

**Appendix**

BILLBOARDS

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# BILLBOARDS

## 2015

During calendar year 2015, Boston Omaha formed a subsidiary named Link Media Holdings, and invested approximately \$10 million of cash in outdoor billboard assets in the southeastern United States.

For our cash, we received 41 outdoor billboard structures with a much larger number of faces, as some billboards have two, three or in the case they are digital, even sixteen “faces” per structure.

On October 9th, on a Form 8-K/A, we provided Statements of Revenues and Direct Operating Expenses of the assets acquired in the largest of the billboard deals we completed last year. Here we paid \$6.7 million for 35 structures. The following are audited Statements of Revenues and Direct Operating Expenses of those structures that should help give shareholders a better understanding of the type of economics available in the business.

### STATEMENTS OF REVENUES AND DIRECT OPERATING EXPENSES OF CERTAIN ASSETS ACQUIRED FROM BELL MEDIA, LLC

	For the Twelve Months Ended	
	May 31,	
	2015	2014
<b>Revenues:</b>		
Billboard sales	\$ 1,370,203	\$ 1,403,093
Sales discounts	(3,060)	(230)
<b>Total Revenues</b>	<b>1,367,143</b>	<b>1,402,863</b>
<b>Direct Operating Expenses:</b>		
Lease and sublease expense	459,017	440,168
Billboard illumination	53,580	51,649

Sales expense	48,560	52,524
Materials, supplies and labor	34,558	35,542
Internet expense	5,707	3,981
<b>Total Direct Operating Expenses</b>	<b>601,422</b>	<b>583,864</b>
<b>Excess of Revenues over Direct Operating Expenses</b>	<b>\$ 765,721</b>	<b>\$ 818,999</b>

Generally accepted accounting principles ("GAAP") require the presentation of depreciation and amortization for the pro-rata period of operations. Depreciation and amortization are non-cash expenses and are not included in the above statements of revenues and direct operating expenses. For further information, we refer shareholders to the Form 8-K/A as there are significant disclosures of the costs not reflected in the numbers presented above.

And for the avoidance of doubt, capital expenditures, though manageable, are certainly necessary over time. Much of the physical plant is steel with a long life, but lights are expensive and need to be replaced, wind and storms can cause damage to signs and digital boards depreciate at a much faster rate than static billboards.

Any attractive margin we may earn will not be due to Boston Omaha's brilliance though as these billboards generated attractive margins prior to our purchase, and our hope is to improve on those favorable, preexisting economics.

We believe the billboard industry generally has several appealing economic qualities when taking a long-term view, including, but not limited to:

- Supply limitations in most well populated markets brought on by increasing regulation;
- Growing demand due to its relatively low cost and general effectiveness as a local and national advertising medium;
- Low capital intensity (e.g. static billboards);
- Few substitutes coupled with an often fragmented customer and supplier base; and
- Various options for increasing cash flow over time at reasonable rates relative to incremental capital employed.

In addition, our billboard assets have a lower than industry average lease cost due to land ownership and numerous fixed rate leases. Excluding this last point, many of these general factors benefit all owners of a well-located billboard plant over the long-term, and our corresponding time horizon will allow us to obtain our share of these favorable dynamics.

Offsetting these positive attributes, we are not paying bargain prices but instead are paying fair prices. We may add modest amounts of non-recourse debt to our billboard assets (non-recourse to Boston Omaha), which would increase our return on equity with the trade off of course being a claim ahead of us on our billboards. This must be done prudently, but as long as this capital is available to borrow at a low cost and on other agreeable terms, we can use the freed up capital to purchase more durable producing assets, whether those are more billboards or other assets altogether.

We would be remiss to end this section without introducing Sean Cash, Link's talented president. Sean has done a remarkable job taking on a mountain of work as we pursued billboard acquisitions and has already exceeded expectations in extracting more economics from our present asset base than what existed prior to our ownership.

This was all done with one arm tied behind his back, as Sean had to spend much of his time in 2015 integrating back office operations for Link. Going forward, Sean is laser focused on building high quality, local billboard operations, and we look forward to what he can accomplish with both arms free.

### **Subsequent Events**

Subsequent to year-end, Link acquired the assets of Jag, Inc., which included over 420 billboards and 50 directional sign structures in northeast Wisconsin. We are now the largest billboard operator in Door County where the population swells in the summer months from around 28,000 full time residents to as many as 250,000 with tourists from Milwaukee, Chicago, Madison, Green Bay, and the Twin Cities. Our Wisconsin billboard operations also have important assets throughout northeast Wisconsin.

Jag has been family owned and operated since 1946. We are proud that--for the majority of the hardworking people that helped make Jag a success over the years--the day after the deal closed, it's just business as usual.

Please feel free to reach out to Sean if you have questions about the business, but more importantly, if you have ads that want the best attention in any of our markets, Sean is your guy. Find out more at [www.linkmediaoutdoor.com](http://www.linkmediaoutdoor.com).

## **2016**

To date, we have invested approximately \$16mm in Link Media Holdings ("Link Media") in 2015 and early 2016, purchasing billboard plants and operations to enter the Southeast and Wisconsin markets. In addition, we have employed another \$9mm on "bolt-on" acquisitions in these same markets.

Bolt-on acquisitions in our billboard business are important to understand because they have the potential to generate revenues at attractive incremental margins. In addition, bolt-ons generally further consolidate our markets, a positive for both the newly acquired assets and our previously held assets. Link Media sales professionals can now sell to advertisers from Atlanta, Georgia, down Interstate 85, to Montgomery, Alabama. Our Wisconsin team can expand to advertisers outside Door County all the way to Chippewa Falls.

This past September, at our first annual meeting in Omaha, we detailed how we think

about an incremental dollar invested using the general economics available in occupied non-digital billboards. Here are those general economics, at a 10,000-foot view:

### **Billboard Economic Opportunity**

Advertising revenue... ..	\$ 1.00
Land expense... ..	0.25
Sales cost... ..	0.13
Other costs... ..	0.13
Maintenance capex... ..	0.04
<b>Economic income... ..</b>	<b><u>\$ 0.45</u></b>

### **Capital requirements:**

Net working capital (no inventory which keeps requirements somewhat light)

Tangible PP&E (wood, steel, digital faces, lighting)

*Note: Management's estimates of general billboard economics at scale*

In management's view, the billboard economics above exist and can endure for a variety of reasons, including, but not limited to, supply restrictions on new structures and the low cost of the advertising medium relative to the audience reached. Plenty of competition will emerge over time to attempt to eat into these economics, capitalism will see to that. Nonetheless, we believe a well-managed and well located billboard plant will continue to earn its economic keep.

Though supply limitations somewhat restrict new structures (digital or static), over-investment in digital conversions could lead to excess supply. Simply put, six to eight additional "flips" come as a result of a digital board replacing a single static face. Digital development is a net positive for the industry, however, like many good ideas, it can be taken to extremes.

At year-end 2016, Link Media's tangible property, plant, and equipment ("PP&E") is listed at approximately \$5.6mm and we also have a net investment in accounts receivable. If our billboard revenue were to organically grow over time on our current asset base, our investment in accounts receivable would grow with revenue, but we would need to invest very little to nothing into growing tangible PP&E net of depreciation for many years.

Earlier in the letter we indicated depreciation expense may not accurately reflect the amount and timing of capital expenditures needed in the future, especially considering the nature of the billboard business.

As a tangible example, the cost of digital faces has come down over time, while simultaneously, their useful lives have increased. A new digital board today can be purchased at far less than half the cost of a similar digital board 10 years ago, and, 10 years ago, the projected average life of a digital billboard was seven or eight years. Today, the estimated life is 10 to 12 years. Of course, anything digital requires some ongoing maintenance even if it has a longer life, and some of that maintenance is not included in a warranty/service program. However, it appears likely that the cost of new digital faces in the future will continue to decline (although at

a much less rapid rate) and their quality will increase. Depreciation of our digital faces amounted to over 50% of our depreciation expense in 2016.

Further, the steel and wood component of tangible PP&E certainly needs to be replaced over time, but it generally has an exceedingly long physical life and the timing on that replacement varies a great deal. Some of our boards in Wisconsin have been around for decades with minimal maintenance expenditures. Yet from an accounting perspective, they may receive full depreciation expense before material replacement is needed. In addition, much of the ongoing routine maintenance is actually reflected in the cost of billboard revenues, not the depreciation expense, on the income statement.

Adding it all up, in the short term, it is quite possible the productive capacity of our billboards increases, even as our investment in PP&E net of depreciation could stay flat or even decline, assuming we do not spend capital on growth initiatives such as more digital faces or new billboard structures. Over time, this is likely to even out and eventually the investment in our net tangible PP&E may grow at a fairly slow rate, assuming all else remains the same.

With capital requirements now explained, it is important to note that, on average, if you were to look at two similarly sized and located billboard plants side by side, most of the basic costs of both plants are likely to be quite similar, with the exception often being land expense. Land expense is one of our largest economic costs in the billboard business. Typically, land costs average in the low twenties as a percentage of revenues for many operators, although it depends on their locations. At Link Media this percentage is in the high teens.

Land expense is a function of history, strategy, regulation and negotiation. In many instances, there is no scale benefit at size. For example, many land leases in the industry are negotiated on a percentage of revenues, essentially locking in gross margin. At Link Media, we try not to tie input costs to revenue if we believe long term growth will come at a satisfactory rate. Given a land lease can have a duration measured in decades and is the primary cost that can differ from board to board, we put a lot of focus on this part of the business.

To summarize our discussion on Link Media's opportunities, the nature of the billboard business has attractive attributes in the amount of cash that can be generated relative to invested capital over time. Owners of Boston Omaha stock looking to closely track Link Media's progress should keep a keen eye on organic revenue growth, cash flow margin trend over time, and cash flow generated relative to our tangible PP&E investment.

Link Media acquires billboards with the perspective of a perpetual owner. This provides us with a natural advantage because many of the general economic factors accrue to owners of these assets over the long-term. It's important to note that we present the economics, of both the industry and our unconsolidated subsidiary, as unlevered. That is because, to date, we have no debt; however, we do believe debt can be used at reasonable levels in the billboard business.

If thoughtfully deployed, debt may improve good existing economics, but debt has the opposite effect if the existing economics are not sound. Since we do not believe adding debt to a capital structure is some sort of managerial accomplishment, we will always measure and report our results of operations of the billboard plants both leveraged and unleveraged to hold ourselves accountable to being good managers of the assets.

We continue to be in the market for billboard plants. If you have billboards for sale, please give us a call. Generally, we are looking for billboard plants that meet the following

criteria:

- Plant revenue of \$1mm to \$8mm annually;
- Long-term land lease or ownership;
- Billboards located within and around urban centers; and
- Prefer salespeople in the existing operation desiring to stay with the plant.

For more information on Link Media, its locations, or just simply if you have some advertising that you think will look good on one of our boards, please visit [www.linkmediaoutdoor.com](http://www.linkmediaoutdoor.com).

## 2017

To date, we have invested approximately \$35.8mm in Link Media Holdings, LLC (“Link Media”) since 2015, purchasing billboard assets in the Southeast and Wisconsin markets. This total capital number includes acquisitions, digital conversions and perpetual easement or land purchases. We invested more capital, adding new billboard assets at Link Media, in 2017 than in either of the previous two years, but interestingly in no new geographies.

From zero billboards in 2015, today Link operates 479 structures offering 864 advertising faces in four states.

The primary economic variables that drive our business long-term are local advertising demand, local competing billboard face supply, land costs and terms, and the efficiency and ability of our people. Below is operational information we believe is useful in assessing our progress and we are comfortable disclosing from a competitive standpoint.

	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Revenue	\$5.3mm	\$3.2mm	\$0.7mm
Land Cost % <sup>1</sup>	26.7%	17.3%	16.1%
Overhead % <sup>2</sup>	16.7%	17.4%	15.1%
Net Working Capital	\$0.8mm	\$0.6mm	\$0.2mm
Tangible PP&E	\$9.1mm	\$5.6mm	\$4.2mm

Our 2017 reported revenue is short of what we believe is a normalized level from the assets we own for two primary reasons: (i) we did not own all of our present billboard assets for

<sup>1</sup> Land lease expense on billboards where we do not own the land as a percentage of revenue.

<sup>2</sup> Overhead is Link Media corporate employees, office and software as a percentage of revenue.

the full fiscal year 2017; and (ii) we made an acquisition in early 2017 that came with a large amount of national advertising contracts that we expected would cancel and remain with the larger footprint seller once we owned the structures.

The former is easy to understand but as a result of the latter, revenue dropped quickly yet expenses remained. Nonetheless, we priced this into the deal and made the acquisition at approximately the replacement value of the steel and digital faces acquired, meaning we paid little for any excess returns that may be achieved on the replacement cost of the physical assets over time due to intangible assets such as the permit itself or the structure's location. Our sales team is hard at work building back up revenue.

Compounding the shorter term revenue drop from the aforementioned acquisition, many land leases with the acquired structures had fixed payments due that occur regardless of revenue produced, providing a double whammy to our reported results. This pain today for potential excess gain tomorrow is an approach we are perfectly comfortable taking as long as it is priced accordingly and the gain ultimately comes down the road.

In addition to increasing occupancy of our boards, land expense is an enormously important variable in the outdoor business and Link Media spends a tremendous amount of time focusing on that particular item to get it lower as a percentage of revenues. