

# ZRF PARTNERS



November 19, 2017

City of Burlington  
149 Church Street  
Burlington, VT 05401  
Attention: Terry Dorman

Dear Terry:

It is our pleasure to submit this Letter of Intent (“LOI”) for the purchase of all or substantially all of the assets of Burlington Telecom (“Company” or “BT”) by ZRF Partners, LLC (“ZRF”). We are honored and excited that Schurz Communications, Inc. (“Schurz”) has agreed to participate as a strategic partner in ZRF’s proposal. Schurz is in the process of completing its acquisition of Hiawatha Broadband, Inc. (“HBC”). ZRF and Schurz/HBC are well positioned through industry knowledge, expertise and track record to continue the legacy of BT by expanding the focus on outstanding customer service and maintaining the quality of its network for the benefit of customers and the City of Burlington. As one of the Nation’s first competitive fiber providers, HBC has long been a role model for BT and others. BT and HBC have worked together in the past as BT sought to learn from HBC to improve the efficiency and performance of its operations. We believe ZRF/Schurz ownership will provide BT a unique opportunity to partner with HBC, exchanging best practices and benefitting from HBC’s proven technical expertise, customer service and community engagement, as well as hard-learned growth strategies, from HBC’s expansion beyond Winona’s borders into more than 13 additional communities. This proposal meets or exceeds the criteria laid out by the City for the selection of the Buyer and will maintain BT’s independence as well as its strong ties to the City of Burlington. Our vision is to significantly grow BT and further strengthen its bond with the local community by making BT a key enabler of new tech startups as well as providing a strong platform for local technology workforce development. This letter is not intended to, and does not, create a binding commitment, but evidences our willingness to work together in good faith to jointly craft a transaction that is suitable and acceptable to all stakeholders. We outline general terms and conditions below and look forward to an opportunity to work together with you to refine these terms over coming weeks.

## **Structure of the Transaction and Purchase Price**

ZRF will purchase BT at an enterprise value of \$25 million, payable in cash at closing. The purchase price assumes the Company has zero working capital (current assets less current liabilities) at closing and that FY 2018 budgeted Capex of \$2.5 million is invested in BT’s network growth. While ZRF is prepared to offer cash consideration to all of the current shareholders, we would also provide an opportunity (up to a mutually decided limit and subject

to proration above the agreed limit) to existing shareholders to reinvest their equity into the new entity. Any equity rollovers by existing shareholders will be subject to approval by the City of Burlington. We believe rolling over equity offers a compelling proposition for current owners.

We intend to offer employment to all of the existing employees of BT and plan to create an employee option pool post-closing. Employee benefits will include a competitive health care plan and a 401K participation opportunity for all full-time employees.

The definitive agreement will include terms, conditions, representations, warranties and indemnities appropriate for transactions similar to the proposed transaction, including a dispute resolution process.

### **Substantial Value Proposition for Roll-over Equity**

BT is a scarce and strategic asset. With our leadership and strategy, we believe BT's value will grow exponentially in the coming years. Our vision is to make BT one of the most admired regional fiber companies nationwide. We believe in the growth prospects of the Company and would position BT to deepen its penetration in the Burlington market, expand its presence in small to medium size business customers and support its current plans to build out almost all (except 120 homes) of the unbuilt areas in Burlington by June 2019. We will also opportunistically expand its network into surrounding communities in a fiscally responsible manner. Additionally, there is a unique partnership/acquisition opportunity in Tier Two and Three markets that BT is well positioned to exploit. ZRF and Schurz/HBC are hands-on partners and have a track record of growing companies in similar situations and identifying/nurturing future technology leaders. Our vision is to set the standard nationally for independent fiber networks that are recognized for price, community engagement, digital equality and technical leadership in communities focused on providing next generation fiber infrastructure to enable economic development opportunities. We plan to enhance BT's profitability 2-3x organically in the near to medium term and significantly more if successful in partnership/acquisition opportunities. We plan to reinvest BT's entire profits back into growth-related initiatives.

### **Commitment to Burlington City**

Under our ownership, BT will play a critical role in the development of a technology ecosystem in Burlington by reducing major barriers (i.e. access to capital and talent) in the way of formation/retention of tech start-ups. BT would work with other stakeholders (BTV Ignite, universities/colleges and City) and invest \$1.75 million over 7 years to establish a BTV Ignite Technology Innovation Fund (BT – BTV Ignite partnership terms to be agreed) that provides mentorship and seed capital to local startups. We will maintain and expand BT's community initiatives including Edu-Net for low income students, Lifeline for qualifying residents, and other initiatives aimed at bridging the digital divide and improving opportunities for all. BT would also start an apprenticeship/internship program that would provide an opportunity for students to gain valuable real-world experience and skillsets. In addition, BT would contribute \$350,000 over 7 years to establish a program in partnership with local resources to teach basic technical skills/competencies necessary to remain relevant and improve employment prospects in today's work environment, to Burlington's existing workforce/high school students. We would

encourage and hope that local businesses and anchor institutions will also contribute to the BTV Ignite Technology Innovation Fund and help build this retraining program aimed at creating more and better paying jobs in Burlington.

