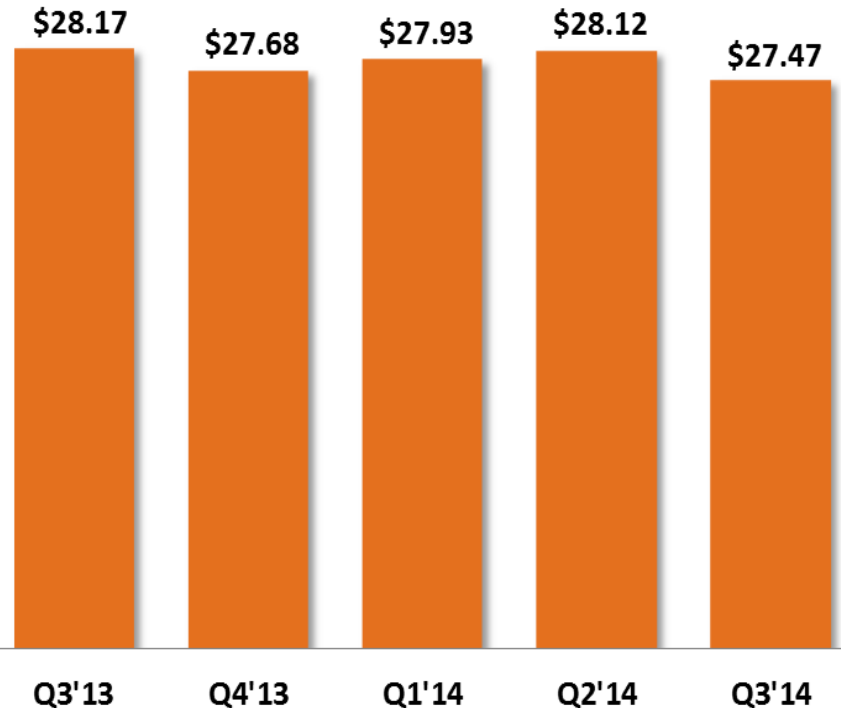
\*The loss of customers in Q2'13 and Q2'14 related to more stringent governmental requirements for customers renewing their eligibility for the government subsidized Assurance program.

