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## Financial Analysis and Valuation of Nuvera Communications, Inc.

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# Nuvera Communications, Inc.

## NUVR / OTC

### Initiating Coverage

#### Investment Rating: Underperform

PRICE: USD 18.04 S&P 500: 2,760.17 DJIA: 25,538.46 RUSSELL 2000: 1,533.27

- Nuvera recently completed the acquisition of the Scott-Rice Telephone Company.
- Nuvera will continue to face strong competition while having many opportunities for growth in the telecommunications industry in the upcoming years.
- However, the stock looks expensive in the short-term.

| Valuation | 2017 A | 2018 E | 2019 E |
|-----------|--------|--------|--------|
| EPS       | 1.93   | 4.21   | 4.51   |
| P/E       | 6.5    | 10.7   | 10.0   |
| CFPS      | \$3.81 | \$3.11 | \$3.42 |
| P/CFPS    | 4.73   | 4.30   | 4.21   |

| Market Capitalization       | Stock Data  |                                    |
|-----------------------------|-------------|------------------------------------|
| Equity Market Cap (USD):    | 93,362,011  | 52-Week Range (USD): 16.00 – 23.40 |
| Enterprise Value (USD):     | 120,858,341 | 12-Month Stock Performance: 4.07%  |
| Shares Outstanding (M):     | 5.175       | Dividend Yield: 2.85%              |
| Estimated Float (M):        | 4.49        | Price to Book: 1.17                |
| 3-mo Avg. Daily Volume (K): | 4.97        | Beta: .77                          |

#### Company Quick View:

**Location:** 27 North Minnesota Street, New Ulm, MN 56073 United States

**Industry:** Telephone Communications, exc. Radio SIC 4813 / Wired Telecommunications Carriers  
NAICS 517110

**Description:** Nuvera Communications is a diversified communications company located in New Ulm, Minnesota with over 110 years of experience. Nuvera provides a variety of business communication services to small, medium, and large business customers in addition to residential customers. Over the years, Nuvera has grown to having six subsidiaries to provide services throughout south central Minnesota and northern Iowa.

**Key Products & Services:** Nuvera Communications offers services including high speed broadband internet access, voice over Internet protocol (VoIP) phone services, commercial data connectivity services, video, network access, and local service.

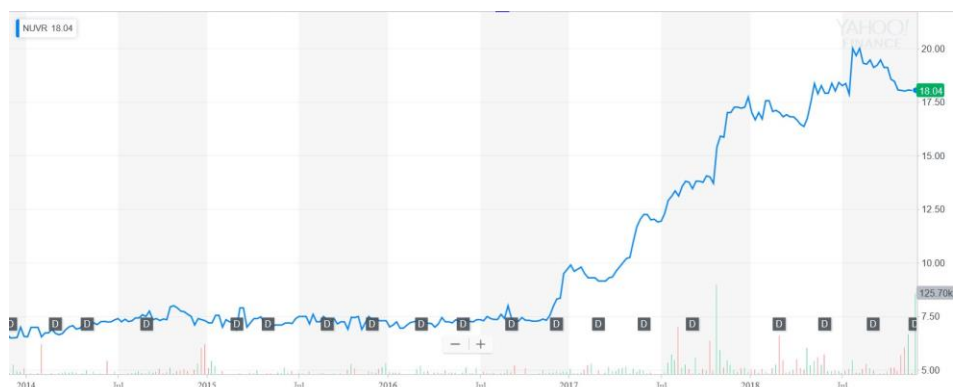
**Website:** <https://nuvera.net/>

**Analyst:** Tina Scheidecker



## STOCK PRICE PERFORMANCE

*Figure 1:  
5-year Stock Price  
Performance*



*Figure 1*  
Source: Yahoo Finance

The stock closed at USD 18.04 per share on November 30, 2018 and is representing a current downward trend as depicted in Figure 1. The year to date (YTD) total return for Nuvera's stock between December 29, 2017 and November 30, 2018 is 3.74 percent. The annualized return for Nuvera is 4.07 percent. Nuvera's competitor, Frontier Communications Corporation, has a YTD return of -45.71 percent, and an annualized return of -49.80 percent. Since 2015, Frontier has seen a gradual decline in their stock price performance, dramatically dropping in 2017. Frontier's stock price performance has remained steady for 2018, with a closing price of USD 3.57 on November 30, 2018. Given these returns, Nuvera is doing noticeably better than their competitor Frontier. The Russell 2000, which is an index used as a benchmark for small-cap stocks in the U.S., shows a YTD return of 0.45 percent, and an annualized return of 0.49 percent. Nuvera has provided a higher YTD and annualized return compared to that of both Frontier and the Russell 2000.

Part of the price behavior of Nuvera is due to both external variables such as the economy, and company-specific events that occurred during the year. Starting in 2017, Nuvera saw a noticeable rise in its stock price. The year 2018 has shown steady growth for Nuvera, but it has experienced three small declines in stock price performance. Some of Nuvera's growth in stock price performance for 2018 may be due to Nuvera's acquisition of the Scott-Rice Telephone Company. In addition to having a healthy economy to help drive growth in company revenues, Nuvera is hoping to reap benefits from the Scott-Rice acquisition in future years.

**INVESTMENT  
SUMMARY**

I forecast the intrinsic value for Nuvera Communications, Inc. stock to be USD 13.29 per share. Based on my analysis, Nuvera's stock is currently overvalued due to factors such as the recent completion of the acquisition of the Scott-Rice Telephone Company, as well as an overly optimistic attitude towards the economy. While I forecast an increase in Nuvera's operating profits, the price per share that I estimate is below the market value as of November 30, 2018 of USD 18.04.

**INVESTMENT  
THESIS**

Given Nuvera Communications Inc. forecasted financials, I recommend selling Nuvera's stock. The price per share difference of USD 4.75 between my estimated price per share projections and the market close value of November 30, 2018 suggests Nuvera's stock is currently overvalued. It would be better to sell Nuvera's stock today and receive a higher price from the sale and buy the stock back in the future when it is at a lower price. My 12-month target price for Nuvera's stock is USD 14.39 and given the current market volatility and one-year prospects for the broad market index categories, I do not expect Nuvera's stock price to move up from its current market price.

**COMPANY  
DESCRIPTION**

Nuvera Communications, previously known as NU-Telecom, is a diversified communications business based primarily in south central Minnesota. Beginning in the year 1905, area farmers and businessmen felt concern over existing telephone service that was being provided and figured something needed to be done. From here, 26 New Ulm residents organized and voted to create a telephone company for New Ulm and its surrounding areas, called the New Ulm Rural Telephone Company (Nuvera Communications Website, 2018). Given a fast-paced industry and constant desire for growth, the New Ulm Rural Telephone Company would adapt and transform itself into what is known today as Nuvera Communications Inc.

Nuvera Communications "...a diversified communications company, engages in local telephone exchange and telecommunications businesses. It offers local services to make and receive telephone calls within a defined local calling area; and access services to other telecommunications carriers for the use of its facilities to terminate or originate long distance calls on its network" (Yahoo Finance Website, 2018.) In addition, Nuvera provides high speed internet to businesses and residential customers; online file back up and storage; web hosting and

design; video services; and long-distance private lines. Nuvera is also involved in the retail sale and service of cellular phones and accessories under one of their subsidiaries, TechTrends Wireless. As of December 31, 2017, Nuvera "...served 21,954 access lines in the Minnesota communities of Bellechester, Courtland, Evan, Goodhue, Hanska, Hutchinson, Klossner, Litchfield, Mazeppa, New Ulm, Redwood Falls, Sanborn, Searles, Sleepy Eye, Springfield, and White Rock, as well as in the rural areas of Blue Earth, Brown, Goodhue, McLeod, Meeker, Nicollet, Redwood, and Wabasha counties in south central Minnesota..." (Yahoo Finance Website, 2018).

As technology further advances, the telecommunications industry is showing positive signs of expected growth in the upcoming years. To keep their company profitable and relevant in this changing industry, Nuvera looks to keep their customers connected, whether through businesses of all sizes or residential and rural areas. Given expected and continued growth, Nuvera sees heavy outside competition in the telecommunications industry. Competitors include Verizon, CenturyLink, Frontier Communications Corporation, Christensen Communications Company, and Comcast Cable Solutions Communications among numerous other competitors. It is important for telecommunication companies to stay ahead of the game, given the vast changes in technology and how more people are becoming connected around the world. Offering faster internet speeds and a wider broadband network, among other things, helps Nuvera Communications attempt to remain ahead of competition while still making profits.