We would actively support Burlington's smart city initiative and would make BT's network available for any initiatives that would not limit the capabilities or commercial prospects of BT. We have no plans to increase broadband prices and will continue to seek ways to offer better values to BT customers. We will hold broadband rates steady for a minimum of 36 months and limit any price increases on video content to those passed on to BT by content providers. We also agree with the City's concern about avoiding a monopoly situation that may be caused from any subsequent BT sale and would accept a limited sale restriction to prevent such an outcome. Additionally, we will offer a right of first refusal to the City of Burlington on any future sale of BT provided the City elects to operate BT as a wholly owned municipal entity.

### **Additional Terms**

We will offer the City an ability to nominate an industry expert to BT's Board of Directors, assuming the City decides to roll most of its equity stake. Prior to closing, we will work with the City to close open items critical to BT's operations as an independent company, including but not limited to: (1) finalizing the Municipal Contract for Telecom and Broadband infrastructure and services; (2) executing a long-term building lease for 200 Church Street together with a right of first refusal or an option to buy the building at market value, and (3) finalizing any other City related agreements that are important to you. We will work cooperatively with the City on the future potential need to relocate BT facilities from Memorial Auditorium and can complete such move with a minimum notice of 18 months.

### **Exclusivity and Confirmatory Due Diligence**

We request an exclusivity period to conclude due diligence and to prepare closing documents. We expect to perform confirmatory due diligence on the Company, including but not limited to review of Company financial, operational, legal, regulatory and systems attributes.

Please note that, as mentioned above, this letter does not and will not create any binding commitment by the Company, ZRF Partners and Schurz Communications or any of their affiliates.

We believe a partnership between ZRF and Schurz/HBC allows BT and Burlington an exciting path to realize the full value of BT; not just maximize its economic recovery and long-term returns but more importantly become a meaningfully larger business, centered in Burlington, and an engine to enable technology startups and generate/retain well-paying jobs for Burlingtonians. Burlington has one of the best fiber networks in the nation; ripe for gaming, artificial intelligence, IOT, augmented/virtual reality and cutting-edge medical research startups. We intend to play a modest but important role in the development of a sustainable technology ecosystem that nurtures and grows start-ups and young entrepreneurs, while developing a workforce with the skills to support that growth and ensuring a commitment to community that supports opportunities for all. We have the experience and expertise to help build a BT that is financially

strong, socially aware and one that serves as the benchmark of municipal fiber-builds. Both ZRF and Schurz are enthusiastic about this opportunity to unlock the real potential of Burlington Telecom and look forward to proceeding to the next step in this sale process. Please feel free to contact us if you have any questions about the terms of this letter.

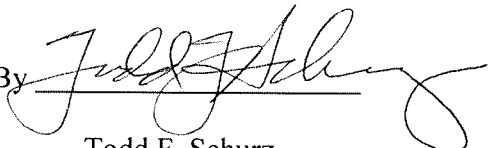
Sincerely,

**ZRF Partners**

By  \_\_\_\_\_

Faisal Nisar

**Schurz Communications, Inc.**

By  \_\_\_\_\_  
Todd F. Schurz

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# Burlington Telecom Growth Opportunity

November 2017

# BT's Unrealized Value

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1. BT is a scarce and strategic asset - its value has the potential to grow exponentially
2. Our vision of BT: “Make BT one the most admired regional Fiber company nationwide and contribute towards making Burlington a hot bed for tech entrepreneurs and startups in New England”
  - Double EBITDA organically
  - Opportunistically consolidate/expand in other markets
  - Become enabler of local tech eco-system
  - Substantially increase value for all stakeholders
3. ZRF and Schurz/HBC are hands-on partners with a track record of growing companies in similar situations in Telecom, Media and Technology markets

# Fiber Market Developments

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- Dot com era demand-supply mismatch addressed - BT was ahead of its time
  - At BT's launch: there was no iPhone, YouTube or Facebook and Netflix was just starting
- Exponential growth in bandwidth consumption led by cloud, video consumption, apps
- National competitors focused on buying content, securing business customers and addressing Tier-1 markets - Window of opportunity to consolidate Tier 2/3 markets
- Beginning years of a 30 year copper upgrade cycle (60% of the buildings with 20+ employees are copper connected), similar to early days of Cable and Wireless industries
- Convergence of broadband infrastructure: towers, backhaul/metro fiber and datacenters converging; FTTH is a natural/critical extension

# Growth Plan for BT

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- **Realize operational leverage of the Network business – Increase EBITDA to \$X - \$Y million**
  - Continue the growth in penetration of existing network from by taking customer service to the next level and focusing on sales and marketing (several fiber players including HBC, C Spire, EPB, Next Light are approaching 60%+ market share in their local markets)
  - Focus on small business customers and provide them complete “IT in a Box” solution (expand product offering to include services ) – own customer relationship/one-stop shop
  - Complete buildout in Burlington. Expand network to neighboring areas, “Pre-sell” the network (South Burlington and Winooski alone can expand market by 40%, additional opportunity in Essex and Williston)
  - BT can achieve its organic growth goal (\$X-\$Y million) of EBITDA through a combination of above steps and fund growth from its internal cash flow



# Growth Plan for BT

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- **Utilize BT's learning experience and operational skillset**
  - Partner with other municipalities where BT becomes operator of the network and Co-ops/ municipalities own the physical fiber
  - ~90 communities with publically owned FTTH networks today and many more municipalities embarking on some form on municipal broadband <sup>(1)</sup>
  - Acquire other networks which lack scale or have excessive leverage
  - Acquire non-core fiber assets from utilities

1- "Municipal Broadband: Background and Policy Debate" report - Congressional Research Service, April 6, 2016.

# Development of Tech Eco-system

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- **Burlington Technology Fund – BT should foster alignment of public and private interests. Community strength will drive network penetration. First equity check is hardest to find.**
  - Set up a BTV Ignite Technology Innovation fund in partnership with existing resources (universities, local founders and City) that provides seed capital to local startups
  - Remove barriers to aspiring young entrepreneurs: start at a college level, provide conducive environment, physical space and financial support, define tangible goals and help raise institutional capital
  - Focus on Burlington’s strength areas, generate startups that raise successful institutional capital. ZRF is also a potential partner and channel to national VCs
  - BT would contribute \$1.75 mm over seven years toward this initiative, invite local foundations and other institutions to invest as well

# Development of Tech Eco-system

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- **Workforce training and internship/apprenticeship program - Lack of technical skills is a major barrier to attract or retain tech jobs**
  - Digital transformation is similar to industrial revolution, similar disruption caused by the introduction of steam engine, electricity and micro-processor, tech skills are no more a “Nice to have”
  - BT would work with local resources and establish a program that teaches basic technical skills to existing workforce and high school grads
  - BT would offer internship/apprenticeship opportunities to local students
  - BT would contribute \$350,000 over seven years toward this initiative, invite local foundations and other institutions to contribute as well

# Value Realization Process

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- ZRF & Schurz are hands-on long term partners with a goal to significantly enhance value of BT
- Organically double the size of EBITDA within 3-5 years
- Achieve premium EBITDA valuation multiple by gaining scale and sticky business customers
- Grow business via opportunistic acquisition opportunities
- Develop very strong ties with community to drive network penetration
- Liquidity options include:
  - Sale to an infrastructure or pension fund
  - Sale to a private company including but not limited to Schurz
  - Dividend recapitalization

# ZRF and Schurz/HBC Background

ZRF Partners	Schurz/HBC
<p><b>Faisal Nisar, Founder &amp; Managing Director</b></p> <ul style="list-style-type: none"><li>– 20+ years of experience of building telecom, media and technology companies</li><li>– Previously, Partner at Baker Capital and an Analyst at Merrill Lynch</li></ul>	<p><b>Schurz Communications</b></p> <ul style="list-style-type: none"><li>– 100+ years track record of owning and growing evolving companies (Newspapers, TV stations, Cable, Fiber)</li><li>– 15,000+ Fiber to the Home addresses</li></ul>
<p><b>Gary Evans, Senior Advisor</b></p> <ul style="list-style-type: none"><li>– Fiber to the home pioneer and community activist</li><li>– Founder, Ex President and CEO of Hiawatha Broadband Communications, Contributor to BT's turn-around</li></ul>	<p><b>Hiawatha Broadband</b></p> <ul style="list-style-type: none"><li>– One of the first competitive fiber entrants in US, First recipient of Broadband Association's pioneer award</li><li>– 70+ % penetration in 13 served markets, Leader in customer service and community engagement</li></ul>