# PCS Prepaid Statistics

## Churn %



## Average Gross Billed Revenue

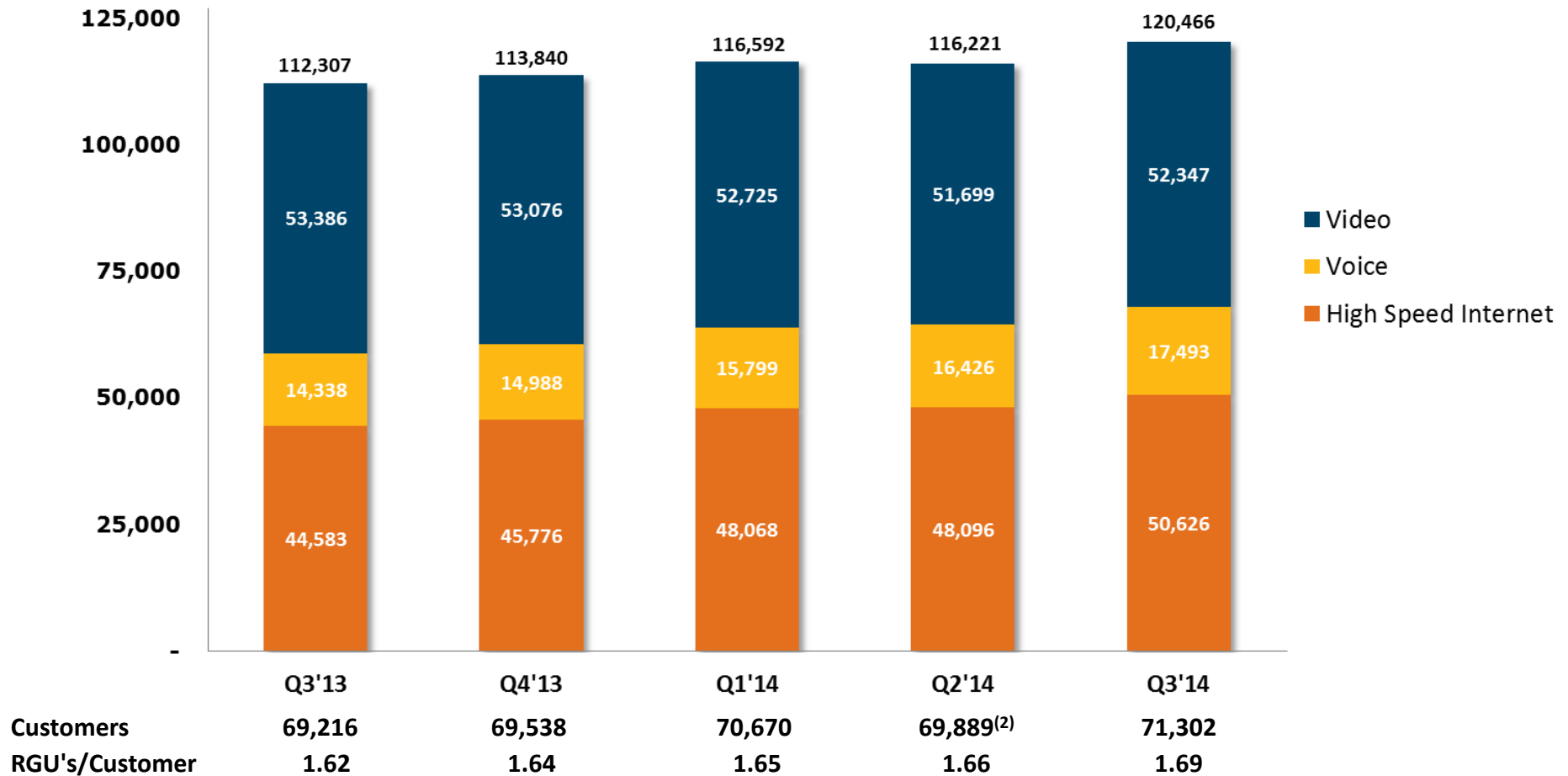






