

Responses to Otelco Shareholder Comments

As indicated in the report of Otelco shareholder views offered in the survey conducted last month,¹ the comments and questions that you offered for the company's management were presented to them for response. Curtis L. Garner, Jr., Otelco's Chief Financial Officer, has asked the Forum to report this statement to survey participants:

We appreciate The Shareholder Forum's efforts to solicit and organize additional feedback from Otelco's shareholders. Our philosophy has always been, and continues to be, open and frank direct engagement with our shareholders. Management makes itself available to all of Otelco's shareholders in person, through quarterly investor calls, by email and by phone. The recent feedback that we have received from our shareholders is that they are generally satisfied with our communications and transparency.

The shareholder who initiated the survey, Tim Bergin, has also provided his own observations of the results in an article published in his private subscription newsletter, and has given the Forum permission to present it to participants:

- [November 2018, Tim Bergin, publisher, On Beyond Investing: "Shareholder surveys - an underused tool"](#)

Pleased to know that this project was useful to everyone concerned, I will continue to welcome your comments.

GL – December 6, 2018

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¹ See [November 19, 2018 Forum Report: 2018 Otelco Shareholder Survey](#)

ON BEYOND INVESTING

November 2018

Special Report

Shareholder surveys - an underused tool

I want to tell you about a little-known investing tool that I recently used that I think more investors should be aware of. The tool is shareholder surveys. With tremendous help from my friend (and I should disclose, newsletter subscriber), Gary Lutin, who runs the [Shareholder Forum](#), myself and two other professional investors (one of whom is also a subscriber), launched a shareholder survey for our fellow Otelco (ticker: OTEL) shareholders. The goal of the survey was to gain insight and a better understanding of what the other OTEL shareholders thought about the company's financial policies and business strategies. This was a fascinating process, and it has convinced me that surveying shareholders is a tool that more investors should be aware of and should use.

With a shareholder survey, any shareholder can reach out to other shareholders of a company to solicit their opinions on the company, and ask for comments that will be forwarded to the company's management team and board. The participants' responses and comments are kept anonymous, and the survey is independently operated, in our case by the Shareholder Forum. These surveys can reach shareholders through the various brokerages where the stock is held and the distribution can be tailored to be sent to all shareholders, like we did with OTEL, or to just large holders if a quicker process is needed, like in the event of an upcoming transaction. Shareholders get a link to the survey, and they can then answer (or not) all of the questions that the initiator asks. To see an example, you can view the survey that we sent out to fellow Otelco shareholders [here](#).

Surveys provide shareholders with the an opportunity

to openly discuss ideas. While shareholders should be constantly discussing their mutual holdings, this open dialogue is often much less frequent than would be imagined because many shareholders are wary to be seen to be working together (which would require SEC filings indicating a group). So even in situations where conflicting opinions and open discourse is desired (or required), investors can be hesitant to speak. These surveys, and their anonymity, can alleviate those concerns.

I chose OTEL as a company where a shareholder survey could be useful because it is a company whose prospects are changing. My reasons for the survey were quoted in the final report prepared by the Shareholder Forum:

This survey was initiated to answer a simple question I had: what do the shareholders of Otelco want the company to do?

This question is a necessary one to ask now because Otelco is transitioning. It was a company with too much debt and limited discretionary income. Management has successfully turned the company around and it is now a company that is generating a large amount of discretionary income. What should the company do with this cash? It is often assumed that shareholders want dividends. I wanted to ask the shareholders directly to see if this was true.

OTEL's credit agreement allows the company to begin to pay dividends when the firm's leverage falls below 2.5x EBITDA (earnings before interest taxes, depreciation & amortization). By my calculations, OTEL will meet this measure sometime in 2019. A key element to my investment thesis is knowing what the company will do when they reach this target. My personal view is that shareholders would benefit from

even more deleveraging. My logic is that de-risking the firm would mean a much higher, and safer, stream of dividend income in the future. This higher and safer dividend yield would, in my opinion, likely maximize shareholder value. However, my opinion is just one of many. I wanted to hear from the other shareholders to see what they thought.

