



ASHPAUGH & SCULCO, CPAs, PLC
Certified Public Accountants and Consultants

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Via Email: Alice.Lawson@seattle.gov

March 29, 2021

Alice Lawson
Broadband and Cable Program Manager
Office of Cable Communications
City of Seattle
P.O. Box 94709
Seattle, Washington 98124-4709

Subject: Financial Review of Transfer of Franchise

THIS REPORT IS IDENTIFIED AS CONFIDENTIAL AND CONTAINS INFORMATION THAT WAS MARKED AS CONFIDENTIAL BY RADIATE HOLDINGS, LP AND STONEPEAK INFRASTRUCTURE PARTNERS

Dear Ms. Lawson:

Ashpaugh & Sculco, CPAs PLC ("A&S") has been retained by the City of Seattle, Washington (the "LFA" or the "City"), to conduct a financial review of the proposed transfer of control of WaveDivision I, LLC, which is a wholly-owned subsidiary of WaveDivision Holdings, L.L.C. ("Wave"), which is a wholly owned subsidiary of Radiate Holdings, L.P. ("Radiate"), a subsidiary of affiliates of TPG Capital. TPG's ownership of Wave will be transferred to Stonepeak Infrastructure Partners and affiliates ("Stonepeak").¹ As a result of the proposed transaction, the franchise or control of the franchisee will be transferred.

EXECUTIVE SUMMARY

While the ultimate transfer of the ownership is rather straightforward, the steps to accomplish it involve a complex transaction. (See the ownership diagrams attached as Exhibit 1.) A&S's analysis will not address the steps of the transaction and will only concentrate on (1) the financial capability of the proposed new owners, the affiliated companies of Stonepeak and (2) the financial status of the existing franchise at transfer.

While several different companies are involved in the chain of ownership, the entities with the resources to make investments in the system post-transaction will be the franchisee (because it will have cash flow from the system operations, and own the asset) and Stonepeak. Based on the information provided to us, Radiate will not be in a comparable

¹ As set out in Exhibit 1 and in filings with the City, Stonepeak Infrastructure Partners and affiliates involved in this transaction include Stonepeak Tiger Holdings I LLC, Stonepeak Tiger Holdings II Sub LLC, Stonepeak Tiger Blocker I LLC, Stonepeak Tiger Blocker II LLC, Stonepeak Tiger Blocker III LLC, Stonepeak Tiger Blocker IV LLC, Stonepeak Tiger GP Merger Sub LLC and Stonepeak Tiger Partnership Merger SUB LP.

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position to make those investments or to guarantee performance since it a holding company and its only assets are Wave and other telecommunication companies.

The LFA has an interest in ensuring that resources are not simply stripped from the local level in a way that affects the quality of service or the quality of the system.

Financial Capability

Stonepeak has demonstrated that it has access to the needed funding for the franchise. As will be discussed below, Radiate and the franchisee may require capital infusions to meet interest payments on the high level of debt that they currently carry (which is reflected in Radiate's financial statements), and to meet the franchisee's needed capital expenditures.

Financial Status of the Franchisee at Transfer

Radiate made a distribution to its owners (TPG and minority investors) in 2019 of [REDACTED] [REDACTED] financed by debt. It should be noted that prior owners used the same method for funding distributions that resulted in increasing debt from [REDACTED] in 2010 to over [REDACTED] as of December 31, 2019. This debt will remain with the company after TPG's transfer of ownership and control to Stonepeak and may have a substantial impact on the franchisee's ability to meet the needs of the LFA, the community or to adequately maintain the system.

ANALYSIS

A&S reviewed the limited financial data provided by or on behalf of Radiate and Stonepeak. The information predominantly was identified as confidential and, so, will only be discussed in summary fashion in this report.

As identified in Exhibit 1 at page 6, Stonepeak is effectively buying TPG's ownership in the following communications companies, among others: RCN Telecom Services, LLC (owners of RCN and Starpower), Grande Communications Networks, LLC, En-Touch Systems, Inc. and WaveDivision Holdings, LLC (owners of WaveDivision companies and Astound Broadband, LLC).