Nuvera Communication's goal is to position itself as a one-step communications solutions provider. To achieve this goal, Nuvera looks for the success of multiple strategies to help satisfy customer needs and remain relevant in the world of communications. One strategy of Nuvera is to offer competitive, multi-service bundles of voice, high-speed internet, and Internet Protocol Television (IPTV) to their residential customers. These multi-service bundles can either be for individual purchase or as a bundled package. With the growing trend of over-the-top content viewing, another strategy at Nuvera is to offer higher speeds for consumer broadband networks. This desire for faster broadband speeds also helps complement and promote Wi-Fi services offered by Nuvera. These strategies are among many that Nuvera implements to keep a steady, recurring revenue stream which generates a stable cash flow for their company.

Nuvera looks for new investment opportunities to both expand business and satisfy existing customer needs. Nuvera was recently awarded two grants from the Minnesota Department of Employment and Economic Development. These grants are meant to further develop activities that support infrastructure development, monitoring and measuring consumer broadband availability, analyzing community anchor connectivity, and coordinating with federal programs to achieve maximum benefits for Minnesotans (MN Dept of Employment and Economic Development, 2018). Nuvera was awarded grants for both their NU-Telecom Hanska and NU-Telecom White Rock proposals. The grants allow Nuvera to further develop the broadband networks and connectivity among these communities and surrounding areas serviced by Nuvera. In addition to the long-term strategy of implementing the grants awarded by the State, Nuvera looks to deploy new technology "...to enable our local exchange networks to capture operating efficiencies and to provide additional new services to our new and existing customer base" (New Ulm Telecom Inc (Form 10-K), 2018). One new technology of Nuvera includes connecting fiber rings. Connecting fiber rings is a redundant route design which allows communications traffic to be re-routed in the event of network problems. By connecting these fiber rings, Nuvera is helping protect their local networks while providing reliable service to their customers, simultaneously.

Market drivers such as internet penetration trends, wireless communication services, net neutrality, and telecom tariffs and taxes require fast pace innovation and development for companies like Nuvera. In looking to grow across many avenues in their business, Nuvera has acquired six subsidiary companies that are fully owned by Nuvera Communications. So far, Nuvera Communications has acquired: Western Telephone Company in 1986; Peoples Telephone Company in 1993; Hutchinson Telephone Company in Hutchinson in 2008; Hutchinson Telecommunications in 2008; and finally, Sleepy Eye Telephone Company in 2012 (Nuvera Communications Website, 2018). The most recent acquisition Nuvera has undergone involves the Scott-Rice Telephone Company. The Scott-Rice acquisition will allow Nuvera to offer an even wider range of service, stretching to the communities of Prior Lake, Savage, Webster, Elko, and New Market, Minnesota. In an approximately USD 42 million transaction, this acquisition adds roughly 18,000 additional phone, video, and internet services connections for Nuvera, bringing them to a combined total of approximately 66,000 connections (Nuvera Communications Website, 2018).

**INDUSTRY  
ANALYSIS**

Nuvera Communications is a mature company that operates in the telecommunications industry. With a SIC of 4813 and a NAICS of 517110, Nuvera faces a wide variety of competition. Various industry and risk factors make the communications industry an ever-changing one. As the demand for faster speeds, broader networks, and cheaper costs continue to increase, it is important for Nuvera to keep up with industry leaders.

Nuvera installs and maintains communications systems in and around their service territories in southern Minnesota and northern Iowa. Their customers consist of both home and business owners who are looking for a seasoned communication service provider that fits their needs. Nuvera Communications offers services such as: Data and Transport Services, Broadband Services, Local Service, Network Access, and Video and Data Services, among others. The revenue generated from Nuvera's subsidiaries from each section of service provided is not dependent upon any single or small group of customers. It is reported that "No single customer accounted for 10 percent or more of our consolidated revenues in any of the last two years" (Nuvera Communications. (2017). *Form 10-K 2017 pg. 6*. Retrieved from SEC EDGAR website <http://www.sec.gov/edgar.shtml>). One of Nuvera's main revenue drivers, Data and Transport services, is offered to small, medium, and large business customers and provided over Nuvera's advanced fiber network. In addition, Nuvera's Broadband Services provide revenue through residential customers for subscriptions to voice over Internet protocol (VoIP), data, high-speed internet access, and video products.

While Nuvera's revenue is not dependent on any single or small group of customers, there is potential for Nuvera to expand their revenue received from residential customers. Given a recent healthy economy, in addition to lower unemployment rates, consumers seemingly have more disposable income for spending. There is potential for residential consumer revenue growth in services such as video and internet. Residential consumers may be looking to upgrade their current services to faster, more advanced services since they seemingly have more disposable income. For the second quarter of 2018, the U.S. economy saw a real gross domestic product (GDP) increase of 4.2 percent. In the third quarter of 2018, the U.S. economy saw an increase of 3.5 percent in GDP according to the "advance" estimate released by the Bureau of Economic Analysis. The increase in GDP in the third quarter of 2018 "...reflected increases in consumer spending, inventory investment, government spending, and

business investment” (Bureau of Economic Analysis, 2018). The increases experienced were partially offset by decreases in housing investment and exports, as well as increases in imports. The increase in consumer spending reflects increases in spending on services (such as health care and in food services and accommodations), and goods (mostly recreational and other nondurable goods). While it seems consumers are spending primarily on services such as health care and food services, there is potential for Nuvera to capture some of this additional consumer spending.

With an increase in GDP for the third quarter of 2018, the communications industry still needs work. The Federal Communications Commission (FCC) issued a 2018 Broadband Deployment Report in February of 2018 to “...report annually on whether advanced telecommunications capability is being deployed to all Americans in a reasonable and timely fashion,” and to take “immediate action” if it is not” (Federal Communications Commission, 2018). There are a few notable findings from the FCC in the 2018 Broadband Deployment Report, including:

- Americans with access to both fixed terrestrial 25 Mbps/3 Mbps service and mobile LTE with a minimum advertised speed of 5 Mbps/1 Mbps typically live in census block groups with a lower percentage of households living in poverty, and with higher average populations, population densities, per capita incomes, and median household incomes than Americans living in areas without access to these services.
- The U.S. ranked 10<sup>th</sup> out of 28 countries for download speed, 7<sup>th</sup> out of 29 for fixed broadband price (using the fixed hedonic price index), and 10<sup>th</sup> out of 29 for mobile broadband price (again, using the fixed hedonic price index).
- About 88 percent of American schools meet the FCC’s short-term connectivity goal of 100 Mbps per 1,000 users. Further, 22 percent of school districts meet our long-term connectivity goal of 1 Gbps per 1,000 users (Federal Communications Commission, 2018).

These findings show that Americans who live in areas with higher average populations, per capita incomes, and the like are meeting desired broadband service speeds. The FCC defines broadband



as Internet with download speeds of at least 25 Mbps (megabits per second) and upload speeds of 3 Mbps and having a minimum speed of 5 Mbps/1 Mbps. While different activities require different minimum download speeds, such as general browsing and email requiring 1 Mbps, file downloading requiring 10 Mbps, and telecommuting requiring 5-25 Mbps, the report finds Americans living in areas that are traditionally served tend to have access to the required minimum speeds needed for communication activities. It is also important to note that there is room for improvement for downloading speeds and pricing in the U.S. communications industry. Communication companies that can increase their downloading speeds while keeping prices reasonable may find a strong competitive advantage over others in their industry.

Often in the mature phase of a business' life cycle, industry trends tend to be correlated with the economy. Businesses also are competing for market share in a stable environment, and such is the case for Nuvera Communications. While Nuvera is trying to compete with nation-wide brands like Verizon, AT&T, and Sprint, they are also up against companies of similar size who are in the same geographical region. Nuvera believes to have an advantage over their competition through their "...state-of-the-art fiber-rich communications networks, competitive pricing and costs, outstanding service quality and a strong reputation..." (Nuvera Communications. (2017). *Form 10-K 2017 pg. 8*. Retrieved from SEC EDGAR website <http://www.sec.gov/edgar.shtml>). Competition is expected to continue growing in this rapidly evolving and highly competitive industry. While Nuvera is not the only telecommunications company with these advantages, it is important for Nuvera to continue to develop their current advantages, as well as create additional ones, to stay ahead of the competition.

Increases in competition may create volatility in brand loyalty among communication companies. With having multiple options of current service providers and new providers entering the market, it can be easy to switch between various companies to try to find the best priced and fastest speeds to meet the consumer's needs. Competition is expected to intensify with consolidations and mergers that continue to occur within the industry, and with alternative communications service providers. Competitors who have consolidated with other communication providers have greater access for financial and business resources, and a greater geographical reach. In addition, with technological advances and regulatory developments occurring over the past several years,

there has been an increased competitive pressure from alternative communications providers on companies such as Nuvera. Alternative communications providers face fewer regulations and lower cost structures compared to those of a mature company like Nuvera. Long-range effects of competition will depend on both regulatory actions at the state and federal levels, and technological advances.