The survey was launched in on October 29th, 2018. Shareholder Forum analyzed the results, which were presented to Otelco on November 19th, 2018. My summation of the results was quoted in the report:

The responses were very interesting. It is clear that the shareholders of Otelco have a long-term approach and a more nuanced view of cash uses than dividends. Shareholders state a preference for reinvestment in the business, followed by share buybacks and the payment of dividends. The other consistent theme is debt reduction. Shareholders like the idea of de-risking the balance sheet now to allow for a more secure stream of dividends in the future. This approach makes sense to me, and I am encouraged by the long-term perspective of my fellow shareholders.

For those interested in reading the report, you can see the full version [here](#) and a full list of submitted

comments by shareholders [here](#). I thought this survey was a tremendous success. It allowed all those who participated to clearly express their views, and now the management at OTEL is fully aware of what its shareholders want.

I think this survey was also interesting because while certain themes were clear and aligned with my preferences, there were also shareholders with very different opinions and I think it is important to keep those in mind too.

There are clearly many other applications for this survey tool. While I think OTEL management team is doing an excellent job, you can easily see how a tool like this can be used in situations where management is performing poorly or where governance is poor. A survey tool may work well to let other aggrieved shareholders know that they aren't alone and that perhaps there are enough concerned shareholders that change can be advocated for.

This is a tool that has not been used much, and isn't well known, and I think there are many more useful applications of shareholder surveys that we will see in the future. Please reach out to me if you have any questions.

ABOUT

I have 12 years of experience as a trader on a Proprietary Credit trading desk in New York and Toronto and at hedge funds in Toronto. In that time, I traded and invested in all asset categories - bonds, derivatives and equities - globally. Wanting more freedom, I decided to focus on managing my own portfolio and investments. I enjoy reading, learning and thinking deeply about markets and investments. When not investing, I spend time with my wife and son in Copenhagen.

INVESTING STYLE

My investing style focuses on value; buying good companies well below fair value or finding mispriced securities with a lot more upside than downside. This approach is a disciplined one with a long-term focus. I am opportunistic and focus on areas of the market where recent volatility or apathy may create interesting investments.

CONTACT

I love discussing markets and investing ideas. Please reach out to me with any questions, comments, or thoughts on newsletter ideas or ideas of your own. Reach me at: tim@onbeyondinvesting.com

SUBSCRIPTION

Yearly Subscription Rate: \$500 Cad (including GST).

A subscription includes 10 to 12 issues per year.

All issues will have two interesting and actionable investing ideas. Issues also include updates on companies, interesting articles I have been reading and general market musings.

The goal of the newsletter is to give readers a view of markets through the eyes of a portfolio manager. I aim to educate readers on how a portfolio manager approaches markets, evaluates companies, and thinks about investing. Investment ideas provided will reflect my value investing style.

Find more info at:

onbeyondinvesting.com

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2018 Survey of Otelco Inc. Shareholders

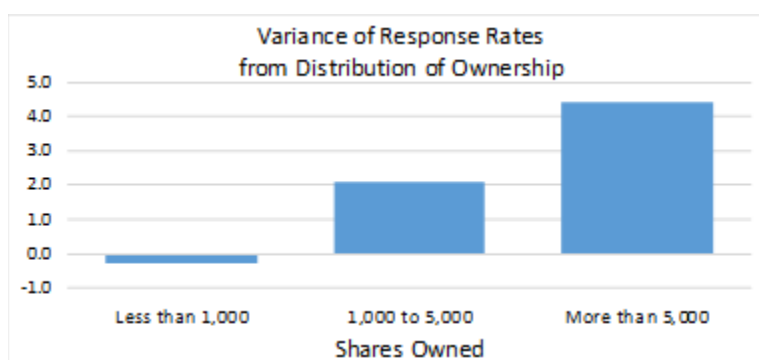
[Investment Objectives](#)
[Business Strategies](#)
[Financial Policies](#)
[Shareholder Comments and Questions](#)

The shareholders of Otelco Inc. were invited to report views during the week prior to the company's scheduled reports of third quarter performance results.¹ The survey requested rankings of investment objectives, business strategies and financial policies, with a participant's anonymity assured by independent moderation and secure data administration.²

The request for this survey was initiated by Tim Bergin,³ as a shareholder who has no other relationship with Otelco or its management, for the purpose of determining whether there is sufficient shareholder support of the current management policies that he considers essential to long term investment in the company. Two other investment professionals, each like Mr. Bergin owning over 5,000 shares of Otelco, were invited to participate in a workshop to guide the Shareholder Forum's definition of issues to be addressed in the survey.⁴

In addition to questions developed to address the issues defined in the project workshop, the survey asked participants to volunteer information that might be useful in analyzing anonymous responses, about what kind of portfolio(s) they managed, how many shares they owned, how long they had owned shares, and whether they had recently increased or decreased their Otelco investment. Participants were also offered an opportunity to present questions or

¹ An independent service provider that does not disclose identities of addressees distributed invitations by United States postal service on October 25, 2018 and by email on October 29, 2018 to over 2,800 shareholders of record owning more than 75% of Otelco's currently reported shares outstanding. As indicated in the following analysis of response variance from the distribution of record owners, participation followed a typical pattern of higher rates by investors with larger interests:



² For records of what was presented, see:

- [Invitation to shareholders \(for email recipients\)](#)
- [Invitation to shareholders \(for printed USPS recipients\)](#)
- [Questionnaire \(printable copy of website at close of survey\)](#)

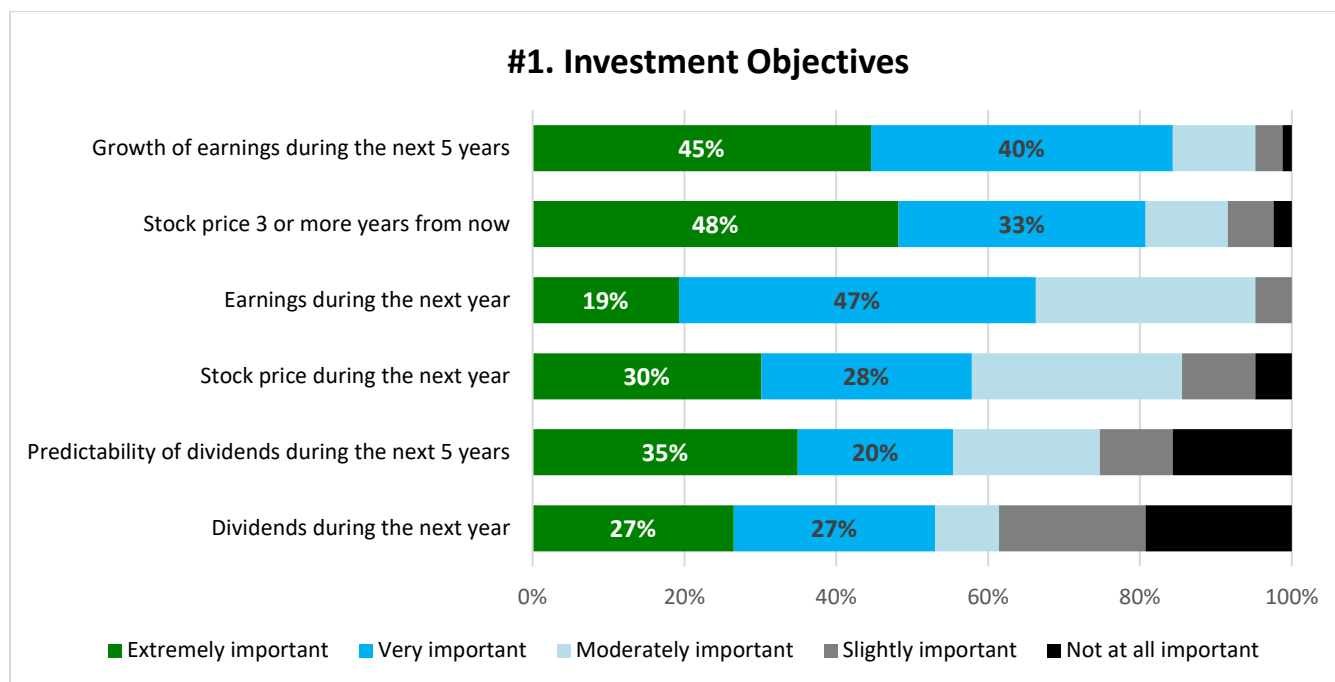
³ Mr. Bergin is the publisher of [On Beyond Investing](#).

⁴ According to professional research standards to avoid biasing responses, the initiator of the survey was not identified until the survey was concluded.

comments anonymously for the Forum to report for consideration by Otelco’s management or other shareholders.

Investment Objectives

The first of three survey subjects asked participants “how you would rank the importance of each of the following investment objectives” which are shown in the graph below, but re-sorted here in order of the highest combined responses of “extremely important” and “very important” rankings.



Notably, an analysis of responses by the numbers of shares owned showed unusual consistency, with more than two-thirds of all three categories of investors (shares under 1,000, between 1,000 and 5,000, and more than 5,000) providing “extremely important” or “very important” rankings to both of the top categories above, “Growth of earnings during the next 5 years” and “Stock price 3 or more years from now.” Similarly, each category gave the lowest ranking of importance to “Dividends during the next year.”

Participants were able to offer their comments on other investment objectives. Responses generally addressed refinements of the listed objectives or means of achieving them, rather than the identification of other objectives, and were reinforced by subsequent responses to rankings of business strategies and financial policies. The largest number of these comments focused on a long term view of value, with a variety of perspectives illustrated by the following examples:

- *I'm interested in long term growth with a growing dividend. Not concerned with short term fluctuations of stock price or earnings as long as business looks solid going forward.*
- *Long term return on investment is always my objective.*

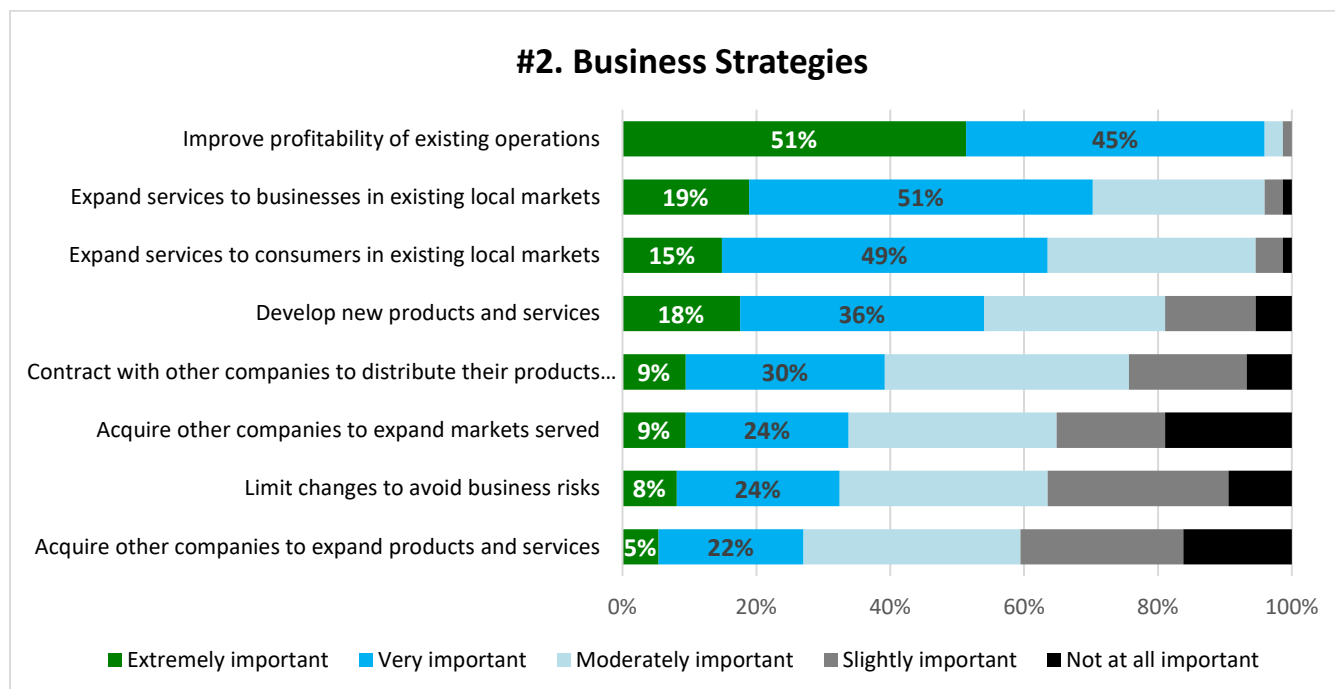
- *I think the main objective should be de-risking the company. The investment goals should be to secure the highest level of dividends 3 to 5 years in the future, ie. by reducing debt now.*
- *I believe that this company's share price is very undervalued and that a merger of some sort will be the likely key to unlocking value. That said, if a dividend is structured to unlock that value over time I would continue to be a holder of the [XX],000 shares currently owned in our several accounts.*