While requested, no financial projections were provided to A&S by Radiate or Stonepeak. A&S used unaudited financials of Radiate for the year ended December 31, 2019, to assess the operational results of Radiate (which collects management fees from Wave and the RCN companies). The unaudited data indicate that Radiate has a healthy cash flow supplemented by additional debt that was primarily used as a distribution to TPG. Cash flow (and retained capital), or capital invested by the new owner, must be sufficient to support continued operation and maintenance of the system as well as additional investments to maintain and attract subscribers. On a standalone basis, for reasons we discuss, there is reason to believe additional capital investment will be required from the franchisees and Stonepeak.

Data has been provided showing that Stonepeak would have access to additional financial resources, if it chose to do so, to invest in the system in the City.

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Through a series of similar debt-financed distributions and sales by prior owners, the debt which management fees from the Wave and RCN companies must support has increased dramatically since 2007. In 2007, RCN, an affiliated company of Wave, acquired new debt of [REDACTED] and used it to pay [REDACTED] in distributions. In 2010, when ABRY, through its subsidiaries, acquired RCN, debt assumed for the cable and fiber business segments was planned at [REDACTED]. Even though subsequent owner Yankee only had a cash balance of approximately [REDACTED] on a consolidated basis, it was able to fund a “distribution to members” by taking on [REDACTED] of new debt in 2013 and 2014 through its operating subsidiaries. The new debt also retired [REDACTED] of prior debt in 2013 and [REDACTED] in 2014. As of June 30, 2016, this had ballooned to [REDACTED], a [REDACTED], while equity decreased from [REDACTED] to a [REDACTED], a decrease of [REDACTED]. A large component of the negative equity at the time was attributed to “distributions to members” of [REDACTED] in 2013 and [REDACTED] in 2014 (a total of [REDACTED]).

Then in 2019, Radiate similarly took on additional debt to make a distribution. As of December 31, 2019, Radiate’s debt was [REDACTED] of long-term debt, [REDACTED] of notes payable and [REDACTED] of debt in a revolving credit facility) and cash had decreased during the year from [REDACTED] to [REDACTED]. While Radiate shows equity of [REDACTED] as December 31, 2019, this reflects a balance of intangible assets of [REDACTED].

SUMMARY

While Stonepeak has shown that it has access to financial capability necessary for the transfer, the City should consider what steps can be taken to assure the continued viability of the franchise. Data provided shows the number of video revenue generating units (“RGUs”) in the City in 2020 is [REDACTED] of what it was in 2018, while the number of customers (video, voice and Internet) in the City has increased [REDACTED] over the same time period. The decline in video RGUs has a major impact on franchise fees.

The pattern of using debt to fund distributions to shareholders/owners has long term implications and has resulted in continued, significant increases in the level of debt. Radiate and the prior owners took money out by leveraging the company as there were not earnings sufficient to support the distributions. However, the cash flow was sufficient to support the increase in debt payments. Future cash flow will have to be used to repay the debt incurred. This is not a sustainable scenario if there are changes in current financial conditions, such as an increase in interest rates, and may not leave debt capacity available to meet the future needs of the company for operations and needed capital improvements (plant and equipment).

One potential condition would be to require a guarantee of performance from a company that is in a position to make significant capital investments as needed to ensure franchise compliance. Based on the information we have been provided, the guarantee would need to be from Radiate HoldCo, LLC.

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Another would be conditions intended to ensure that the system is properly maintained and upgraded so that it can continue to provide advanced services. The guarantee is important in the event of default, but the second may be important to protect against default. As the ultimate owner, Stonepeak should commit to not taking any actions that would prevent the franchisee from maintaining the system at a high level of performance, and investing in the system so that it is capable of providing services of a quality and type similar to that provided by other franchised operators.

Please let us know if we can be of further assistance.

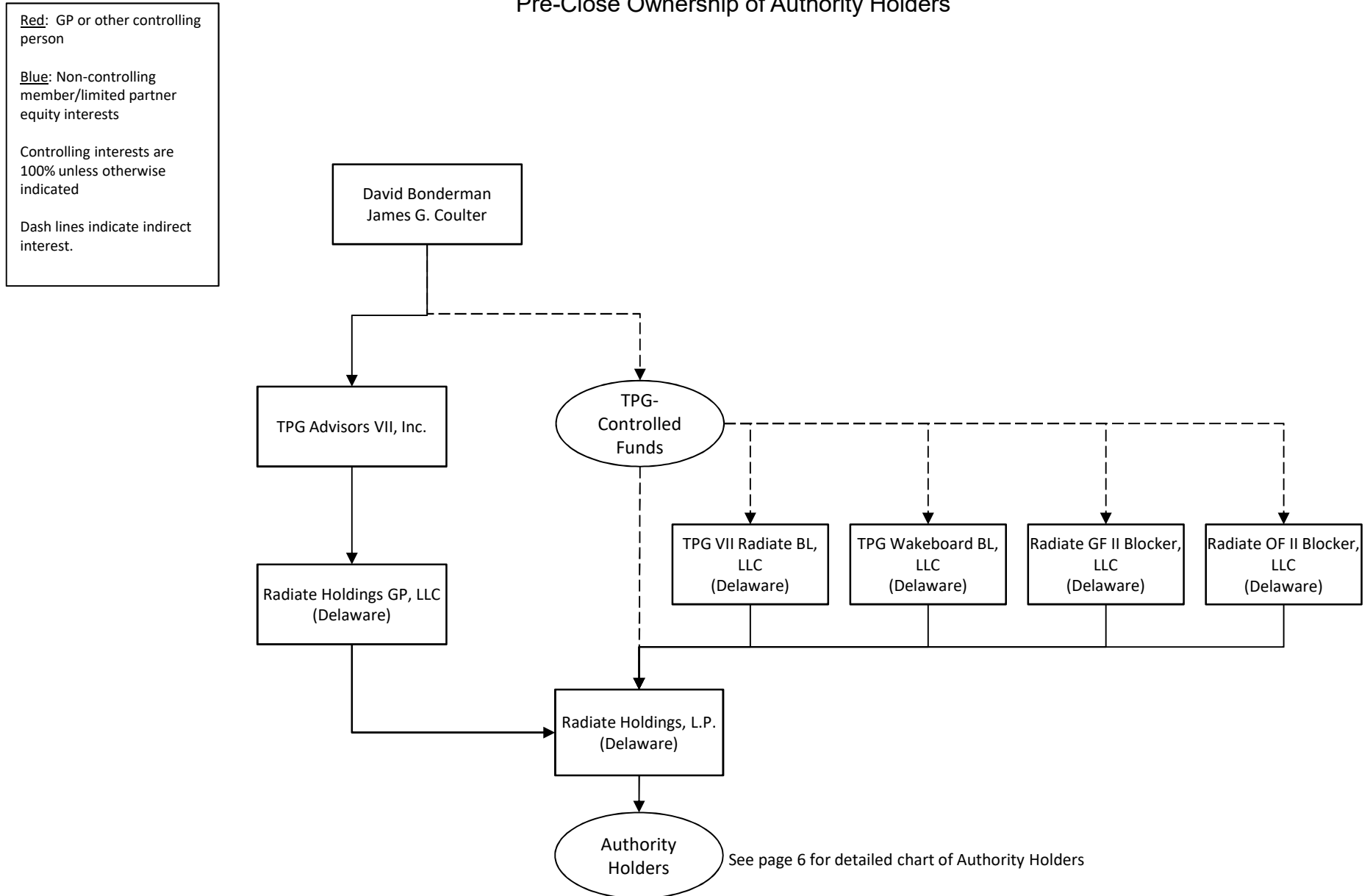
Sincerely,

A handwritten signature in blue ink, appearing to read "Garth T. Ashpaugh", followed by a stylized flourish or second signature.

Garth T. Ashpaugh, CPA
Ashpaugh & Sculco, CPAs, PLC

cc: Suzanne Smith, Esquire, City of Seattle, City Attorney's Office,
Suzanne.Smith@seattle.gov
Brian Grogan, Esquire, Moss & Barnett, brian.grogan@lawmoss.com

Pre-Close Ownership of Authority Holders



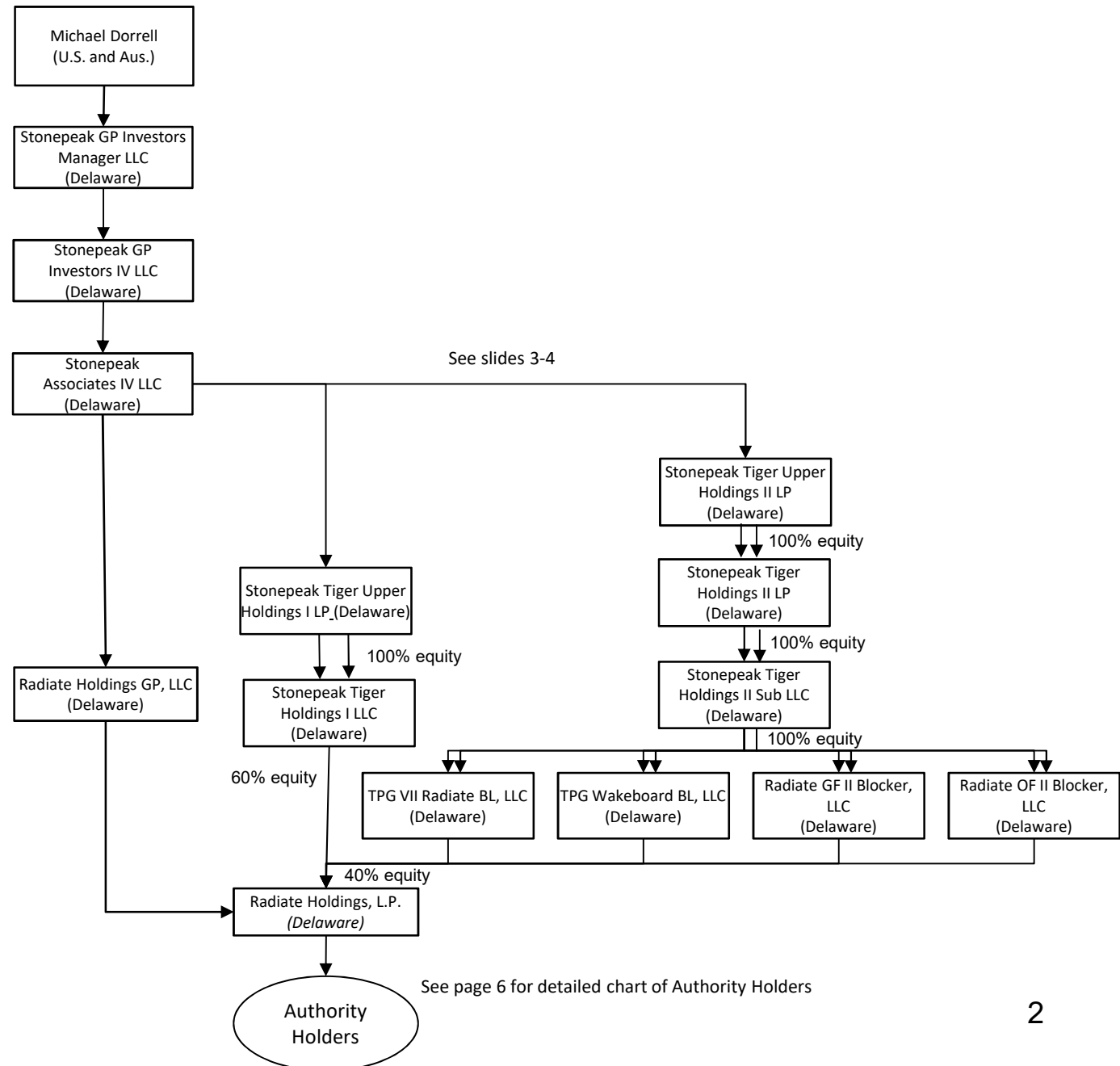
Red: GP or other controlling person

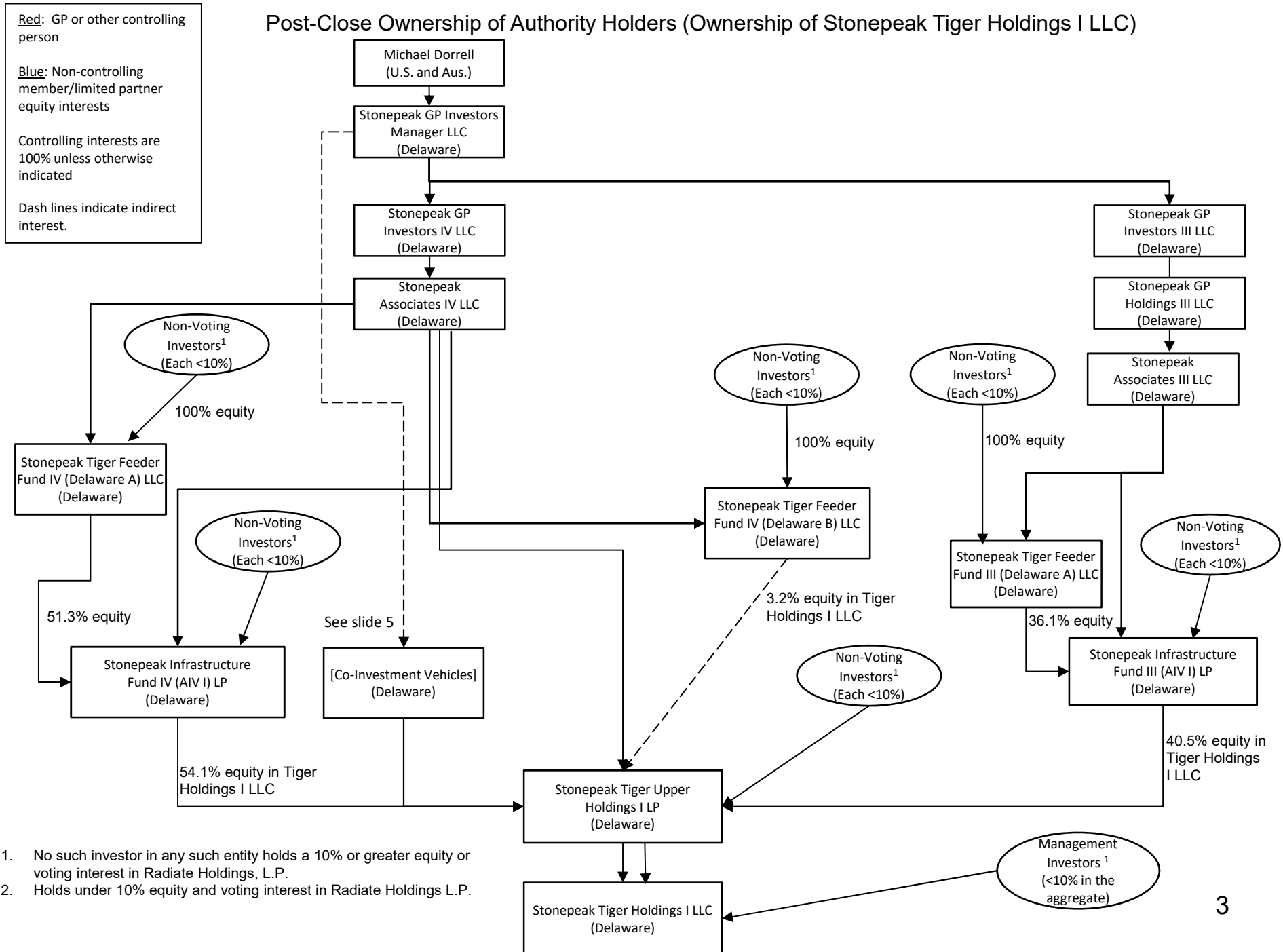
Blue: Non-controlling member/limited partner equity interests

Controlling interests are 100% unless otherwise indicated

Dash lines indicate indirect interest.

Post-Close Ownership of Authority Holders (Indirect Control of Authority Holders)





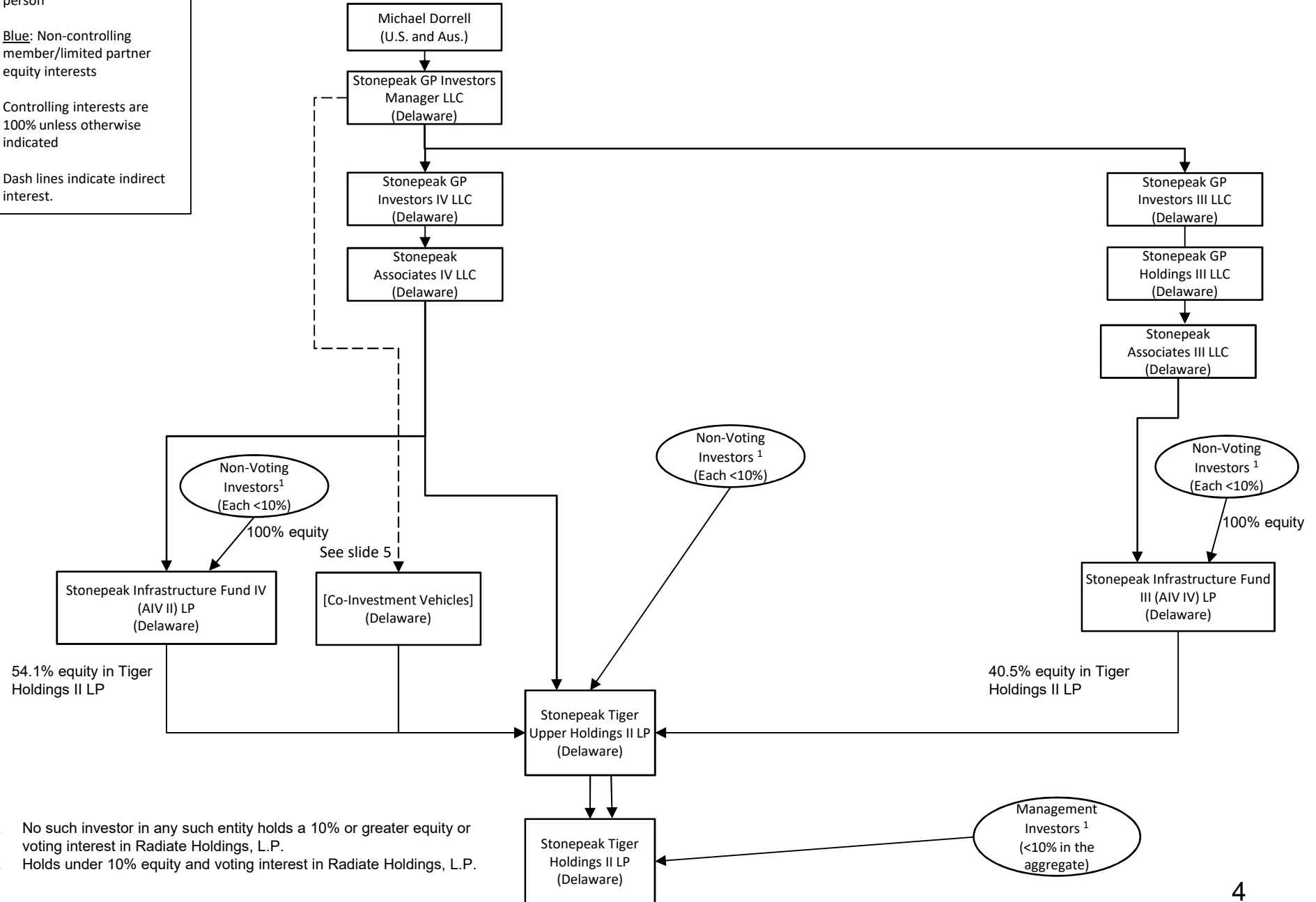
Red: GP or other controlling person

Blue: Non-controlling member/limited partner equity interests

Controlling interests are 100% unless otherwise indicated

Dash lines indicate indirect interest.

Post-Close Ownership of Authority Holders (Ownership of Stonepeak Tiger Holdings II LP)



Post-Close Ownership of Co-Investment Vehicles (Ownership of Tiger Holdings I and II)

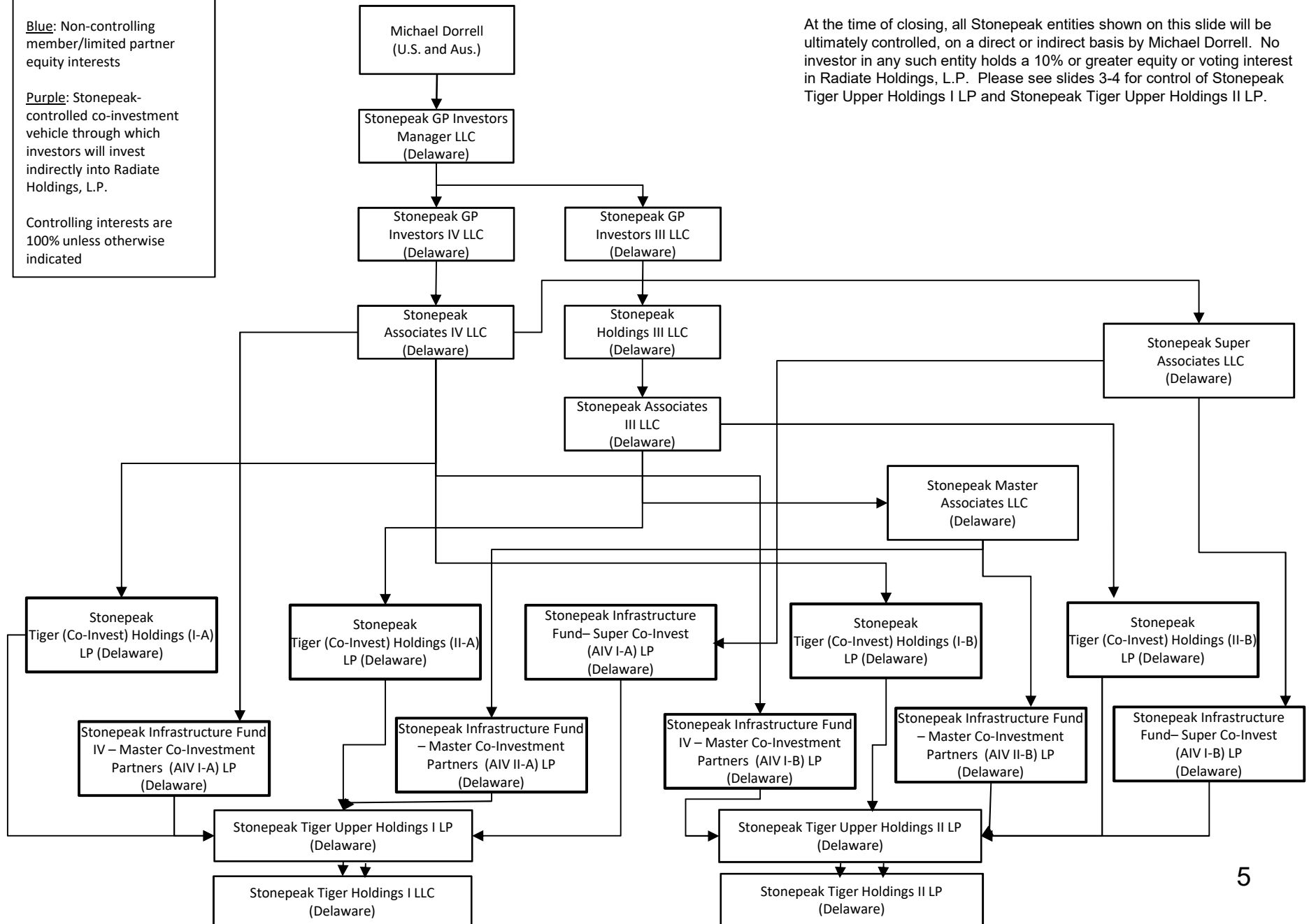
Red: GP or other controlling person

Blue: Non-controlling member/limited partner equity interests

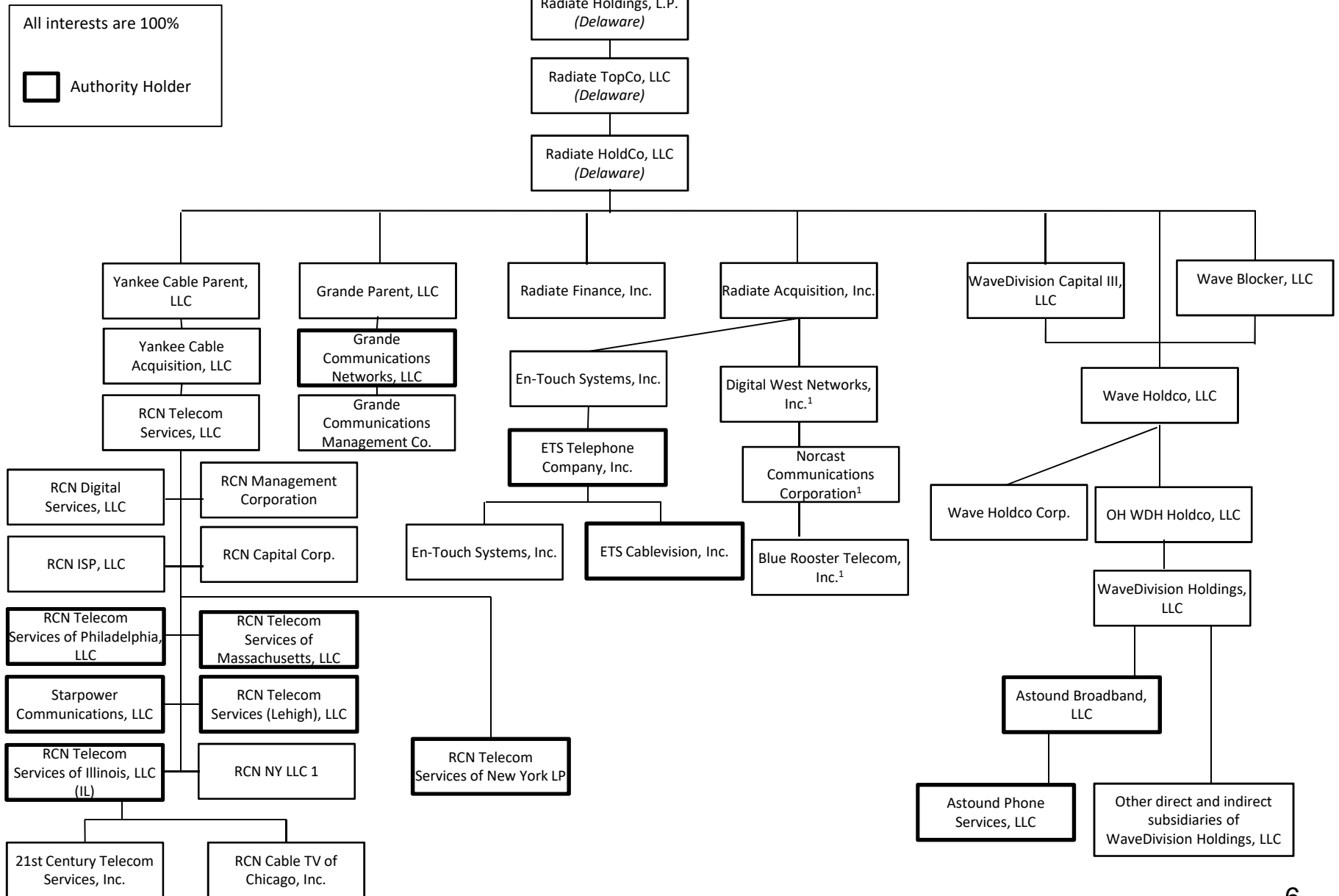
Purple: Stonepeak-controlled co-investment vehicle through which investors will invest indirectly into Radiate Holdings, L.P.

Controlling interests are 100% unless otherwise indicated

At the time of closing, all Stonepeak entities shown on this slide will be ultimately controlled, on a direct or indirect basis by Michael Dorrell. No investor in any such entity holds a 10% or greater equity or voting interest in Radiate Holdings, L.P. Please see slides 3-4 for control of Stonepeak Tiger Upper Holdings I LP and Stonepeak Tiger Upper Holdings II LP.



Authority Holders



¹ Pending close of transaction.