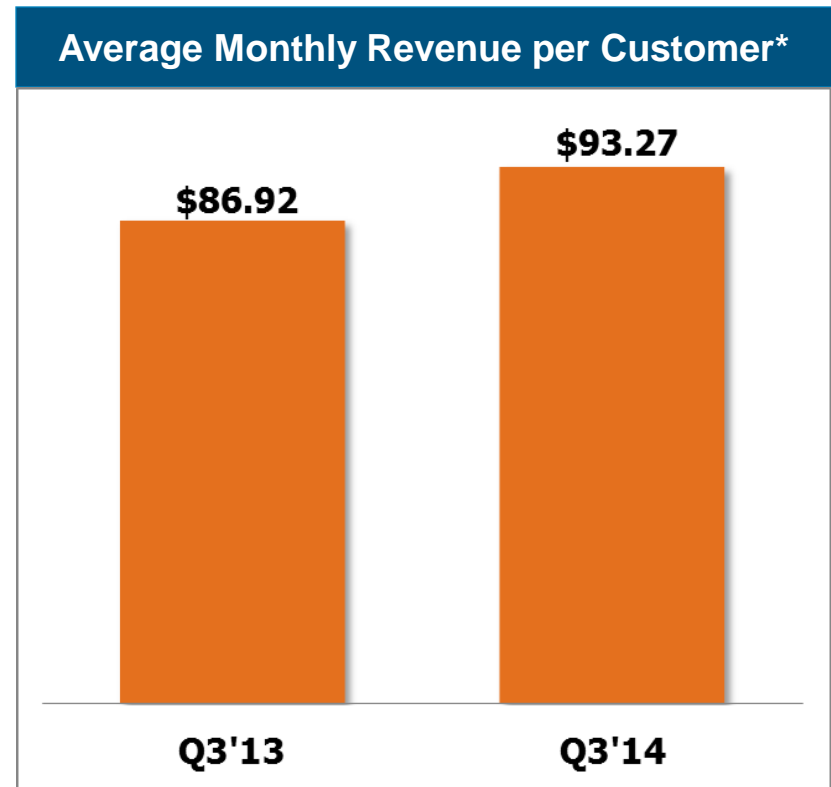
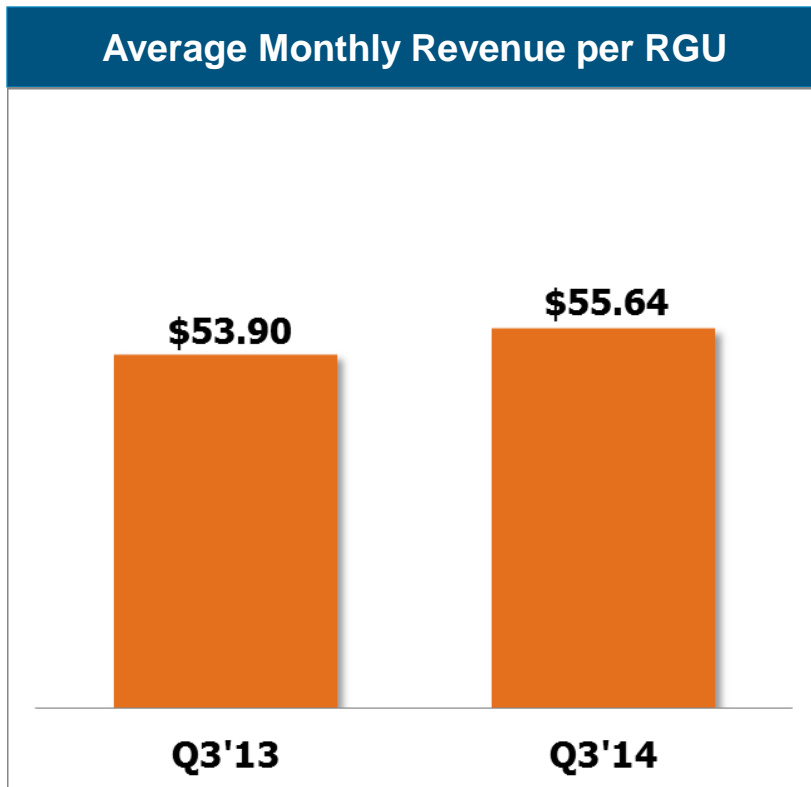
# Cable Segment