Communications services offered are subject to varying levels of regulatory oversight. Both federal and state regulatory agencies enforce rules and statutes relative to the requirements of communications services. Interstate telecommunications services for Nuvera are subject to regulation by the FCC, while intrastate services are regulated by the relevant state regulatory commission. In addition, TV services are governed by FCC rules and municipal franchise agreements.

A few important developments in telecommunications industry regulations include the Federal Universal Service Fund (FUSF), Connect America Fund (CAF), and Alternative Connect America Cost Model (A-CAM). The FUSF was established to overcome geographic differences in costs, enabling all citizens to communicate over networks and be provided voice service regardless of the geographical location or income level. Universal service policies were established by the FCC at the national level in order to provide this option to consumers everywhere. In 2011, the CAF was created to help promote support of telecom services in the U.S.'s high-cost areas and help modernize FUSF. In 2016, A-CAM was created as a new CAF support mechanism for rate-of-return carriers. A-CAM calculates the cost and investment of building an efficient network capable of providing voice and broadband-capable service to locations utilizing existing fiber optic cables that have been laid in the ground. Companies would then be able to recover some of their costs from providing voice and broadband services in rural and high-cost areas in America. While the use of A-CAM is voluntary, Nuvera Communications elected to use the A-CAM program in the year 2017. Under the report that accompanied the FCC in December of 2016 Public Notice, Nuvera would receive annually \$6,118,567 for their Minnesota operations, and \$391,896 for their Iowa operations (Nuvera Communications. (2017). *Form 10-K 2017 pg. 15*. Retrieved from SEC EDGAR website <http://www.sec.gov/edgar.shtml>).

**PEER ANALYSIS**

Nuvera is faced with a variety of competition in its south-central Minnesota and northern Iowa locations. Not only does Nuvera Communications have to compete with local competition, but also big-name competitors like Verizon and AT&T who are established nationwide. With a market cap of USD 93 million, Nuvera still manages to compete against larger telecommunication companies. One company Nuvera competes directly with, is Consolidated Communications (CNLS). Consolidated Communications operates through its subsidiaries, providing a range of communication solutions including: residential internet, video, phone and home security, multi-service residential and small business bundles, data and internet solutions, cloud services, and various other services. While Consolidated Communications has a market cap of USD 874 million and can be found in various locations across the United States, it proves to give Nuvera much competition.

A primary competitor of Nuvera is Frontier Communications Corporation. Located primarily in the Midwest, Frontier Communications has a location in Le Center and Mankato Minnesota. Frontier can reach a broader range of customers in the rural parts of Minnesota, as well as in prominent cities. Frontier provides communication services to both consumers and commercial customers. Frontier provides an array of services, including broadband, video, and voice, among other services. Commercial customers of Frontier's include small, medium and large enterprise businesses, providing the necessary communication services like broadband and ethernet service, voice services, and network solutions. Frontier Communications, like Nuvera, also makes use of fiber-based network capabilities to deliver quality communications services. While still noticeably larger than Nuvera, Frontier is more comparable in size and services offered, with a market cap of USD 484 million.

Finally, Nuvera sees competition from CenturyLink. CenturyLink has a current market cap of USD 22 billion, and while it is noticeably bigger than Nuvera it remains as one of Nuvera's main competitors. There are CenturyLink locations in Mankato, Glencoe, and various spots throughout Minneapolis, Minnesota. While Nuvera also has multiple locations, CenturyLink is a nationwide company that can service the many needs of individuals and occupy a decent share of the market. CenturyLink operates through its subsidiaries, providing local and long-distance services, private line services, broadband services, and data network services. CenturyLink provides services for both consumer and small, medium, and enterprise business needs.

Figure 2 below provides relevant comparisons for Nuvera and its relevant peers.

### Peer Analysis Relevant Comparisons

| Company      | Ticker Symbol | Market Cap (USD) | PE Ratio | P/BV  | EV/ EBITDA | Debt/ Assets |
|--------------|---------------|------------------|----------|-------|------------|--------------|
| Nuvera       | NUVR          | 93.413M          | 9.18     | 1.326 | 6.54       | .2317        |
| Consolidated | CNSL          | 854.319M         | 17.33    | 1.740 | 6.84       | .6291        |
| Frontier     | FTR           | 471.913M         | N/A      | .2018 | 5.05       | .7008        |
| CenturyLink  | CTL           | \$20.927B        | 10.69    | .9887 | 7.95       | .4934        |

Figure 2

Source: Finance.yahoo.com October 26, 2018

M = Millions

B = Billions

## MANGEMENT BACKGROUND AND PERFORMANCE

Top executives have an important duty to keep the company moving in the right direction. Nuvera Communications has six key executives that help direct the company, including: James Jensen, Craig Anderson, Bill Otis, Barbara Bornhoft, Nancy Blankenhagen, and Curtis Kawlewski. James Jensen has served as a director of Nuvera Communications since 1982 and has been Chairman of the Board since 1999, with a total compensation of USD 61,067. Craig Anderson has been a recent addition to the Nuvera Communications executive team, being appointed Chief Business Development Officer in June 2017. Bill Otis has been both the President and Chief Executive Officer of Nuvera since 1985, with a total compensation of USD 374,010. Barbara Bornhoft is the Vice President, Chief Operating Officer, and Secretary of Nuvera since 1998, with a compensation total of USD 228,483. Nancy Blankenhagen, with a total compensation of USD 105,512, has served as the Chief Financial Officer and Treasurer of Nuvera since 2004. Finally, Curtis Kawlewski was appointed as the Chief Financial Officer executive in 2009, with a total compensation of USD 201,534. (Nuvera Communications. (2018). Retrieved from Mergent Database).

Nuvera Communications encourages their employees to give back, which contributes to morale, building an inspired team, and promoting a positive workplace. Up until 2005, Nuvera had an Employee Incentive Plan and a Management Incentive Plan for only their executive officers. After seeking outside consulting, in 2006 Nuvera was able to develop and implement an Employee Incentive Plan for their employees and a Management Incentive Plan. Payments on both the Employee and Management Incentive Plan "...are based on an achievement of objectives of measurable corporate performance using financial targets. The

financial targets are based on an achievement of specified operating revenues and operating income before interest, taxes, depreciation and amortization (OIBITDA)” (Nuvera Communications. (2017). *Form 10-K 2017 pg. 35*. Retrieved from SEC EDGAR website <http://www.sec.gov/edgar.shtml>). Both plans are cash-based incentive plans. Employees who meet certain age and service requirements also have the opportunity to participate in a 401(k)-employee savings plan. Nuvera’s contributions to their 401(k)-employee savings plan was USD 505,292 in 2017 (Nuvera Communications. (2017). *Form 10-K 2017 pg. 57*. Retrieved from SEC EDGAR website <http://www.sec.gov/edgar.shtml>).

In 2017, Nuvera Communications adopted the Omnibus Stock Plan (also called the 2017 Plan). The purpose of the 2017 Plan was “...to enable NU Telecom and its subsidiaries to attract and retain talented and experienced people, closely link employee compensation with performance realized by shareholders, and reward long-term results with long-term compensation. The plan enables us to grant stock incentive awards to current and new employees, including officers, and to Board members and service providers” (Nuvera Communications. (2017). *Form 10-K 2017 pg. 36*. Retrieved from SEC EDGAR website <http://www.sec.gov/edgar.shtml>). Stock incentive awards can be in the form of options, stock appreciation rights, restricted stock, performance stock, and other awards in stock or cash.

Nuvera was recently presented with the 2018 Minnesota Telecom Alliance Company Safety Award. This award shows the important role management has in achieving excellent results in safety performance. In addition, the 2018 Minnesota Telecom Alliance Company Safety award is presented to companies who “...demonstrate dedication, commitment, consistency, direction and involvement in safety, including to their employees, the industry and community they serve” (Nuvera Communications Staff, 2018).

The Board of Directors for Nuvera Communications consists of seven members, including five males and two females. The Board of Directors members include: Dennis Miller, Wesley Schultz, Suzanne Spellacy, Perry Meyer, Bill Otis, James Seifert, and Colleen Skillings. Each director serves a three-year term, which can then be subject to re-election. The Board does not believe it should establish a limit to the number of times a director may stand for election. Three members current terms will expire in 2018, including Mr. Miller, Mr. Schultz, and Ms. Spellacy, who are

all subject for re-election. There currently are six independent Directors serving on the Board of Directors for Nuvera Communications, and one Director, Bill Otis, being President and CEO of Nuvera. This gives the overall makeup of the Board as 85.71 percent independent of the company (Nuvera Communications. (2018). *Form 14-A 2018 pg. 5-13*. Retrieved from SEC EDGAR website <http://www.sec.gov/edgar.shtml>).

