

OEM Capital – COMMUNICATION SERVICES MARKET FOCUS

January 2012

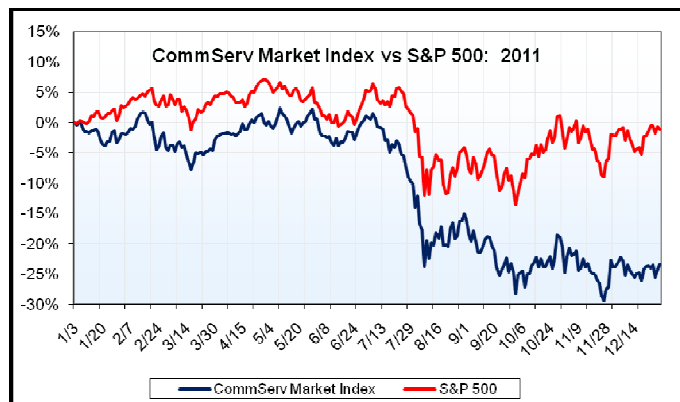
2011 MARKET PERFORMANCE:

Closing Prices as of December 30, 2011

Company Name	Market Cap	Revenue	30 day % Px Chg	YTD % Px Chg	TEV / EBITDA	P/E
ATT	\$179,202	\$125,581	5 ▲	3 ▲	6.0 x	15.9x
Alaska Communications	136	347	(43) ▼	(73) ▼	5.7 x	8.2x
Atlantic Tele-Network	602	771	(5) ▼	2 ▲	6.0 x	24.9x
Cbeyond	243	478	14 ▲	(48) ▼	3.7 x	NM
CenturyLink	22,975	12,420	1 ▲	(19) ▼	7.9 x	17.2x
Cincinnati Bell	593	1,460	5 ▲	8 ▲	6.1 x	9.5x
Consolidated Communications	570	374	4 ▲	(1) ▼	9.1 x	22.3x
Clearwire	877	1,088	(4) ▼	(62) ▼	NM	NM
Fairpoint	113	1,043	(11) ▼	0 ▲	5.1 x	NM
Frontier	5,125	5,319	(9) ▼	(47) ▼	5.4 x	20.7x
Hawaiian Telcom	157	396	4 ▲	(45) ▼	3.3 x	11.2x
Hickory Tech	148	166	8 ▲	16 ▲	6.6 x	17.5x
Knology	536	513	(0) ▼	(9) ▼	7.1 x	19.4x
Metro PCS	3,144	4,675	5 ▲	(31) ▼	4.6 x	10.2x
Neutral tandem	336	263	(0) ▼	(26) ▼	3.1 x	12.6x
New Ulm	36	33	0 ▲	27 ▲	5.4 x	12.4x
NTELOS	431	609	(2) ▼	(47) ▼	5.0 x	7.8x
Shenandoah Telecom	249	242	(3) ▼	(44) ▼	4.9 x	16.7x
Sprint Nextel	7,010	33,258	(13) ▼	(45) ▼	5.6 x	NM
SureWest	170	246	13 ▲	12 ▲	4.5 x	39.0x
TDS	2,579	5,130	(1) ▼	(29) ▼	3.2 x	13.2x
US Cellular	3,689	4,307	1 ▲	(13) ▼	4.4 x	21.1x
Verizon	113,583	108,834	6 ▲	12 ▲	5.0 x	7.8x
Windstream	6,850	4,058	0 ▲	(16) ▼	7.3 x	15.4x

Figures in \$ millions unless otherwise indicated

CommServ Market Focus Index vs. S&P 500:



Selected Statistics for CommServ Index Companies:

