Lumos Networks' CEO Discusses Q1 2013 Results - Earnings Call Transcript

Executives

Will Davis - Director, IR

Tim Biltz - CEO

Hal Covert - CFO

Analysts

Ric Prentiss - Raymond James

Colby Synesael - Cowen & Company

Barry Sine - Drexel Hamilton

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Ankit Sharma - Jefferies

Lumos Networks Corp. (LMOS) Q1 2013 Earnings Call May 3, 2013 8:30 AM ET

Operator

Good morning and welcome to Lumos Networks First Quarter 2013 Earnings Conference Call. All participants will be in listen-only mode. (Operator Instructions) After today's presentation, there will be an opportunity to ask questions. (Operator Instructions) Please note that this event is being recorded.

I would now like to turn the conference over to Mr. Will Davis, Director, Investor Relations. Please go ahead.

Will Davis

Good morning. This is Will Davis, Director of Investor Relations for Lumos Networks Corporation. Welcome to Lumos Networks first quarter 2013 earnings conference call. The topics for today's call include remarks by Tim Biltz, our CEO; and our financial results update by Hal Covert, our CFO.

We ask the questions on this call be from current investors or analyst and that any media questions be directed to Jim Nester Lumos Networks Director of Marketing Operations.

Before we continue, I would like to point out that certain of the statements made on this conference call are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those described. Please refer to the special note from the company regarding forward-looking statements in our first quarter 2013 earnings press release, issued earlier this morning.

In an effort to provide useful information to investors, our comments today, include non-GAAP financial measures. For details on these measures, including reconciliations of the most comparable GAAP measures, please refer to our first quarter earnings press release and to information posted on the company's Investor Relations website.

With that, I will now turn the call over to Tim.

Tim Biltz

Thanks, Will, and good morning, and thank you for joining our call today. During my discussion today, I will cover key highlights of our first quarter, a few high level objectives for our company, as well as comment on our recent successful refinancing. I will also be addressing some of our longer-term objectives. But however before I do that, I would like to point out that we are very happy to report our revenue of $52.5 million and EBITDA of $24.7 million generated in the first quarter of 2013. We are in line with our internal plan and with regard to EBITDA exceeded our financial guidance for the first quarter of 2013.

I'm particularly pleased with the year-over-year comparisons in regard to EBITDA, revenue, margins, and the percent of our strategic data as a percent of our overall revenue.

I would also like to point out that we installed 35 fiber to the cell, in the first quarter and are on track to accomplish our targeted goal having between 550 and 600 FTTCs in service by the end of the year. The midpoint our guidance represents a 55% growth rate in the unique sites for 2013. As many of you know, FTTC is one of the cornerstones of our strategic data growth strategy and we maintain our goal of reaching 1,000 unique sites overtime. These sites once installed provide the company with an opportunity to grow this segments revenue, as future capacity demands grow with the ever continuing demand for wireless data.

I would also like to acknowledge our product development group for successfully obtaining our MEF 2.0 certification and with regard to the access portion of this certification, being the first U.S. carrier to accomplish this. This certification is core to our strategy of expanding our carrier partner, enterprise distribution channel. This certification demonstrates to our partners that we can seamlessly interconnect our networks to deliver Metro Ethernet products across the respective networks, therefore opening up our network to several other companies to serve their enterprise customers. We've already executed MSAs with 9 carriers and expect to more than double that number by year-end.

A little later Hal will provide a detailed summary of our new deck facility, as well as our financial results for Q1 '13. But I do want to comment on our refinancing. With the $52 million in cash proceeds that we received on April 30th, upon closing the new debt facility, we believe that this cash, and the cash that is generated from operations over our planned period, we will have the sufficient cash to fund our current business plan.

Our new debt facility also includes a $50 million line of credit that can be used as needed or just serve as a backup buffer.

Moving on to the key income statement elements. Our primary short-term focus is on solid execution in '13 and '14. Starting with revenue, we believe that strategic data revenue will continue to grow in the 15% annual range. This would result in it growing as a percentage of total revenue from the 60% range for projected for '13 to more than 80% overtime.

During 2013, we expect that strategic data revenue will grow sequentially and total each quarter, but the rate of growth may vary from quarter-to-quarter. This is due to two factors, the lumpy nature of our carrier data product group sales, and the longer sales closed cycle for enterprise data customers, as we pursue larger and more strategic customers. Another key factor is our edge-out marketplace initiatives. Winning new customers and building out related network requirements as elements that at times are hard to predict a precise manner of installation. In both our edge-out marketplace opportunities that we're pursuing in 2013, Richmond, Virginia, and Western Pennsylvania, we're making very good progress. We have or building long haul fiber in both markets, and are in the process of building out selective lateral rings. In Richmond, Virginia, we've signed anchor enterprise data customers and carrier data customers in advance of launch into market in the third quarter.

In future earnings call, we will provide more information about the progress we're making in these markets. Sales are one of the top priorities of our senior management team, because we pursue the exciting growth opportunities that we have in both our addressed markets and our edge-out market opportunities.

Now to expenses, network expenses. Our goal in 2013 is to reduce our network expenses from approximately 22% to 20% of revenue. To accomplish this goal, we are pursuing the optimal mix of on-net revenue from a capital efficiency and operational standpoint. For strategic data revenue and access revenue, we believe that we are well positioned and will continue to improve our profile.

For legacy voice revenues as we churn out low margin customers, our network expense profile for legacy voice will actually improve. As we enter 2014, we believe that we will be close to our goal of 20% of revenue for network expenses. The objective moving beyond 2014 is to maintain the 20% range as we pursue new customers and move into our new edge-out markets. By doing this, we will enhance the level of success for achieving both EBITDA and capital efficiency targets.

For operating expenses, our goal is to reduce our operating expenses as a percent of revenue from the approximately 34% range to the 31% to 32% range overtime. To accomplish this goal we will need to do three things. First, to continue to improve our internal operating efficiencies by simplifying and automating our business processes; second, to ensure that we are focused on the on-net and near-net customer opportunities as part of our sales prospecting activities; and third, to continue to reduce expenses for our declining product lines and invest those into our growing product lines.

In our 2013 operating plan and day-to-day activities, every functional area of the company are focused on those three goals. If we can achieve our goals for network and operating expenses, as a percent of revenue, our EBITDA margins could improve from the 43% levels we reported in 2012 to the 46% forecasted for '13 with a subsequent continuous improvement profile moving forward.

In summary, I'd like to make the following points. Our strategic data product offering, network footprint, and strong demand for fiber based broadband capacity from all types of customers presents an exciting growth opportunity for Lumos. Second, we took major steps to improve our operating efficiencies in 2012 and we have new initiatives that we are implementing now and have a clear focus on operational execution. Three, our Dense network footprint and long haul fiber profile, we believe that we are in an excellent position to pursue strategic data growth, while achieving our stated capital efficiency goals.

A little later Hal will discuss our financial guidance for Q2, '13 and for the full year '13. And you will see that from our financial guidance we are committed to achieving a goal that I just outlined.

Before I turn over the call to Hal, I would like to highlight two key aspects of our Investor Relations program. First we've made a meaningful improvement in transparency with our new segment reporting that we implemented starting with our Q1 2013, 10-Q filed earlier this morning.

Going forward, we will continue to strive to improve transparency, and provide data points that are useful as we continue to strengthen our transition as a provider of broadband infrastructure products and services with a state-of-the-art fiber based network. Next, we will continue to meet with current and potential shareholders at frequent financial conferences and non-deal quarterly road shows. Please contact Will Davis, our Director of IR, if you would like to meet with the company.

In closing, I want to thank all of our shareholders, our customers, and our employees for their continued support of Lumos Networks. Now I'll turn the call over to Hal.

Hal Covert

Thank you, Tim. I would like to cover four topics with you today. First, our unaudited financial results for Q1 2013, our new debt facility, which was closed on 4/30/2013, an overview of our segment reporting, and finally financial guidance for Q2 2013, and the year of 2013.

Revenue for Q1 2013 was $52.5 million compared to $52.7 million for Q4 2012, and $51.4 million for Q1 2012. Q1 2013 strategic data revenue was $29.7 million versus $29 million in Q4 2012, and $25.9 million in the same quarter last year. This represents a sequential increase of 2.3% and a year-over-year increase of 14.6%. The sequential increase was driven by carrier data, in particular our fiber to the cell product line.

Enterprise data had a small sequential increase as a result of the emphasis being placed by the sales organization on larger and more strategic customers who have a long sales closed cycle. Our current outlook is for enterprise data to grow at a faster rate sequentially in the remaining quarters of 2013. The year-over-year was a result of good performance across our entire strategic data product segment.

Overall, strategic data revenue represented 56.5% of our total revenue in Q1 2013 versus 55% in Q4 2012, and a 50.3% in Q1 2012. With our Q1 2013 run rate, strategic data revenue is continuing to increase as a percent of our overall revenue continuing the pattern on meaningful sequential growth and is more than a $120 million annual business.

Our Q1 2013 legacy voice revenue was $14.9 million versus $15.4 million in Q4 2012, and $16.7 million in the same quarter last year. This represents a sequential decline of 3.3% and a year-over-year decline of 11.1%. These declines are due to the continuing commoditization of legacy voice revenue, the increasing use of wireless devices, and our shift and focus to voice and other strategic data products. Overall, legacy voice revenue represented 28.3% of our total revenue in Q1 2013, 29.2% in Q4 2012, and 32.6% in Q1 2012.

Q1 2013 access revenue was $8 million versus $8.3 million in Q4 2012, and $8.8 million in the same quarter last year. This represents a sequential decline of 3.5% and a year-over-year decline of 9.2%.

Going forward, although there are still uncertainties related regulatory changes and customer usage; we expect that RLEC access revenue will decline at a moderate rate due to the SEC access reform order. Overall, access revenue represented 15.2% of our total revenue in Q1 2013, 15.7% in Q4 2012, and 17.1% in Q1 2012.

Adjusted EBITDA for Q1 2013 was $24.7 million, compared to $23.2 million in Q4 2012, and $22.3 million for Q1 2012. The sequential and year-over-year increase was due to lower non-GAAP operating expenses. In Q1 2013, non-GAAP operating expenses were $16.7 million versus $18.1 million in Q4 2012, and $17.4 million in Q1 2012. The lower level of non-GAAP operating expenses is a result of our restructuring that was implemented in Q4 2012. We expect that non-GAAP operating expenses will increase sequentially over the remaining quarters of 2013, but be relatively flat in total for 2013 when compared to 2012, non-GAAP operating expenses of $71.1 million. To summarize, revenue and adjusted EBITDA for Q1 2013 were in line with our internal plan and above our financial guidance.

Turning to capital expenditures. Capital expenditures for Q1 2013 were $15 million compared to $16 million in Q4 2012, and $17.4 million in Q1 2012. Approximately, 75% of our capital expenditures in Q1 2013 were for success-based projects. By focusing on success-based projects that are tied to our strategic data products and leveraging the density and expanding footprint of our fiber based network with on-net or near-net revenue opportunities, we are in a position to continue to enhance our capital efficiency ratios as well as EBITDA margins.

Moving on, adjusted EBITDA less capital expenditures for Q1 2013 was $9.7 million compared to $7.3 million for Q4 2012, and $4.9 million in Q1 2012. Our net credit line balance after subtracting cash on hand is $5 million as of March 31st, 2013, $3.5 million on December 31st, 2012, and $6.1 million as of March 31st, 2012. We had a credit line of $60 million, which had availability of approximately $55 million on March 31st, 2013.

Now, I would like to discuss our new debt facility that was closed on April 30th, 2013. Our new debt facility of $425 million consists of two term loans that totaled $375 million. Term loan A for a $100 million that matures in 2018, term loan B for $275 million that matures in 2019, and a $50 million line of credit that matures concurrently with term loan A.

The aggregate weighted average cost of this facility is estimated to be approximately $350 basis points on an annual basis. Financial covenants consist of a debt to equity ratio that ranges from 4.75 to 4.0 over the life of that facility and interest coverage ratio of 3.25. The term loans have an amortization schedule that totals to approximately $14 million for the years of 2013 through 2015 versus approximately $28 million in our recently retired debt facility for the same period.

Please review our Q1 2013 10-Q for a detailed description of our new debt facility. Our former debt facility was retired and paid in full on April 30th, 2013. As part of closing our new debt facility and retiring our former debt facility, we netted and received approximately $52 million of cash proceeds. Our new credit line of $50 million is fully available.

Next, I would like to discuss segment reporting. In the past years, we reported non-GAAP information for two segments Competitive and RLEC. Going forward in 2013, we will no longer provide information related to these segments since the company formally aligned its internal performance measurement, reporting, and decision making processes with three new segments starting with January 1st, 2013. We believe that by reporting non-GAAP information for these new segments, we will be in a position to provide more relevant and transparent information to the investment community since the new segments are better aligned with our product and service offerings and addressed markets.

Starting with Q1 2013, we reported non-GAAP information for the following segments as part of our earnings release and 10-Q, Strategic Data, Legacy Voice, and Access. The following is an overview of each of these new segments. Our strategic data product segment consists of three product groups enterprise data, carrier data, and IP services. Our goals for this product segment are drive sequential and year-over-year revenue growth, maximize network efficiency by generating approximately half of our revenue from enterprise data and IP services, and the other half on carrier data, and expand our aggregate adjusted EBITDA margins.

Each of the aforementioned product groups has a number of associated product lines. For example, enterprise data, Metro E and robust high-capacity private lines, carrier data, transport, and fiber to the cell, IP services, voice over IP, video and broadband. We expect that our strategic data product segment revenue will continue to grow in the range of 15% to 20% annually and achieve an adjusted EBITDA margin in the 45% to 50% range over the next several years.

Our legacy voice product segment consists of two product groups, CLEC voice that represents approximately 70% of total legacy voice revenue and RLEC voice revenue of approximately 30%. Overall, we expect our legacy voice product segment revenue to decline at 10% to 15% annually, with CLEC voice revenue declining faster than RLEC voice revenue. Adjusted EBITDA margin for this product segment is projected to be in the 20% to 25% range over the next several years.

Our access product segment consists of two product groups. CLEC access revenue that represents approximately 30% of total access revenue and RLEC access revenue 70%. Overall, we expect our access product segment revenue to decline at 10% to 15% annually with CLEC access revenue declining faster than RLEC access revenue. Adjusted EBITDA margin for this product segment is projected to be in the 70% to 75% range over the next several years.

The following is a summary of our non-GAAP product segment information for Q1 2013, Q4 2012, and Q1 2012. Strategic data, Q1 2013 revenue of $29.7 million, and EBITDA of $13.7 million or 46.3% of revenue; Q4 2012 revenue of $29 million, and EBITDA of $13.6 million or 47% of revenue; and revenue of $25.9 million, and EBITDA of $12.1 million or 46.8% of revenue in Q1 2012. The decline in EBITDA margin as a percent of revenue in Q1 2013 reflects the investment we are making in continuing the revenue growth profile of strategic data. We expect that EBITDA margin for strategic data will expand in terms of absolute dollars and as a percent of revenue in 2013 when compared to 2012.

Legacy voice, Q1 2013 revenue $14.9 million, and EBITDA of $5 million or 33.5% of revenue; Q4 2012 revenue of $15.4 million, and EBITDA of $3.8 million or 24.9% of revenue; and revenue of $16.7 million and EBITDA of $4.1 million or 24.3% of revenue in Q1 2012. The improvement in Q1 2013 EBITDA margin in terms of absolute dollars and as a percent of revenue reflects our focus on more profitable customers, and a reduction in operating expenses as a result of the restructuring implemented in Q4 2012.

Access, Q1 2013 revenue of $8 million, and EBITDA of $6 million or 74.9% of revenue; Q4 2012 revenue of $8.3 million and EBITDA of $5.7 million or 69.4% of revenue; and revenue of $8.8 million and EBITDA of $6.1 million or 69.7% of revenue in Q1 2012. The improvement in Q1 2013 EBITDA margin as a percent of revenue in Q1 2013 when compared to 2012 is primarily due to resolving billing disputes in 2012.

Finally, we would like to discuss financial guidance for Q2 2013 and the year of 2013. Our financial guidance for Q2 2013 is as follows. Revenue of approximately $52 million, adjusted EBITDA of approximately $24 million, capital expenditures of approximately $16 million, line of credit balance zero, cash balance of approximately $52 million.

Our financial guidance for 2013 is as follows. Revenue $208 million to $212 million, adjusted EBITDA $94 million to $97 million, capital expenditure is $65 million to $70 million, cash balance $40 million to $44 million.

Please review our Q1 2013 earnings press release that was issued earlier today and our Q1 2013 10-Q for more details regarding our financial results. Operator, we will now take questions. So, operator, go ahead and take the first question.

Question-and-Answer Session

Operator

(Operator Instructions) Our first question comes from Ric Prentiss of Raymond James.

Ric Prentiss - Raymond James

Hey guys, can you hear me okay.

Tim Biltz

Yeah, we can. Good morning, Ric.

Ric Prentiss - Raymond James

Okay, yeah, good morning. First thanks for the transparency the segment operation information has really helped and very nice obviously debt financing transaction. Two question for you guys, there's been a lot of discussion recently particularly in text space about enterprise spending and concerns and then also a lot of focus on the spending by the fed. In the near, neck of the woods, what are you guys seeing there as far as any impact its having on your business?

Tim Biltz

It's Tim. Couple of things. Clearly our enterprise segment was didn't grow sequentially from the fourth to the first. Having said that, what we see in enterprise is lumpier sales as we go upstream selling to larger and more strategic customers. And the other thing that we see in our market and that's why I mentioned our carrier partner program is an important part of our long-term enterprise space is to make sure that we partner with other carriers that have enterprise customers in our market that we would be less likely to pull on that because of their exposure outside of our markets. So I like enterprise to be more robust. We find it, we feel we're comfortable with our plans and our forecast, but we're going to also boost our distribution strategy within the enterprise space.

Ric Prentiss - Raymond James

And then on the federal government, any issues in kind of the Lumos territories?

Tim Biltz

Not seen any, not really, no. We're I'm sure there are impacts that roll through, but they're not significant. They're probably is we've seen Virginia; they're more probably to the east along the coast. But we've not seen in the last few months, no.

Ric Prentiss - Raymond James

Okay. And on the fiber to the towers, it was a little late I assume probably some weather issue there. You mentioned you're still on track to hit your year-end boogie of number of fiber to the tower sites. Was it weather and just kind of what's going on the fiber to the tower build program?

Tim Biltz

No, really, I know last year, I think, it's been a year since I've been here that we had seven in the first quarter last year. And I think, I said I was confident we will get to 300. And that had more to do when customers wanted the product. Clearly, we have the capability. We build over close to 110 in the fourth quarter of last year. But they have to do with delivery date. So you'll see a similar build throughout the course of the year. And our midpoint I think is 575 and we're very, very comfortable with that number and we will update it as we go through. But I did tell our folks that if we did the same ratio last year, I think we build 1200 this year. So we're not going to do that same.

Operator

Our next question comes from Colby Synesael of Cowen and Company.

Colby Synesael - Cowen & Company

Two questions, if I may. First one, just talking about strategic data, relative to the growth you show in the first quarter and your guidance for the second quarter, it seems like you're expecting an acceleration in the back half of the year. And can you provide a little bit more color in terms of what gives you that confidence? And then, second as it relates to EBITDA, your guidance still suggests that EBITDA is going to be going down sequentially in the second quarter versus the first. And also, if we look at your legacy voice margins in the first quarter, they're very strong, somewhere around the 30% range, whereas typically, I think we see them 20% range. I was wondering if you could talk about that and may be that has something to do with quarter guidance suggesting EBITDA will be down in the second quarter? Thanks.

Hal Covert

Yes. So Colby, let me take the second and third part of the question and I'll turn it back over to Tim for the first part. In the third part, our margins for the legacy voice were higher primarily as a result of the restructuring that we did. And going forward, we'll see if can maintain the level that we're at right now. Now, I'd point out that we actually made more absolute dollars of EBITDA from our legacy voice even though we had decline in revenue, so I think we did pretty well there.

The other point on the EBITDA guidance, over the balance of the year, we've a profile that shows that we're going to go up each quarter, but it's a small lift each quarter. So using the approximately $24 million relates to that. It doesn't necessarily mean that we're going to see a decline; we could see a slight uptick. So again, it's a tight range that we're working within and that's why we provided the guidance the way we did.

Colby Synesael - Cowen & Company

And you're referring to margins or absolute EBITDA, I'm sorry?

Hal Covert

I'm referring to absolute EBITDA dollars and as well as the margin. The margin was grossed up too.

Colby Synesael - Cowen & Company

So, even though the guidance to your point is broad numbers, which you're suggesting is actually absolute EBITDA margin, both could actually be up, just slightly in the second quarter?

Hal Covert

Yeah, what I'm saying is that, we're working under a very tight range that's the reason we gave approximately, and are still has the potential to be sequentially better than we were in Q1 and Q2 from an EBITDA standpoint. However, you got to keep in mind that we had a lot of benefit in Q1 from the restructuring and our expenses are going to go up. So it's kind of we'll see what happens, but we could possibly see an improvement. Tim?

Tim Biltz

Yeah. And Colby let me give you why we're confident. We will see a, our data revenues continue to grow. Take fiber to the cell for an example. We booked, we put 35 in the service in the first quarter and yet I'm extremely confident we're going to hit our targets of our overall build, because I've visibility into our build plan and bookings. So we don't provide -- we've taken a big step toward transparency. We'll provide more and more as we go forward. But I'm confident based on what I see that we will see a sequential growth in the back half of the year, similar to what we did last year, just based upon when we have installations scheduled.

But it was hand-in-hand with how it's kind of, let me give you my perspective of the first quarter on the expense and the EBITDA and the margin improvement, those are all fantastic. We knew they were coming in the sense that we're focused on building our data business and our growth business. And we've said we were going to take expenses out of the legacy to fund that growth. So this first quarter was terrific. I'm very happy with it. But I will jeopardize the future growth of our strategic data business for a tenth of a point of margin or as we go forward. We're directionally moving this business in the right direction.

So that's why, as we go forward, I'm very happy where we started the first quarter and what our baseline is and where our guidance is. But I'm probably more focused on '14 right now than I'm '13. And so, we will give more color on that.

Hal Covert

Just one other point on the expenses because of the level that we started off within Q1, as I indicated in my script, that we think we're actually going to be at about the same level for 2013 that we were in 2012 from an operating expense standpoint. So actually, as Tim said, starting off what we did in Q1, which gives us the leverage to build the business going over the balance of the three quarters.

Tim Biltz

Yeah. Well, I'm particularly pleased about it. If you think about when this company faced access reforms some 24 months ago, in that 24 months period that we've been able to replace and regain those margins through our growth initiatives. And as I said in my script, overtime we expect to see continuous improvement in those margins as we migrate to specific data. Yeah, go ahead.

Colby Synesael - Cowen & Company

Tim, can I just sneak one follow-up to that. I mean, in terms of the bookings and the visibility you have, obviously you mentioned you're very, very comfortable with hitting your target for fiber to the tower seems like that will be an area where you will see revenue growth pick up and as you move to the course of the year. But what about on enterprise, I mean you mentioned it's lumpy are there some deals that you see closing whether it's in the second and third quarter in that business we will also see an improvement in the growth rate as well?

Tim Biltz

Well, what I would say, Colby, I hate to give relative guidance to what I see this year versus a year ago versus some of that if we don't really report those drivers, and because that's kind of a slippery slope. What I think can say is given what I know about the business, I feel very comfortable with our guidance. And enterprise, one of the reasons we took a very dual approach to our strategic data business we wanted enterprise and our wholesale carrier business to be in balance and overtime the wireless business and the carrier business probably grow at a faster rate due to fiber to the cell, but we like them because they're synergistic and one quarter one can kind of grow faster than the other and it's just going to be that way. I'm not trying to be evasive, but I don't want to open a slippery slope and give year-over-year comparisons to bookings because I don't think it is fair actually.

Operator

Our next question comes from Barry Sine of Drexel Hamilton.

Barry Sine - Drexel Hamilton

First question on the new segment reporting, maybe you can help us clarify a little bit more, under the old segment it was relatively clear you had two different geographies, two different customer sets, now with a different segment, you're kind of mixing and matching geographies and customers. Is there also a change in the way you're managing your business. So for example does a customer have a different sales person or rep to their voice services and the data services?

Tim Biltz

Well, this is Tim; I'll say a couple of things. If you think about our RLEC footprint is pretty small three counties. So, the way that business is managed there is a little from an operational functional area, because it is a little different than what we would do in the larger geography. So from that standpoint it's measured a little differently. The way products are sold, a lot of our residential services are sold through a customer care sales organization that hasn't really changed whether it be regardless of territory, primarily inside sales.

What has changed overtime is our outside sales force is more focused on solution selling, selling larger networks, network solutions, and less focus on selling what a traditional resale CLEC service that's probably that. So that if there has been a big organizational change it's been that. What else from an organizational perspective? Other than that I think we're still running the business, similar.

Hal Covert

Yeah, I'd say that the product segments that we just introduced really are a reflection of the way we run our business. So for example, if you look at the majority of our sales organization and our installed groups are all focused on strategic data to life degree that's a growing part of our business. Our capital expenditures are all focused relatively on strategic data with the exception of maintenance. So the segments are a reflection of the markets that we believe are the ones that are going to take the company into the future and the way we make decisions are reflected in the segment reporting.

Tim Biltz

Yeah, simply there's four questions, what's selling? What's not? Why do we make money on? And why do we lose money on? Those are the four questions that we set that ultimately reflected where we're today.

Barry Sine - Drexel Hamilton

And then on the legacy voice segment, if I look at the access range and CLEC the losses ticked up quite a bit in the first quarter and could be a number of factors. I know you're focusing more on data but you're seeing more competition, I know cable companies are getting more aggressive. What's going on in that number that you just think about?

Tim Biltz

There is two things, the macro items that you just mentioned, which are more competition in that lower that smaller states and secondly, Hal mentioned that our legacy voice products were actually growing in profitability quarter-over-quarter, and that was because we have taken cost out of that business and have removed, I think I said in the third quarter gracefully exit some of our products that we were under water it with. We actually in some of our, what would have been the CLEC territory set down some pops migrated customers that were just unprofitable. So part of it was the migration and a grooming and part of it was the macro trend that you talked about.

Barry Sine - Drexel Hamilton

Okay. And then, more of an accounting question in terms of the new segmentation. You're breaking out EBITDA on both access and voice. And that's traveling over the same network. So, what assumptions you're making to break at EBITDA on those services?

Tim Biltz

So, when we look at the cost related to each segment, the network expenses costs that we highlighted is directly associated with an activity. So we can trace a circuit or whatever it may be. So there's a tight linkage there. The second part of our expenses are identified by drivers also, but it's just, there are some judgments there and when you look in the segment reporting that's the second line of expenses. And then finally the third line is just simply spreading in effect G&A for the most part across the product lines based on the revenue. So the first two categories of expenses are so say with drivers. Third category is essentially just an allocation.

Barry Sine - Drexel Hamilton

Okay. And then let me take another stab at kind of backlog question that you have and kind of an analogy. If I one your peer companies, firstly they talked about, they go to more strategic products. The install cycle is much longer up to 18 months in some cases. Therefore they got about 90% visibility in terms of the guidance they're giving. I'm assuming you're seeing the same type of thing as you get more strategic in your mix. You've a longer installed cycle, more visibility. You've already booked a lot of the revenue that you got into.

Tim Biltz

I'd say the model is I don't have 18 months for the visibility. I haven't seen one of those contracts. But I would say we typically see a fiber install ranging from four to eight months depending on the difficulty. So our fiber installs we've a pretty good visibility. They're in the project plan and I can say. So that I would agree with. I wouldn't say 18 months though, I would say more four to eight.

Hal Covert

One key point there I think with our recurring revenue model, we basically started the year with about 90% of our revenue in hand. So and with a six month average installation cycle, we've pretty good visibility for 2013 and it's really now basically starting at the end of this quarter, we'll be focusing on 2014. So you know as Tim indicated we've fairly good visibility for '13 and we're now starting to think heavily about '14.

Barry Sine - Drexel Hamilton

Okay. And talking about 2014, one of your growth initiatives, you're entering, edging out to new markets. One of them is the Richmond market you talked about in the press release. What are you seeing specifically in that market that's attracting you particularly on the competitive situation?

Tim Biltz

Well, the reason we're in Richmond is because our customers want us there. I don't give the exact number, but we've -- mostly we've signed multiple enterprise customers and a couple is not multiple carrier customers that we have significant relationships with. So we haven't signed a Greenfield customer in those markets. But our existing customers are taking us to those markets. It's adjacent. So it was a nice fit for us and we will take our same strategy into that market, which is to work with customers to build customized solutions that work for them and leverage our network, and there'll be some that it really works well for and there'll be some that we're not going to be competitive in, so.

Barry Sine - Drexel Hamilton

So it sounds like you already have a good start on recovering the additional CapEx to get into that market with existing relationships counting on how it is?

Tim Biltz

Yes, yes, that is our strategy. We anchor most of our edge-out is brought by our existing customer contracts.

Barry Sine - Drexel Hamilton

Last question, quick data point question. Remind us what is the universe of towers in your fiber footprint?

Tim Biltz

The number I've been using and it bounces around every time I see something. But on average it's around 5,000 sites. Now again if we move into new market that number moves. But we'll talk about what we've talked about publicly so far. So that 5000 and our goal is to have about 20% share of that unique site. So we're confident we can accomplish that with what we see today.

Operator

Our next question comes from Donna Jaegers with D.A. Davidson.

Donna Jaegers - D.A. Davidson

Hey Tim and Hal, congratulations on a good quarter and Tim you must feel proud, I mean you really turned this company around in the last year as far as the focus. Three questions I guess, on fiber to the tower, I noticed the other day AT&T is rolling out LTE and rowing oak, which I think is in your service area. So can you give us any sort of update if you've got in the contract on fiber to tower from AT&T?

Tim Biltz

What I would say is we're actively engaged with all the carriers to fiber to cell and we like where we're going to end the year, this year. I would say AT&T is probably the most active company in our territory right now. So we're engaging with them. But we also do business with the Telus, Sprint, U.S. Cellular, Horizon. And so I just don't like to get too detail in any one particular contract because they come in phases and they're not one and done, so we're always negotiating with those carriers.

Donna Jaegers - D.A. Davidson

Okay. And then earlier, late last year and earlier this year you guys talked about sort of data center redundancy sort of play that you guys had an alternate route from Atlanta to Ashburn. Can you give us a quick update on how that's going?

Tim Biltz

It's going well. We continue to -- I think every quarter, we'll go over to Jones get a nod. I mean, we're putting business on that on every quarter, so if it's been in place. I think we've sold at least Tim did wage on that route, be my guess, something like that. So we're very happy with it.

Donna Jaegers - D.A. Davidson

And then, just one housekeeping question for Hal so that you do not feel left out. Depreciation was down about almost $2 million sequentially. Is this a good run rate going forward? I know you guys took a write off or wrote down some of your RLEC operations in the fourth quarter. So I'm just trying to get a good feel for what we should build off of?

Hal Covert

Yeah. I think it is probably at a low point for quarter 1 and it should tick up and but it's not going to tick up dramatically, because most of our depreciation lines are fairly long. But it will probably tick up a couple $100,000 a quarter.

Tim Biltz

Donna I just want to add one thing. Thank you for your opening comment but what's happened over last year is really a result of this team and a lot of this programs, I think I said in my very first call, I didn't change a strategic initiative that they had laid out. I think maybe I put a little more vigor in some areas. But this team delivered this transformation and I just have to be along for the right.

Donna Jaegers - D.A. Davidson

It is very noble of you. Thanks Tim. Bye, bye.

Operator

(Operator Instructions) And our next question comes from Ankit Sharma of Jefferies.

Tim Biltz

Hello Ankit?

Ankit Sharma - Jefferies

Thanks for taking the question. As part of the edge-out strategies, so you're expending into the Richmond market. What other midsize cities do you see where you can expand? And as a follow-up, what is the CapEx like, when you enter a new market? And how quickly do you plan to recoup that investment? Thanks.

Tim Biltz

Yeah, a couple of things. The next market, we try to go where we have assets or we have the ability to swap assets. And in both of, our first two I just that may not always continue to be our strategy. We may go into new markets, Greenfield. But neither Richmond or Western Pennsylvania or Greenfields we acquired assets to start our base. And since we're in Western Pennsylvania, it was the Allegany assets that the company acquired about two years ago. So I gave, it's a nice base that we will build metro rings off of those and access points based upon presold customer contracts.

Last fall, and early this year, we reorganized our entire network planning team under Craig Drinkhall and a gentleman named Kevin Laser to years of experience in network planning and gave them the task of finding very efficient ways to expand in the new markets and to expand within our current footprint. And they've come up with pretty clever unique ways. Each -- what -- for this year, what I had said is all capital investments need to make and hit our capital efficiency goals, being 75% revenue generating and hitting the targets that we've laid out. So we don't have a huge upfront cost. Next year if we got more aggressive on expanding may be we would do that. But I don't really see our model changing dramatically, but thus we would give a heads up, but --. I guess in another way, it's all baked into our existing forecast. There's nothing incremental or new or setback.

Operator

Mr. Davis, I show no further questions at this time. Would you like to make any closing remarks?

Will Davis

As a reminder, a replay of this call and an archive of the audio webcast would be available. Please refer to our Investor Relations website for details. Thank you again for joining us this morning. This concludes our call.

Operator

Thank you for attending. You may now disconnect.