### ROIC Comparison

| Year | Nuvera ROIC | Frontier ROIC |
|------|-------------|---------------|
| 2017 | 4.7%        | 3.7%          |
| 2016 | 2.0%        | 3.3%          |
| 2015 | 2.3%        | 2.4%          |
| 2014 | 2.5%        | 3.4%          |
| 2013 | N/A         | N/A           |

Figure 3

Source: Own calculations

Figure 3 above shows that the historical ROIC for Nuvera is lower than the company's estimated WACC of 10.35 percent. Nuvera's most recent ROIC ratio is slightly higher than Frontier's, however, both are still below Nuvera's estimated WACC. I expect ROIC to increase in the future.

### SHAREHOLDER ANALYSIS

As of March 1, 2018, there were 1,335 registered stockholders and 617 beneficial owners of Nuvera stock. The major holders of Nuvera are broke down into 12.26 percent of shares held by insiders and 5.95 percent of shares held by institutions. Nuvera's Articles of Incorporation restricts any one entity or individual from owning more than seven percent of Nuvera's outstanding stock. In breaking down the director insider holdings, six of ten directors have participated in insider transactions at Nuvera Communications. Outside of James Jensen, who has participated in disposing of shares and exercising options, each other executive shareholder has acquired shares of Nuvera. Nuvera's directors who have participated in insider holding transactions are listed below in Figure 4, with the most recent transaction listed for each director.

### Most Recent Insider Holdings – Transactions

| Executive Shareholder | Transaction Date | Action   | Price   | Shares |
|-----------------------|------------------|----------|---------|--------|
| James Jensen          | October 3, 2018  | Disposed | \$6.70  | 6,791  |
| Perry Meyer           | May 25, 2018     | Direct   | \$18.20 | 2,197  |
| Dennis Miller         | August 22, 2018  | Direct   | \$19.59 | 435    |
| Wesley Schultz        | May 25, 2018     | Direct   | \$18.20 | 2,197  |
| Colleen Skillings     | May 25, 2018     | Direct   | \$18.20 | 1,098  |
| Suzanne Spellacy      | May 25, 2018     | Direct   | \$18.20 | 1,098  |

Figure 4

Source: Mergent Online

Nuvera also has four of the six executives who have been involved in insider holding transactions, acquiring various amounts of Nuvera stock. The four executives include Craig Anderson, Bill Otis, Barbara Bornhoft, and Curtis Kawlewski. Of the total combined executive and director insider holding transactions, two executives and three directors have participated in more than one transaction for the year of 2018. Of the remaining four executives and seven directors, six partook in one insider transaction and five have no insider involvement. Craig Anderson has participated in the most transactions for 2018, with 13 transactions occurring in 2018 alone. Nuvera also has four top mutual fund holders in their business which are listed below in Figure 5.

### Top Mutual Fund Holders

| Holder   | Shares  | Date Reported     |
|--|---------|-------------------|
| Gabelli Small Cap Growth Fund                            | 130,000 | June 29, 2018     |
| Teton Westwood Mighty Mites Fd                           | 57,500  | June 29, 2018     |
| Gabelli Global Content & Connectivity Fund               | 29,448  | June 29, 2018     |
| EQ Advisors Trust-1290 VT Gamco Small Company Value Port | 3,200   | December 30, 2017 |

Figure 5

Source: Yahoo Finance

Each of Nuvera's top mutual fund holders are a part of Gabelli Asset Management Company Investors (GAMCO). This is a diversified global financial services company that offers a wide range of investment opportunities. The primary focus of each mutual fund subdivision is to invest in smaller companies who are believed to have a predicted rapid revenue growth and above average rates of earnings growth. Another focus of the GAMCO mutual funds is to invest in the common stock of smaller companies like Nuvera, who are believed to be underpriced relative to their private market value. The top mutual funds combine for a total of 220,148 shares purchased.

## **INVESTMENT RISK**

A company like Nuvera can run the risk of getting stuck in the ways the company is used to doing things and not staying up-to-date with technological advances. One such technological advancement that can be seen in 2018 is the rollout of 5G. This will pose new opportunities for both mature companies to expand into this segment of the market, as well as open the door for new competition. While the rollout of 5G will be a multiyear journey, it will start to slowly be implemented in 2018. One of the top accounting industry leaders, Deloitte, analyzes that 5G will be one of the most anticipated mobile technology platforms. 5G will be like that of a connective tissue for numerous things, including major items such as Internet of Things (IoT), autonomous vehicles, and mobile media (Deloitte, 2018). It will provide numerous new jobs for the economy, as well as a predicted positive impact on GDP. However, it is vital for those across the telecom portfolio to identify and capitalize on such new technological opportunities. Revenue growth for carriers is of critical importance for the year 2018 as telecommunication companies run the risk of continuing a downward trend relating to their revenue yield on data services (revenue per bit consumed).

While revenue yield on data services is seeing a downward trend, mobile trends in the communications industry are seeing opportunity for growth in a variety of areas. These include opportunities for improvements in wearable communication devices, continued development and use of smart phones, and even that of connected homes. While companies like Nuvera primarily provide other communications services such as Data and Transport Services, and Video and Data Services, the mobile sector may be a potential growth opportunity for Nuvera. A mobile sector growth opportunity may arise with Nuvera supporting the 5G network that is entering the market in 2018.



Being an early adopter may allow Nuvera to capture more of the market, since surrounding competition may not carry it as early as Nuvera. Developing various apps to help pay Nuvera's bills, watch video and TV through Nuvera subscriptions, monitor usage rates as a customer, or even make a "connected home" may be beneficial developments in the mobile sector for Nuvera. However, while there are growth opportunities present, Nuvera may encounter issues with being an early adopter of said technology. With being an early adopter, there is the risk of other communications companies improving on the early models and developments Nuvera creates and capturing more of the market share through learning from the beginning stages. Voice and switched access revenues are also expected to continue to be impacted by future declines in access lines due to competition. A combination of carriers optimizing their network costs and changing minutes of use will affect the future switched access and voice revenues. To offset such downward revenue trends, Nuvera is expanding their state-of-the-art; fiber-rich communications network, broadband customer sales, and migrating to higher connectivity speeds.

Nuvera manages the potential decline in local service and Telecom network access revenues by offering value-added services. These services consist of higher Internet speeds, managed services, customized communications solutions content, and DVR services. Nuvera also looks to continue to upgrade their networks and enhance their products and services in order to take advantage of the latest technology. Upgrades and enhancements focus on advanced high-bandwidth capabilities/services, last mile fiber builds to residential and business customers, and expansion of Nuvera's network for retail and wholesale customers. While there is great opportunity in the upcoming years for the telecommunications industry, there is also great risk for companies who cannot keep up with the latest trends while keeping costs reasonable.

## **FINANCIAL RATIO ANALYSIS**

In comparing various productivity, liquidity, leverage, and profitability ratios between Nuvera and a primary competitor Frontier Communications, there are various ratios worth pointing out. The receivables turnover ratio for Nuvera for the years 2013 to 2017 is noticeably higher than that of Frontier's receivables turnover ratios. Nuvera had a receivable turnover ratio of 24.11 in 2017, and Frontier had a receivables turnover ratio of 10.39 in 2017. This is a good sign for Nuvera, as they can collect funds more efficiently than Frontier. The growth in sales percentage for

Nuvera has been consistent from 2013 to 2016, with a small spike in 2017. Frontier on the other hand, has seen a volatile change in sales growth. While Nuvera's growth in sales between 2014 and 2016 ranged from 1.5 percent to 4.2 percent, in 2017, its growth in sales increased to 10.8 percent. Frontier has seen a higher growth in sales in 2016, with 59.5 percent, while the rest of the years fluctuated between 2.6 in 2017, 16.8 in 2015, and 0.2 percent in 2014. The relevant productivity ratios for Nuvera and Frontier are depicted below in Figure 6.

### Productivity Ratio Analysis

| Productivity Ratios           | 2017  | 2016  | 2015  | 2014  | 2013  |
|-------------------------------|-------|-------|-------|-------|-------|
| Nuvera Receivables Turnover   | 24.11 | 18.96 | 33.06 | 27.72 | 26.54 |
| Frontier Receivables Turnover | 10.39 | 11.76 | 9.41  | 8.73  | 9.40  |
| Nuvera Growth in Sales %      | 10.8% | 1.5%  | 4.2%  | 3.3%  | N/A   |
| Frontier Growth in Sales %    | 2.6%  | 59.5% | 16.8% | 0.2%  | N/A   |

Figure 6

In terms of liquidity, Frontier Communications seems to be slightly more liquid than Nuvera. However, both companies maintain liquidity ratios comparable to one another which can be seen in Figure 7. Frontier had two years with a current ratio above 1.0, occurring in 2013 with a quick ratio of 1.24, and in 2015 with a quick ratio of 5.35. While Nuvera's current ratios are just under those of Frontiers, from 2013 to 2017, Nuvera does not experience a current ratio above 1.0. Frontier also exhibits an overall higher quick ratio from 2013 to 2017. While Frontier's quick ratio for 2017 was 0.47, they did see a ratio of 1.04 in the year 2013. Nuvera is seeing a steady increase in their quick ratio, from 0.07 increase in 2013 to 0.54 in 2017. Nuvera's liquidity ratios are gradually moving closer to 1.0, a sign Nuvera is shifting to becoming a more liquid company. Nuvera's primary sources of liquidity for the year ended December 31, 2017 were from cash proceeds generated from operations, and from cash reserves held at the beginning of the period. Nuvera has various short- and long-term liquidity needs arising from capital expenditures, working capital requirements to support business growth, potential acquisitions, and dividend payments on stock.

### Liquidity Ratio Analysis

| Liquidity Ratios       | 2017 | 2016 | 2015 | 2014 | 2013 |
|------------------------|------|------|------|------|------|
| Nuvera Current Ratio   | 0.79 | 0.66 | 0.83 | 0.75 | 0.13 |
| Frontier Current Ratio | 0.53 | 0.68 | 5.35 | 0.98 | 1.24 |
| Nuvera Quick Ratio     | 0.54 | 0.43 | 0.48 | 0.48 | 0.07 |
| Frontier Quick Ratio   | 0.47 | 0.59 | 0.79 | 0.85 | 1.04 |

Figure 7

Overall, Frontier has higher leverage ratios than Nuvera. Frontier seems to increase their risk each year by continuing to acquire more debt in addition to other liabilities. Total debt-to-equity ratios for Frontier are all above 2.0 for the years 2013 to 2017, having an abnormally high year with a ratio of 8.57 in 2017. Nuvera's debt-to-equity ratios have been decreasing over the years analyzed, with their highest debt-to-equity ratio being 1.14 in the year 2013. Nuvera's most current debt-to-equity ratio was 0.64 in 2017. Nuvera has seen a majority of their leverage ratios decrease from 2013 to 2017. Such ratios include Nuvera's total debt-to-assets ratio, and Nuvera's total financial debt over invested capital ratio. Nuvera's interest coverage ratio has increased from 2013 to 2017, while Frontier's interest coverage ratios have decreased. Leverage ratio comparison can be seen in Figure 8 below.

However, Nuvera recently completed the acquisition of Scott-Rice Telephone Company for USD 42 million in cash, so the leverage ratios in 2018 for Nuvera should be higher compared to previous years. Nuvera entered into an amended loan with their principal lender, CoBank, ACB to fund this acquisition. At December 31, 2017 Nuvera had approximately USD 9 million available under their revolving credit facility to fund any short-term working capital needs. With having more financial flexibility, Nuvera has the advantage to use debt to finance new investment opportunities, either in new technologies or more acquisitions in the upcoming years.

### Leverage Ratio Analysis

| Leverage Ratios   | 2017  | 2016 | 2015 | 2014 | 2013 |
|---|-------|------|------|------|------|
| Nuvera Total Debt-to-Equity                               | 0.64  | 0.90 | 1.01 | 1.12 | 1.14 |
| Frontier Total Debt-to-Equity                             | 8.57  | 4.43 | 3.10 | 3.01 | 2.26 |
| Nuvera Interest Coverage Ratio                            | 8.28  | 4.08 | 3.64 | 5.60 | 4.25 |
| Frontier Interest Coverage Ratio                          | -1.02 | 0.58 | 0.67 | 1.18 | 1.47 |
| Nuvera Debt-to- Assets Ratio                              | 0.39  | 0.47 | 0.50 | 0.53 | 0.53 |
| Frontier Debt-to- Assets Ratio                            | 0.78  | 0.69 | 0.64 | 0.58 | 0.55 |
| Nuvera Total Financial Debt over Invested Capital Ratio   | 0.24  | 0.28 | 0.31 | 0.32 | 0.34 |
| Frontier Total Financial Debt over Invested Capital Ratio | 0.74  | 0.64 | 0.61 | 0.53 | 0.50 |

Figure 8

Profitability ratios for Nuvera are better than Frontier's. Frontier's net margin has declined noticeably from 2013 to 2017, from a 2.4 percent net margin in 2013 to -19.8 percent in 2017. Nuvera has seen their net margin increase from 7.4 percent in 2013 to 21.2 percent in 2017. Frontier has also seen a decrease in their NOPAT margin, going from a NOPAT of 13.1 percent in 2014 to 9.8 percent in 2017. Nuvera's NOPAT margin went from 7.0 percent in 2014 to a 10.1 percent NOPAT margin in 2017. While Frontier's NOPAT margin has been on a slight decline, Nuvera's NOPAT margin has been increasing slowly. Figure 9 represents the profitability ratios of Nuvera in comparison to Frontier.

Nuvera has ROIC ratios of 2.5 percent in 2014, 2.3 percent in 2015, 2.0 percent in 2016, and 4.7 percent in 2017. Frontier has ROIC ratios of 3.4 percent in 2014, 2.4 percent in 2015, 3.3 percent in 2016, and 3.7 percent in 2017. While Nuvera's most recent ROIC ratio is higher than Frontier's, both ROIC values

remain below Nuvera's estimated WACC of 10.35 percent. The ROIC values below Nuvera's WACC might suggest value is not being added to Nuvera. Frontier has a ROE ratio of 2.8 percent for 2013, 3.6 percent for 2014, -3.5 percent for 2015, -8.3 percent for 2016, and -79.3 percent for 2017. Nuvera has a ROE ratio of 5.0 percent in 2013, 4.7 percent in 2014, 4.5 percent in 2015, 4.7 percent in 2016, and 14.5 percent in 2017. In 2017 Nuvera's ROE increased compared to prior years, which is a positive sign for investors as the ability to generate profit without needing as much capital is increasing.

### Profitability Ratio Analysis

| Profitability Ratios  | 2017   | 2016  | 2015  | 2014  | 2013  |
|-----------------------|--------|-------|-------|-------|-------|
| Nuvera NOPAT Margin   | 10.1%  | 5.1%  | 6.0%  | 7.0%  | 57.2% |
| Frontier NOPAT Margin | 9.8%   | 10.3% | 11.5% | 13.1% | N/A   |
| Nuvera Net Margin     | 21.2%  | 6.7%  | 6.4%  | 6.9%  | 7.4%  |
| Frontier Net Margin   | -19.8% | -4.2% | -3.5% | 2.8%  | 2.4%  |
| Nuvera ROIC Ratio     | 4.7%   | 2.0%  | 2.3%  | 2.5%  | N/A   |
| Frontier ROIC Ratio   | 3.66%  | 3.25% | 2.39% | 3.39% | N/A   |
| Nuvera ROE Ratio      | 14.5%  | 4.7%  | 4.5%  | 4.7%  | 5.0%  |
| Frontier ROE Ratio    | -79.3% | -8.3% | -3.5% | 3.6%  | 2.8%  |

Figure 9

### FINANCIAL PERFORMANCE AND PROJECTIONS

Over the next five years, I estimate that Nuvera's local service and network access will slowly decline. Local demand will decline as more customers switch from traditional landline local calling services, over to wireless services. This decline is consistent with general industry trends, as customers are utilizing other technologies such as wireless services. I also expect Network access to be on a slight downward trend over the next five years. Network access has been decreasing as more interexchange carriers, who provide connections between local exchanges in different geographic areas, become more aggressive in disputing interstate carrier access charges.

However, I expect both Nuvera's video and data revenue sectors to increase over the next five years in proportion to total operating revenues. Video and data services should especially

pick up for Nuvera due to their acquisition of the Scott-Rice Telephone Company. Scott-Rice provides primarily phone, video, and internet services which will add to Nuvera's projected increase in revenue from their video and data services. I expect revenues from video to increase due to a combination of introduced rate increases and increased demand for HD and DVR services. However, there is risk of customers switching away from traditional video services offered to services such as Netflix, Hulu, and Sling. Similarly, I expect revenue from Data to increase across the telecommunications industry, as consumers are continually looking for high-speed internet options to fit their needs. Nuvera has been looking to increase their projects relating to data services to continually increase their data revenue sector. One such way to increase data revenues is by aggressively packaging service bundles and increased managed service solutions to businesses.

I forecast Nuvera's A-CAM revenue to remain constant, as Nuvera has elected to receive funding from A-CAM for their Minnesota and Iowa operations over a period of ten years. In exchange for meeting defined broadband build-out requirements, Nuvera will use the annual USD 6.5 million to meet said obligations. Nuvera's other revenue segments, which include directory assistance, long distance private lines, and billing for toll and long-distance services, will decline slowly. The current decrease in other revenue is from a decline in sales and installation of customer premises equipment (CPE), such as cable TV set-top boxes, telephone headsets, and the like.

Given the above projections, Nuvera's estimated price for the closing date of November 30, 2018 is USD 13.29. This price per share is below the market close price of USD 18.04 on November 30, 2018, a difference of USD 4.75. My projected operating revenue for 2018 is USD 48,849,657.31, which is a 4.18 percent overall growth from 2017. In my projections, overall revenue growth jumps to 6.352 percent in 2019 and consistently grows up to 7.495 percent in 2023. My estimated WACC for Nuvera is 10.35 percent, which is slightly higher than Nuvera's projected WACC of 9 percent which is listed in their 2017 10-K. The recent increase in the risk-free interest rates in USD explains the increase in the WACC used for valuation purposes. Nuvera's net income is forecasted to take a dip from 2017 to 2018, then increase from there on. One reason Nuvera's net income is forecasted to take a dip, is due to the acquisition of the Scott-Rice Telephone Company. I expect a negative effect on earnings associated to the integration costs of the acquisition. Nuvera's

current ratio remains below 1.0 for the forecasted years, suggesting Nuvera's current liabilities are continuing to exceed their current assets. Nuvera has a forecasted NOPAT margin of 18 percent for the years to come. In addition, Nuvera has an ROIC value of 4.7 percent in 2017, which I forecasted to increase to 8.6 percent in 2018 and remain around 9.3 percent in 2019 and beyond. Nuvera's forecasted ROIC is just below the forecasted WACC of 10.35 percent, suggesting that value might not be added to Nuvera.

## VALUATION

I used a valuation model based on discounting expected Free Cash Flows at the Weighted Average Cost of Capital. I used Mergent Online to download financial statements for the latest five-year period. The most recent audited information for Nuvera is December 31, 2017.

The forecasted projections for Nuvera give an estimated price of USD 13.29 per share for November 30, 2018, suggesting the stock market value for Nuvera is higher than Nuvera's intrinsic equity value per share. Comparing my stock price estimate of USD 13.29 to the price of USD 18.04 at market close on November 30, 2018, in my opinion, the stock is overvalued. It would be better to sell Nuvera's stock today and wait until the market price adjusts to the intrinsic value, and then buy it back in the future, when the stock price is cheaper. When I use the relative valuation method based on the Enterprise Value to EBITDA multiple, Frontier's calculated price per share is USD 13.88. This price per share is consistent with my discounted cash flow model previously explained. If I use CenturyLink as a benchmark, an additional competitor of Nuvera, I get a price per share of USD 24.85. Although this price suggests that Nuvera might be somewhat undervalued, I trust better using Frontier to relatively value Nuvera since the two companies are more comparable in their size and operations.

The recent completion of the acquisition of the Scott-Rice Telephone Company may be an additional reason to why Nuvera's stock price is currently overvalued. The anticipation of positive results from the acquisition might be much higher than what is feasible in a very competitive environment. The telecommunications sector is facing continual change, and it may prove more difficult than expected to stay up-to-date with current trends, having a smooth acquisition between companies.

The forecasted estimated price per share for Nuvera is expected to increase to the current market price per share of USD 18.04, but not until December 2022. One possible reason for such an overvaluation is due to the state of the current U.S. economy. Emotional trading may be occurring due to an overly optimistic outlook given the current economy. With low unemployment rates and tax law changes that benefit businesses, this may lead to some overreaction to recent positive non-company-specific news. The current overvaluation may begin to correct itself in the future and the company may see a decline in stock price performance given the price to the fundamental value I estimate. Finally, the overall stock price performance of Nuvera is seeing a slow downward trend recently. Nuvera's stock price began to increase noticeably in 2017, which may be due to the anticipation of a potential acquisition.



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**Nuvera Communications Inc (NBB: NUVR)***In thousands of USD*

| <b>Income Statement</b>                            | <b>12/31/2015</b>     | <b>12/31/2016</b>     | <b>12/31/2017</b>     | <b>12/31/2018</b>     | <b>12/31/2019</b>     | <b>12/31/2020</b>     | <b>12/31/2021</b>     | <b>12/31/2022</b>     |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Sales  | \$ 41,684,068         | \$ 42,319,146         | \$ 46,889,181         | \$ 48,849,657         | \$ 51,952,646         | \$ 55,221,662         | \$ 58,806,622         | \$ 62,963,383         |
| Costs of goods sold (COGS)                         | \$ 19,679,026         | \$ 20,033,346         | \$ 20,531,826         | \$ 21,390,279         | \$ 22,749,015         | \$ 24,180,451         | \$ 25,750,233         | \$ 27,570,395         |
| Sales, general and administrative expense (SGA)    | \$ 6,730,572          | \$ 6,640,723          | \$ 6,771,498          | \$ 7,735,206          | \$ 8,226,555          | \$ 8,744,195          | \$ 9,311,863          | \$ 9,970,074          |
| Depreciation                                       | \$ 9,806,033          | \$ 9,823,112          | \$ 9,711,932          | \$ 9,630,717          | \$ 10,242,472         | \$ 10,886,959         | \$ 11,593,734         | \$ 12,413,240         |
| <b>Operating profit</b>                            | <b>\$ 5,468,437</b>   | <b>\$ 5,821,965</b>   | <b>\$ 9,873,925</b>   | <b>\$ 10,093,455</b>  | <b>\$ 10,734,604</b>  | <b>\$ 11,410,057</b>  | <b>\$ 12,150,792</b>  | <b>\$ 13,009,673</b>  |
| Interest expense                                   | \$ 1,501,638          | \$ 1,425,527          | \$ 1,192,241          | \$ 2,342,037          | \$ 1,754,460          | \$ 1,840,881          | \$ 1,926,688          | \$ 2,025,998          |
| Interest income                                    | \$ 224,223            | \$ 91,942             | \$ 97,996             | \$ 56,672             | \$ 33,890             | \$ 36,043             | \$ 38,311             | \$ 40,798             |
| Nonoperating income (Expense)                      | \$ 204,422            | \$ 399,247            | \$ 371,241            | \$ 319,495            | \$ 339,790            | \$ 361,171            | \$ 384,618            | \$ 411,804            |
| Earnings before taxes (EBT)                        | \$ 4,395,444          | \$ 4,887,627          | \$ 9,150,921          | \$ 8,127,585          | \$ 9,353,824          | \$ 9,966,389          | \$ 10,647,032         | \$ 11,436,278         |
| Tax expense  | \$ 1,729,289          | \$ 2,033,140          | \$ (803,315)          | \$ 1,706,793          | \$ 1,964,303          | \$ 2,092,942          | \$ 2,235,877          | \$ 2,401,618          |
| Net income before extraordinary items              | \$ 2,666,155          | \$ 2,854,487          | \$ 9,954,236          | \$ 6,420,792          | \$ 7,389,521          | \$ 7,873,447          | \$ 8,411,155          | \$ 9,034,660          |
| After-tax extraordinary income (Expense)           | \$ -                  | \$ -                  | \$ -                  | \$ -                  | \$ -                  | \$ -                  | \$ -                  | \$ -                  |
| <b>Net income (NI)</b>                             | <b>\$ 2,666,155</b>   | <b>\$ 2,854,487</b>   | <b>\$ 9,954,236</b>   | <b>\$ 6,420,792</b>   | <b>\$ 7,389,521</b>   | <b>\$ 7,873,447</b>   | <b>\$ 8,411,155</b>   | <b>\$ 9,034,660</b>   |
| Dividends-- preferred                              | \$ -                  | \$ -                  | \$ -                  | \$ -                  | \$ -                  | \$ -                  | \$ -                  | \$ -                  |
| Dividends-- common                                 | \$ 1,737,094          | \$ 1,835,356          | \$ 2,035,892          | \$ 2,124,580          | \$ 2,217,131          | \$ 2,313,714          | \$ 2,414,505          | \$ 2,519,686          |
| Additions to RE                                    | \$ 929,061            | \$ 1,019,131          | \$ 7,918,344          | \$ 4,296,213          | \$ 5,172,390          | \$ 5,559,733          | \$ 5,996,650          | \$ 6,514,974          |
| <b>Balance Sheet</b>                               | <b>12/31/2015</b>     | <b>12/31/2016</b>     | <b>12/31/2017</b>     | <b>12/31/2018</b>     | <b>12/31/2019</b>     | <b>12/31/2020</b>     | <b>12/31/2021</b>     | <b>12/31/2022</b>     |
| <b>Assets</b>                                      |                       |                       |                       |                       |                       |                       |                       |                       |
| Cash   | \$ 551,824            | \$ 616,114            | \$ 1,842,092          | \$ 1,129,674          | \$ 1,201,433          | \$ 1,277,030          | \$ 1,359,934          | \$ 1,456,062          |
| Inventory  | \$ 2,511,632          | \$ 1,860,157          | \$ 2,075,199          | \$ 2,634,573          | \$ 2,801,924          | \$ 2,978,229          | \$ 3,171,574          | \$ 3,395,758          |
| Accounts receivable                                | \$ 1,260,941          | \$ 2,232,571          | \$ 1,944,501          | \$ 1,936,639          | \$ 2,059,656          | \$ 2,189,256          | \$ 2,331,381          | \$ 2,496,176          |
| Other short-term operating assets                  | \$ 1,674,400          | \$ 752,450            | \$ 823,310            | \$ 1,271,144          | \$ 1,351,889          | \$ 1,436,953          | \$ 1,530,240          | \$ 1,638,405          |
| Short-term investments                             | \$ -                  | \$ -                  | \$ 28,178             | \$ -                  | \$ -                  | \$ -                  | \$ -                  | \$ -                  |
| Total current assets                               | \$ 5,998,797          | \$ 5,461,292          | \$ 6,713,280          | \$ 6,972,030          | \$ 7,414,901          | \$ 7,881,469          | \$ 8,393,130          | \$ 8,986,400          |
| Net plant, property, & equipment (PPE)             | \$ 44,114,395         | \$ 42,926,633         | \$ 41,949,833         | \$ 43,703,791         | \$ 46,479,908         | \$ 49,404,563         | \$ 52,611,880         | \$ 56,330,764         |
| Other long-term operating assets                   | \$ 61,387,012         | \$ 58,597,753         | \$ 56,115,101         | \$ 53,808,366         | \$ 57,226,337         | \$ 60,827,190         | \$ 64,776,058         | \$ 69,354,770         |
| Long-term investments                              | \$ 7,294,815          | \$ 7,345,680          | \$ 7,521,389          | \$ 7,835,865          | \$ 8,333,608          | \$ 8,857,984          | \$ 9,433,039          | \$ 10,099,816         |
| <b>Total assets</b>                                | <b>\$ 118,795,019</b> | <b>\$ 114,331,358</b> | <b>\$ 112,299,603</b> | <b>\$ 112,320,051</b> | <b>\$ 119,454,755</b> | <b>\$ 126,971,206</b> | <b>\$ 135,214,107</b> | <b>\$ 144,771,750</b> |
| <b>Liabilities and Equity</b>                      |                       |                       |                       |                       |                       |                       |                       |                       |
| Accounts payable (AP)                              | \$ 1,627,308          | \$ 2,378,736          | \$ 2,079,470          | \$ 2,561,413          | \$ 2,724,117          | \$ 2,895,527          | \$ 3,083,503          | \$ 3,301,461          |
| Accruals   | \$ 2,874,439          | \$ 2,594,153          | \$ 3,129,698          | \$ 3,143,994          | \$ 3,343,704          | \$ 3,554,100          | \$ 3,784,830          | \$ 4,052,361          |
| Other operating current liabilities                | \$ -                  | \$ -                  | \$ -                  | \$ -                  | \$ -                  | \$ -                  | \$ -                  | \$ -                  |
| All short-term debt                                | \$ 2,700,000          | \$ 3,315,822          | \$ 3,315,822          | \$ 4,818,252          | \$ 4,508,933          | \$ 4,065,202          | \$ 3,674,296          | \$ 3,659,577          |
| Total current liabilities                          | \$ 7,201,747          | \$ 8,288,711          | \$ 8,524,990          | \$ 10,523,659         | \$ 10,576,754         | \$ 10,514,829         | \$ 10,542,629         | \$ 11,013,400         |
| Long-term debt                                     | \$ 33,899,206         | \$ 28,534,678         | \$ 24,180,508         | \$ 16,817,191         | \$ 17,949,275         | \$ 19,149,203         | \$ 20,469,811         | \$ 22,000,660         |
| Deferred taxes                                     | \$ 17,549,872         | \$ 16,314,431         | \$ 10,318,689         | \$ 10,925,948         | \$ 11,619,977         | \$ 12,351,141         | \$ 13,152,970         | \$ 14,082,691         |
| Preferred stock                                    | \$ -                  | \$ -                  | \$ -                  | \$ -                  | \$ -                  | \$ -                  | \$ -                  | \$ -                  |
| Other long-term liabilities                        | \$ 1,073,822          | \$ 935,042            | \$ 826,683            | \$ 1,308,308          | \$ 1,391,413          | \$ 1,478,965          | \$ 1,574,979          | \$ 1,686,306          |
| Total liabilities                                  | \$ 59,724,647         | \$ 54,072,862         | \$ 43,850,870         | \$ 39,575,106         | \$ 41,537,419         | \$ 43,494,138         | \$ 45,740,389         | \$ 48,783,058         |
| Par plus PIC Less treasury (and other adjustments) | \$ 55,997,472         | \$ 56,166,465         | \$ 56,438,358         | \$ 56,438,358         | \$ 56,438,358         | \$ 56,438,358         | \$ 56,438,358         | \$ 56,438,358         |
| Retained earnings (RE)                             | \$ 3,072,900          | \$ 4,092,031          | \$ 12,010,375         | \$ 16,306,588         | \$ 21,478,977         | \$ 27,038,710         | \$ 33,035,360         | \$ 39,550,334         |
| Total common equity                                | \$ 59,070,372         | \$ 60,258,496         | \$ 68,448,733         | \$ 72,744,946         | \$ 77,917,335         | \$ 83,477,068         | \$ 89,473,718         | \$ 95,988,692         |
| <b>Total liabilities and equity</b>                | <b>\$ 118,795,019</b> | <b>\$ 114,331,358</b> | <b>\$ 112,299,603</b> | <b>\$ 112,320,051</b> | <b>\$ 119,454,755</b> | <b>\$ 126,971,206</b> | <b>\$ 135,214,107</b> | <b>\$ 144,771,750</b> |