Trading Multiples:	CY2007	CY2008	CY2009	CY2010	Latest
TEV / Total Revenue	1.9x	1.6x	1.7x	1.8x	1.8x
TEV / EBITDA	5.7x	4.8x	5.2x	5.8x	5.5x
TEV / EBIT	12.0x	8.8x	9.6x	11.0x	9.9x
Margin Analysis:					
Gross Margin %	61.2%	59.3%	58.7%	57.7%	57.6%
EBITDA Margin %	33.3%	32.5%	31.7%	30.3%	31.9%
Net Income Margin %	NM	6.1%	5.2%	6.8%	5.8%
Growth Rates:					
Total Revenue, 1 Yr Growth %	29.3%	2.1%	3.1%	2.1%	4.9%
Total Revenue, 2 Yr CAGR %	26.4%	14.9%	2.6%	2.6%	3.8%
Total Revenue, 3 Yr CAGR %	20.7%	17.7%	10.8%	2.4%	3.1%
EBITDA, 1 Yr Growth %	33.2%	(0.1%)	0.6%	(2.6%)	6.4%
EBITDA, 2 Yr CAGR %	22.6%	15.4%	0.2%	(1.0%)	3.9%
EBITDA, 3 Yr CAGR %	17.9%	14.5%	10.5%	(0.7%)	2.2%

Source of financial data: Standard & Poor's, Capital IQ, FT, Thompson Financial and Dealogic. Copyright 2012. CommServ Market Focus is a registered trademark.

STOCK MARKET COMMENTARY: 2011

Communications services providers had a difficult year with our **CommServ Market Index** of 24 companies declining 23%. After trading flat in the 1H2011, our index dropped precipitously in 2H2011 on both an absolute basis and vs. the S&P500 before finding any support. The theme for investors was "selectivity" - both in large cap and small cap. While **ATT** ended the year up slightly from where it began despite the scuttled **T-Mobile** deal, and **Verizon** was up 12%, other large caps were off between 20-50%. With few exceptions, smaller integrated service providers were declined across the board. Investors continue to demand companies with sustainable and growing business models. As such, companies are continuing to pursue transformational activities through organic initiatives, M&A and strategic partnering. Our **CommServ Index** ended 2011 trading at 1.8x revenue, 5.5x EBITDA and 15.7x earnings - all in line with where they traded at the end of 2009.

COMMENTARY

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M&A ACTIVITY SUMMARY: 2011

2011 started off on an optimistic M&A note but, like the broader market, did not meet expectations for activity. While the year ended with the termination of the **ATT/T-Mobile** deal and limited activity in the 2H2011, we believe strategic necessity, stabilizing markets, and cash availability within the small cap and lower middle market will drive higher M&A activity in 2012 at the lower end of the market. For 2011, both number of transactions and dollar volume was low. Buyers and sellers were actively looking but few pulled the trigger. Transformational deals that help reshape business models were - and continue to be - top of mind. Some noteworthy deals included **CenturyLink's SAVVIS** deal to move further into managed services/cloud computing, **Hickory Tech's IdeaOne** deal to add fiber, customers and products on an accretive basis, and **WVT Communications' Alteva** deal to continue the move away from a pure-ILEC play into cloud communications. In addition, smaller private companies actively searched for ways to enhance revenue, customers and footprints via business model reconfiguration.

2012 OUTLOOK AND THEMES TO WATCH:

Revenue, customer acquisition, product expansion will drive buyer interest the most. Service providers will transform, expand, morph or "die" without critical mass, which is growing. **Managed services** continue to be top of lists of many buyers - financial and strategic. The unfolding of **cloud communications** and what it really means should begin to crystallize and lead to service providers making key strategic decisions - either organically or otherwise - which will likely increase sector deal activity. Strategic buyers are cautious going into 2012 given stock currency considerations and are likely to be cash flow and earnings cautious. Financial buyers are eagerly hunting to put cash to work and remain focused on differentiated and sustainable business models, recurring revenues, diversified customer bases and realistic valuations - all under the caveat of "buying smart". On a macro basis, the **M&A environment** should benefit from moderate improvement in economic fundamentals, declining unemployment, credit markets recovery and stock price stabilization for deal currency.

OEM Capital

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