Comments addressing other objectives were generally not inconsistent with this more broadly expressed support of long term investment perspectives, as illustrated in these examples of the range:

- *Very low debt and grow the company*
- *Pay down the debt as quickly as possible.*
- *Is it too much to ask for you to get the stock price back to where it was 10 years ago?*
- *You have no scale and a non contiguous footprint. Either get a lot larger or sell the company.*

Business Strategies

The second survey section asked participants to rank the importance of listed “business strategies,” with the following results re-sorted here in order of the highest combined responses of “extremely important” and “very important” rankings.

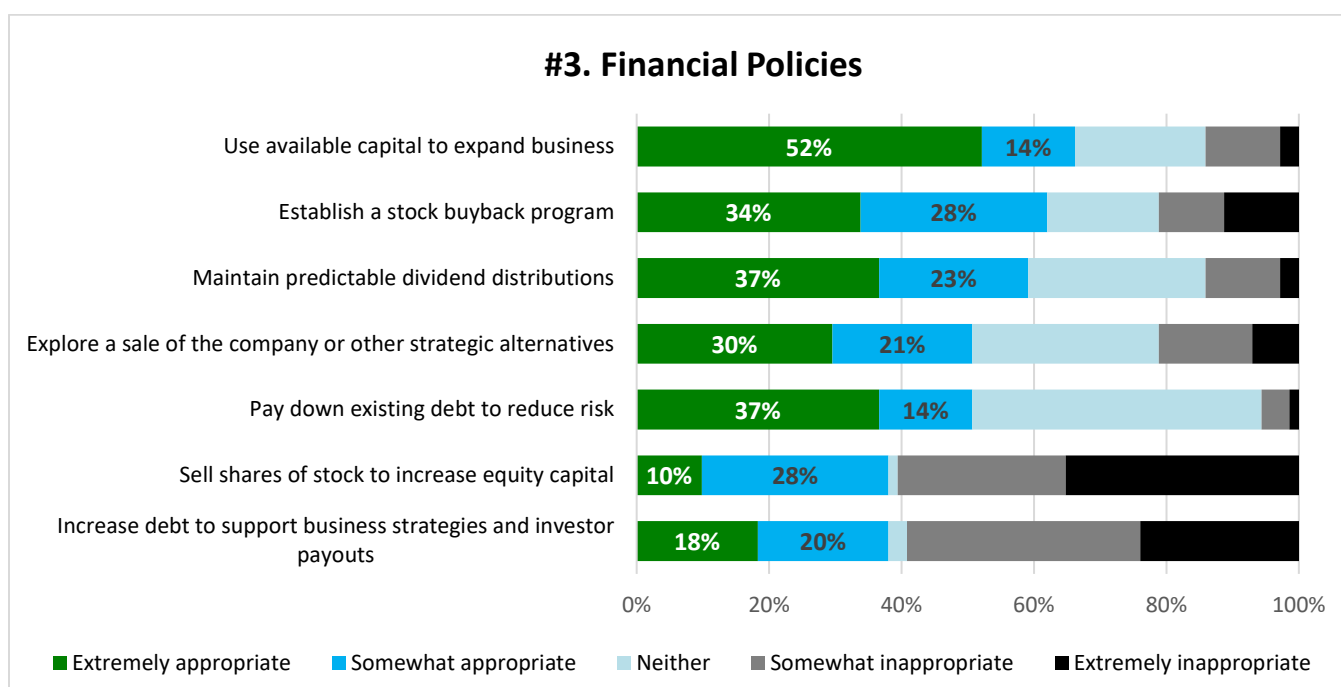


As in the first section, responses to the option for suggestions of other business strategies generally presented observations relating to the listed business strategies or means of achieving them. Most, like these examples, supported the current management’s continuation of current policies:

- *The company is doing a good job of optimising the cost structure and expanding under ACAM. I would encourage them to keep doing that.*
- *Go for the sure win of reducing debt. Reduce leverage below 1.5 before considering new strategies.*
- *The company should continue to focus on its existing business.*

Financial Policies

The third survey section asked participants to consider whether various listed “financial policies” were appropriate or inappropriate for Otelco. The listed policies have been re-sorted here in order of their combined responses of “extremely appropriate” and “somewhat appropriate” rankings.



Responses to the invited suggestion of other financial policies, as in previous sections, presented observations relating to the listed alternatives. Most of these comments addressed either debt management or a possible sale of the company, and often both, as illustrated in these examples:

- *Restart dividends, even if a very modest amount. Avoid adding debt, continue lowering debt.*
- *keep an investment grade rating*

- *I would like to see future dividends secured, by lowering debt to a very low amount (1x to 1.5x). Any additional capital, not needed to expand, should be used to repurchase shares. I think a sale should only be done at an EV/EBITDA multiple north of 9x.*
- *If selling the company is to the benefit of shareholders long term I would be for that.*
- *Consolidation is inevitable. Otelco is an attractive target. The Board should be working to maximize sales price. Stock buybacks (once permitted) at current to 50% higher prices would be higher ROI than new projects. Company's largest shareholders understand value of reducing share count over a taxable dividend.*