**Nuvera Communications Inc (NBB: NUVR)***In thousands of USD*

| <b>Statement of Cash Flows</b>              | <b>12/31/2015</b>     | <b>12/31/2016</b>     | <b>12/31/2017</b>     | <b>12/31/2018</b>     | <b>12/31/2019</b>      | <b>12/31/2020</b>      | <b>12/31/2021</b>      | <b>12/31/2022</b>      |
|---|-----------------------|-----------------------|-----------------------|-----------------------|------------------------|------------------------|------------------------|------------------------|
| <b>Operating Activities</b>                 |                       |                       |                       |                       |                        |                        |                        |                        |
| Net income                                  | \$ 2,666,155          | \$ 2,854,487          | \$ 9,954,236          | \$ 6,420,792          | \$ 7,389,521           | \$ 7,873,447           | \$ 8,411,155           | \$ 9,034,660           |
| Depreciation                                | \$ 9,806,033          | \$ 9,823,112          | \$ 9,711,932          | \$ 9,630,717          | \$ 10,242,472          | \$ 10,886,959          | \$ 11,593,734          | \$ 12,413,240          |
| Change in deferred tax                      | \$ (825,667)          | \$ (1,235,441)        | \$ (5,995,742)        | \$ 607,259            | \$ 694,029             | \$ 731,164             | \$ 801,829             | \$ 929,721             |
| Change in inventory                         | \$ (283,707)          | \$ 651,475            | \$ (215,042)          | \$ (559,374)          | \$ (167,351)           | \$ (176,305)           | \$ (193,345)           | \$ (224,184)           |
| Change in accounts receivable               | \$ 181,536            | \$ (971,630)          | \$ 288,070            | \$ 7,862              | \$ (123,018)           | \$ (129,600)           | \$ (142,125)           | \$ (164,794)           |
| Change in other short-term operating assets | \$ (112,135)          | \$ 921,950            | \$ (70,860)           | \$ (447,834)          | \$ (80,745)            | \$ (85,065)            | \$ (93,286)            | \$ (108,165)           |
| Change in accounts payable                  | \$ (1,422,691)        | \$ 751,428            | \$ (299,266)          | \$ 481,943            | \$ 162,704             | \$ 171,410             | \$ 187,976             | \$ 217,958             |
| Change in accruals                          | \$ 408,720            | \$ (280,286)          | \$ 535,545            | \$ 14,296             | \$ 199,710             | \$ 210,396             | \$ 230,730             | \$ 267,532             |
| Change in other current liabilities         | \$ -                  | \$ -                  | \$ -                  | \$ -                  | \$ -                   | \$ -                   | \$ -                   | \$ -                   |
| <b>Net cash from operating activities</b>   | <b>\$ 10,418,244</b>  | <b>\$ 12,515,095</b>  | <b>\$ 13,908,873</b>  | <b>\$ 16,155,662</b>  | <b>\$ 18,317,323</b>   | <b>\$ 19,482,406</b>   | <b>\$ 20,796,668</b>   | <b>\$ 22,365,968</b>   |
| <b>Investing Activities</b>                 |                       |                       |                       |                       |                        |                        |                        |                        |
| Investment in PPE                           | \$ (7,837,505)        | \$ (8,635,350)        | \$ (8,735,132)        | \$ (11,384,675)       | \$ (13,018,589)        | \$ (13,811,614)        | \$ (14,801,052)        | \$ (16,132,124)        |
| Investment in other long-term oper. ass.    | \$ 2,561,001          | \$ 2,789,259          | \$ 2,482,652          | \$ 2,306,735          | \$ (3,417,971)         | \$ (3,600,853)         | \$ (3,948,868)         | \$ (4,578,712)         |
| <b>Net cash from investing activities</b>   | <b>\$ (5,276,504)</b> | <b>\$ (5,846,091)</b> | <b>\$ (6,252,480)</b> | <b>\$ (9,077,940)</b> | <b>\$ (16,436,560)</b> | <b>\$ (17,412,467)</b> | <b>\$ (18,749,919)</b> | <b>\$ (20,710,836)</b> |
| <b>Financing Activities</b>                 |                       |                       |                       |                       |                        |                        |                        |                        |
| Change in short-term investments            | \$ -                  | \$ -                  | \$ (28,178)           | \$ 28,178             | \$ -                   | \$ -                   | \$ -                   | \$ -                   |
| Change in long-term investments             | \$ (215,453)          | \$ (50,865)           | \$ (175,709)          | \$ (314,476)          | \$ (497,743)           | \$ (524,376)           | \$ (575,055)           | \$ (666,777)           |
| Change in short-term debt                   | \$ -                  | \$ 615,822            | \$ -                  | \$ 1,502,430          | \$ (309,319)           | \$ (443,731)           | \$ (390,906)           | \$ (14,719)            |
| Change in long-term debt                    | \$ (3,342,740)        | \$ (5,364,528)        | \$ (4,354,170)        | \$ (7,363,317)        | \$ 1,132,084           | \$ 1,199,928           | \$ 1,320,608           | \$ 1,530,849           |
| Preferred dividends                         | \$ -                  | \$ -                  | \$ -                  | \$ -                  | \$ -                   | \$ -                   | \$ -                   | \$ -                   |
| Change in preferred stock                   | \$ -                  | \$ -                  | \$ -                  | \$ -                  | \$ -                   | \$ -                   | \$ -                   | \$ -                   |
| Change in other long-term liabilities       | \$ (331,029)          | \$ (138,780)          | \$ (108,359)          | \$ 481,625            | \$ 83,105              | \$ 87,552              | \$ 96,014              | \$ 111,328             |
| Change in common stock (Par + PIC)          | \$ 91,313             | \$ 168,993            | \$ 271,893            | \$ -                  | \$ -                   | \$ -                   | \$ -                   | \$ -                   |
| Common dividends                            | \$ (1,737,094)        | \$ (1,835,356)        | \$ (2,035,892)        | \$ (2,124,580)        | \$ (2,217,131)         | \$ (2,313,714)         | \$ (2,414,505)         | \$ (2,519,686)         |
| <b>Net cash from financing activities</b>   | <b>\$ (5,535,003)</b> | <b>\$ (6,604,714)</b> | <b>\$ (6,430,415)</b> | <b>\$ (7,790,139)</b> | <b>\$ (1,809,004)</b>  | <b>\$ (1,994,341)</b>  | <b>\$ (1,963,845)</b>  | <b>\$ (1,559,004)</b>  |
| Net cash flow                               | \$ (393,263)          | \$ 64,290             | \$ 1,225,978          | \$ (712,418)          | \$ 71,758              | \$ 75,598              | \$ 82,904              | \$ 96,127              |
| Starting cash                               | \$ 945,087            | \$ 551,824            | \$ 616,114            | \$ 1,842,092          | \$ 1,129,674           | \$ 1,201,433           | \$ 1,277,030           | \$ 1,359,934           |
| <b>Ending cash</b>                          | <b>\$ 551,824</b>     | <b>\$ 616,114</b>     | <b>\$ 1,842,092</b>   | <b>\$ 1,129,674</b>   | <b>\$ 1,201,433</b>    | <b>\$ 1,277,030</b>    | <b>\$ 1,359,934</b>    | <b>\$ 1,456,062</b>    |

| Ratios  | 2017   | 2016    | 2015    | 2014   | 2013   |
|---|--------|---------|---------|--------|--------|
| Productivity Ratios                                   |        |         |         |        |        |
| Growth in sales                                       | 10.8%  | 1.5%    | 4.2%    | 3.3%   | N/A    |
| Receivables turnover                                  | 24.11  | 18.96   | 33.06   | 27.72  | 26.54  |
| Inventory turnover                                    | 22.60  | 22.75   | 16.60   | 17.95  | 15.27  |
| Operating working capital turnover                    | 31.77  | 86.65   | 27.84   | 60.40  | 25.83  |
| Net fixed asset turnover                              | 0.48   | 0.42    | 0.40    | 0.36   | 0.35   |
| Total asset turnover                                  | 0.42   | 0.37    | 0.35    | 0.32   | 0.32   |
| Invested capital turnover                             | 0.47   | 0.41    | 0.39    | 0.36   | 0.35   |
| Liquidity Ratios                                      |        |         |         |        |        |
| Current ratio   | 0.79   | 0.66    | 0.83    | 0.75   | 0.13   |
| Quick ratio   | 0.54   | 0.43    | 0.48    | 0.48   | 0.07   |
| Cash ratio  | 0.22   | 0.07    | 0.08    | 0.12   | 0.02   |
| Short-term investments over invested capital          | 0.00   | 0.00    | 0.00    | 0.00   | 0.00   |
| Financial Risk (Leverage) Ratios                      |        |         |         |        |        |
| Total debt-to-equity ratio                            | 0.64   | 0.90    | 1.01    | 1.12   | 1.14   |
| Total debt-to-equity ratio (excluding deferred taxes) | 0.49   | 0.63    | 0.71    | 0.81   | 0.82   |
| Total financial debt-to-equity ratio                  | 0.40   | 0.53    | 0.62    | 0.69   | 0.72   |
| Interest coverage ratio (accounting-based)            | 8.28   | 4.08    | 3.64    | 5.60   | 4.25   |
| Interest coverage ratio (cash-based)                  | 16.43  | 10.97   | 10.17   | 15.82  | 10.91  |
| Total debt-to-assets ratio                            | 0.39   | 0.47    | 0.50    | 0.53   | 0.53   |
| Total financial debt over invested capital            | 0.24   | 0.28    | 0.31    | 0.32   | 0.34   |
| Long-term financial debt over invested capital        | 0.24   | 0.28    | 0.32    | 0.34   | 0.00   |
| Profitability/Valuation Ratios                        |        |         |         |        |        |
| Gross profit margin                                   | 56.2%  | 52.7%   | 52.8%   | 53.7%  | 55.2%  |
| EBITDA margin   | 41.8%  | 37.0%   | 36.6%   | 37.1%  | 38.9%  |
| Operating profit margin                               | 21.1%  | 13.8%   | 13.1%   | 13.1%  | 15.2%  |
| NOPAT margin  | 10.1%  | 5.1%    | 6.0%    | 7.0%   | 57.2%  |
| Earnings before taxes margin                          | 19.5%  | 11.5%   | 10.5%   | 11.7%  | 12.5%  |
| Net margin  | 21.2%  | 6.7%    | 6.4%    | 6.9%   | 7.4%   |
| Return on Assets                                      | 8.8%   | 5.1%    | 4.6%    | 4.3%   | 4.8%   |
| Net investment rate                                   | -52.1% | -230.3% | -148.3% | -16.3% | 502.3% |
| Dividend payout ratio                                 | 20.5%  | 64.3%   | 65.2%   | 63.1%  | 60.4%  |
| ROIC  | 4.7%   | 2.0%    | 2.3%    | 2.5%   | N/A    |
| ROE   | 14.5%  | 4.7%    | 4.5%    | 4.7%   | 5.0%   |