# Cable - RGU Growth by Quarter



1. Prior periods revised to reflect transfer of Shenandoah County, VA video activities to Wireline
2. College students disconnect during summer

# Increasing Average Monthly Cable Revenue



\*Average monthly revenue per video subscriber was \$111.96 and \$126.64 for Q3 2013 and Q3 2014, respectively.

# Key Operational Results – Cable\*

	Q3 2013	Q3 2014
<b>Homes Passed</b>	<b>168,746</b>	<b>171,382</b>
<b>Total Revenue Generating Units</b>	<b>112,307</b>	<b>120,466</b>
<b>Customer Relationships</b>	<b>69,216</b>	<b>71,302</b>
<b>RGUs per Customer Relationship</b>	<b>1.62</b>	<b>1.69</b>
<b>Video</b>		
Revenue generating units	53,386	52,347
Penetration	31.6%	30.5%
Digital video penetration	48.7%	64.8%
<b>High-speed Internet</b>		
Available Homes	166,898	170,728
Revenue generating units	44,583	50,626
Penetration	26.7%	29.7%
<b>Voice</b>		
Available Homes	161,932	167,991
Revenue generating units	14,338	17,493
Penetration	8.9%	10.4%

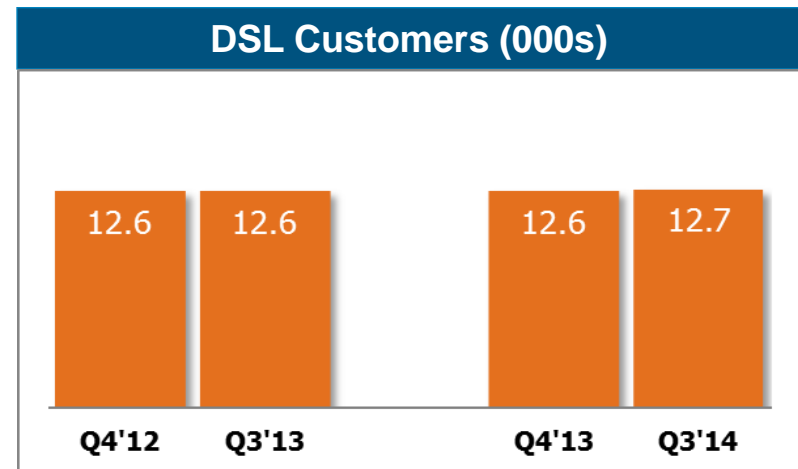
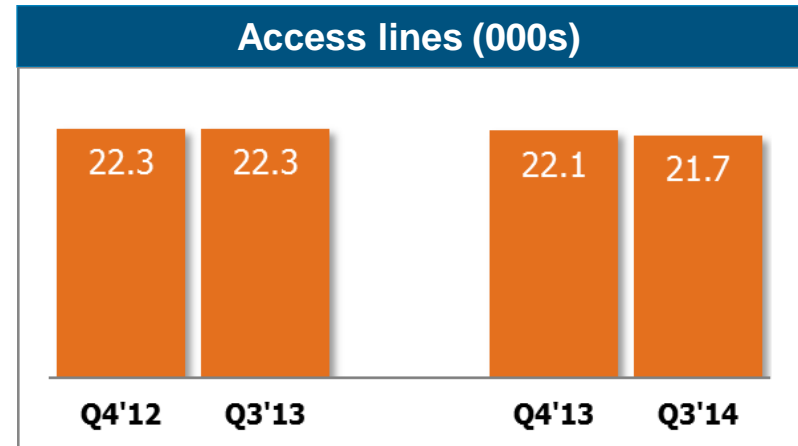
\*Excludes cable operations in Shenandoah County, VA which are included in the Wireline segment.



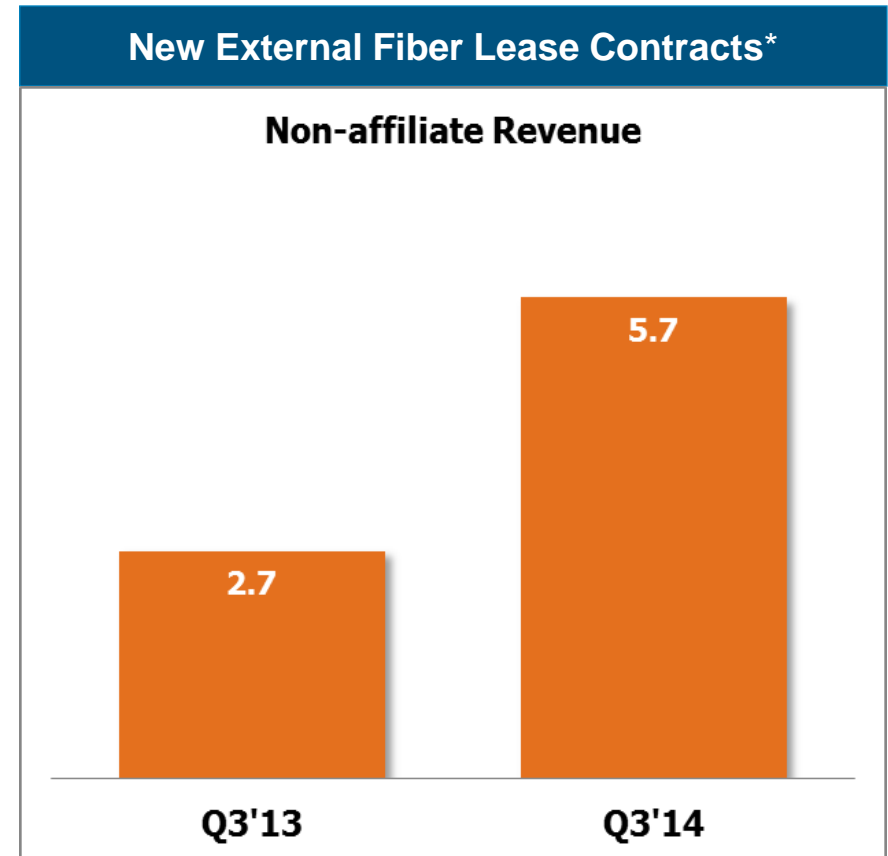
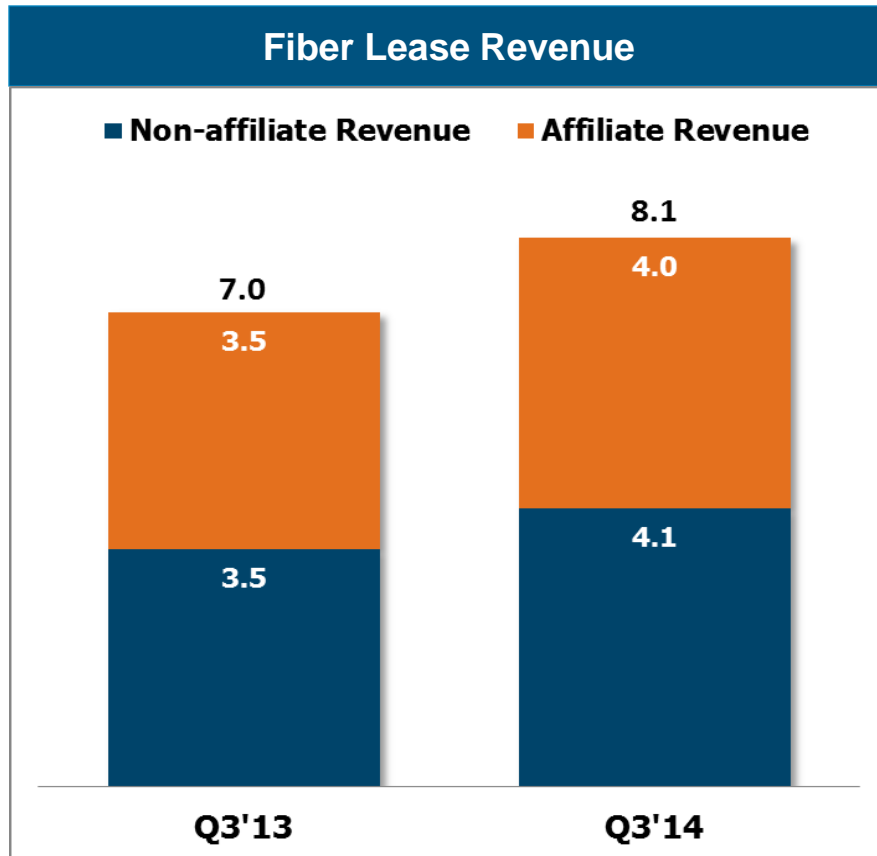
# Wireline Segment

# Key Operational Results - Wireline

- Access line loss of 2.3% in past 12 months
- Broadband penetration in LEC area at 58.4%
- Total connections at 9/30/14 of 34.4 thousand
- 5,787 video subscribers at 9/30/14

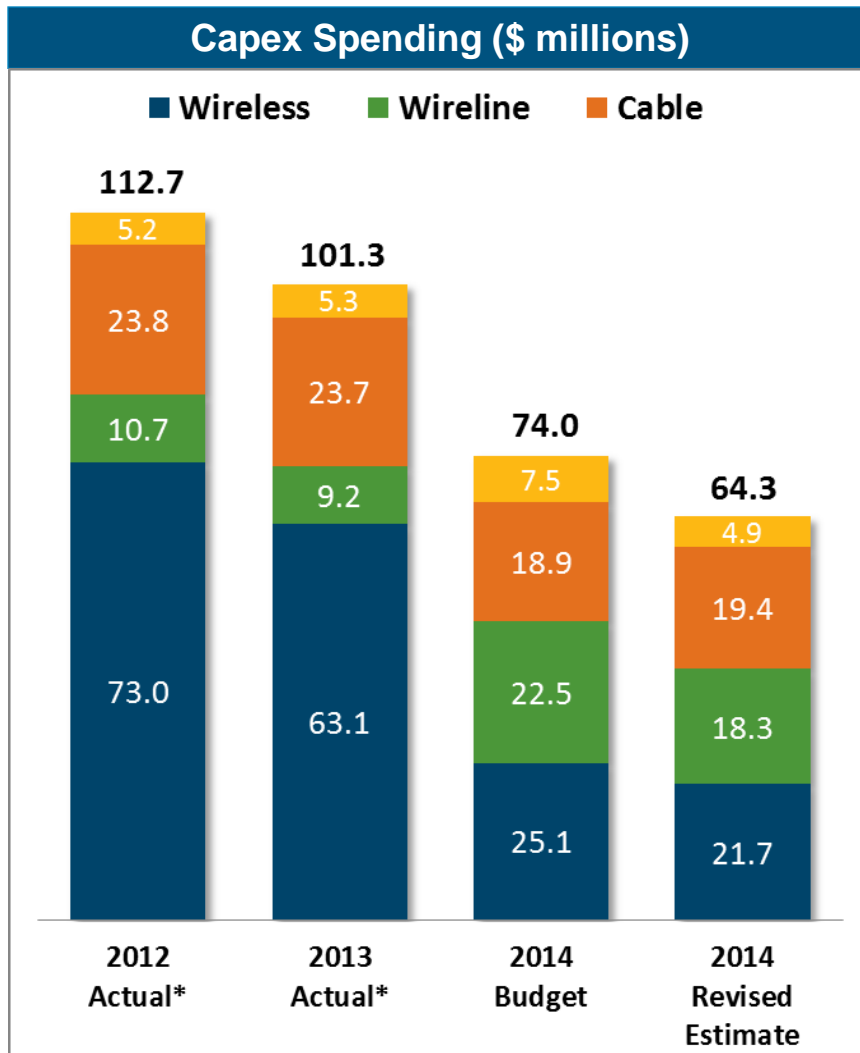


# Wireline Statistics – Fiber Sales (\$ millions)



\* Amounts shown represent the total contract value. Contract Terms range from 36 to 120 months. Revenues may be booked either in the Wireline or Cable segment depending on which assets are used to provide the service.

# Investing in the Future



- **2014 Capex Budget:**
  - 24% Maintenance
  - 24% Capacity
  - 30% Network Expansion
  - 22% Success-Based
  
- **2014 Revised Estimate:**
  - Cable slightly over budget due to set-top boxes
  - Variances on Wireless and Wireline are a mix of projects under budget and projects delayed until FY'15

\* Accounts payable at December 31, 2013 and 2012 included \$7.6 million and \$24.7 million associated with PCS Network Vision capital expenditures.



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# Q&A

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# Appendix

# Non-GAAP Financial Measures – Billed Revenue per Postpaid & Prepaid Subscriber

*Dollars in thousands (except subscribers and revenue per subscriber)*

	<u>3Q 2013</u>	<u>3Q 2014</u>
<b><u>Gross billed revenue</u></b>		
Wireless segment total operating revenues	\$ 49,578	\$ 52,195
Equipment revenue	(1,257)	(1,573)
Tower lease revenue	(2,611)	(2,545)
Gross billed revenue – prepaid *	(11,155)	(11,418)
Prepaid service fee	695	679
Other revenue	228	(64)
Wireless service revenue – postpaid	<u>35,478</u>	<u>37,274</u>
Service credits	3,987	3,030
Write-offs	1,952	2,832
Management fee	3,624	3,826
Service fee	6,048	6,696
Gross billed revenue – postpaid ^	<u>\$ 51,089</u>	<u>\$ 53,658</u>
<b>Average Postpaid subscribers ^</b>	<b>266,843</b>	<b>279,686</b>
<b>Billed revenue per Postpaid subscriber ^</b>	<b>\$ 63.82</b>	<b>\$ 63.95</b>
<b>Average Prepaid subscribers *</b>	<b>131,993</b>	<b>138,576</b>
<b>Billed revenue per Prepaid subscriber *</b>	<b>\$ 28.17</b>	<b>\$ 27.47</b>

Calculation: Gross billed revenue / Average subscribers / 3 months

# Postpaid PCS Customers Top Picks Q3 2014

## ■ Top Service Plans – 77% of Gross Adds

Unlimited, My Way	32%
20GB Share Pack	15%
3G/4G Tablet 1GB	12%
Sprint Family	11%
Everything Data 1500	7%

## ■ Top Devices – New Activations – All Channels

iPhone	36%
Samsung Galaxy S	19%
Samsung Galaxy Tablet	19%

Smartphones made up 78% of the Postpaid base in Q3'14, up from 77% in Q2'14 and 72% in Q2'13.

# iPhone Statistics – Q3'14

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- 36% of Q3 Gross Adds
- 43% of iPhones were sold or upgraded in Shentel-controlled channels
- 33.2% of 9/30/14 Postpaid customers had the iPhone, up from 31.6% at 6/30/14
- iPhone Base – 9/30/14
  - 54% iPhone 5, 5C & 5S
  - 42% iPhone 4 & 4S
  - 4% iPhone 6, 6 Plus

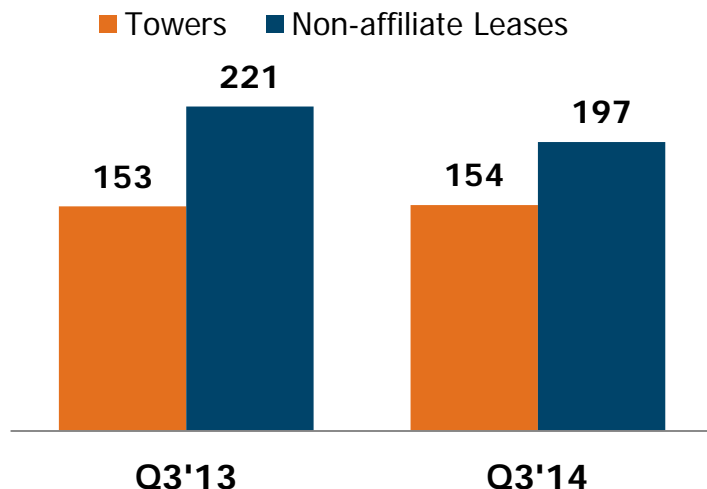
# Non-GAAP Financial Measure – Average Monthly Cable Revenue

*Dollars in thousands (except subscribers and revenue per user)*

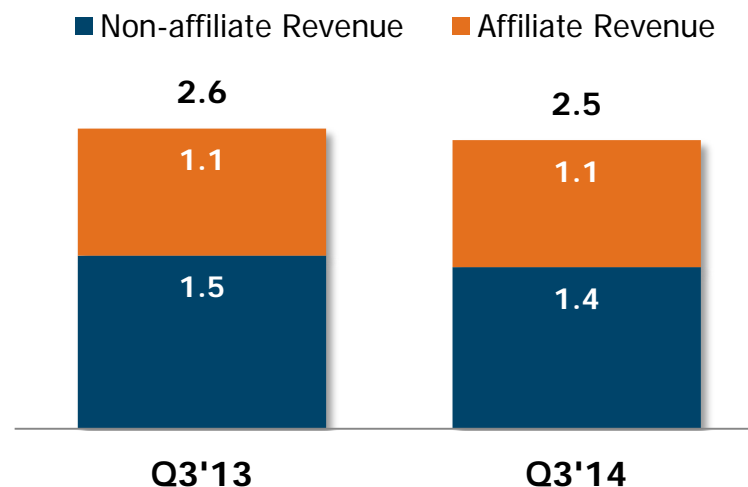
	<u>Q3 2013</u>	<u>Q3 2014</u>
Net Service Revenue	\$ 16,415	\$ 17,603
Set-top box rentals	1,212	1,772
FUSC and pass-through fees	280	346
<b>Video, Internet &amp; Voice Revenue</b>	<b>17,907</b>	<b>19,721</b>
Other miscellaneous revenue	1,233	1,283
<b>Total Operating Revenue</b>	<b>19,140</b>	<b>21,004</b>
Video revenue	11,085	11,482
Internet revenue	5,487	6,686
Voice revenue	1,335	1,553
<b>Video, Internet &amp; Voice Revenue</b>	<b>\$ 17,907</b>	<b>\$ 19,721</b>
<b><u>Average Subscribers</u></b>		
Video	53,316	51,909
Internet	43,485	49,336
Voice	13,934	16,912
Revenue Generating Units (RGUs)	110,735	118,157
Average Customer Relationships	68,665	70,481
<b><u>Average Revenue Per User (ARPU)</u></b>		
Revenue Generating Units (RGUs)	\$ 53.90	\$ 55.64
Customer Relationships	86.93	93.27
Video	111.96	126.64

# Key Operational Results – Mobile Company

## Towers and Leases



## Mobile Tower Revenue (\$ millions)



	<u>Q3'13</u>	<u>Q3'14</u>
<i>(in thousands)</i>		
Operating Income	\$1,070 *	\$1,380
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