- *Need to do what is best for the investors but also make every attempt to make sure current employees are taken care of if the company is sold.*

Shareholder Comments and Questions

In a section following the survey questions for rankings, participants were offered an opportunity to present comments or questions anonymously for the Shareholder Forum to report to Otelco's management, and also for consideration by other shareholders. All of the comments presented prior to the survey's conclusion are presented in this report:

[Comments submitted for Forum reporting to Otelco management and shareholders](#)

(4 pages, 164 KB, in [PDF](#) format)

All of the comments and questions submitted by survey participants for reporting to Otelco's management were presented to the company, without editing, on November 13, the day after the survey closed. The Forum will present Otelco's responses to all survey participants who provided an email address for reports of the survey results.

Mr. Bergin has responded as follows to a request for his observations, as the initiator of the survey and also as an Otelco shareholder:

This survey was initiated to answer a simple question I had: what do the shareholders of Otelco want the company to do?

This question is a necessary one to ask now because Otelco is transitioning. It was a company with too much debt and limited discretionary income. Management has successfully turned the company around and it is now a company that is generating a large amount of discretionary income. What should the company do with this cash? It is often assumed that shareholders want dividends. I wanted to ask the shareholders directly to see if this was true.

The responses were very interesting. It is clear that the shareholders of Otelco have a long-term approach and a more nuanced view of cash uses than dividends. Shareholders state a preference for reinvestment in the business, followed by share buybacks and the payment of dividends. The other consistent theme is debt reduction. Shareholders like the idea of de-

risking the balance sheet now to allow for a more secure stream of dividends in the future. This approach makes sense to me, and I am encouraged by the long-term perspective of my fellow shareholders.

The Forum thanks Mr. Bergin as well as the other workshop participants who helped define the issues to be considered, and of course all of the shareholders who offered their views, for their efforts to support the progress of Otelco's management.

GL – November 19, 2018

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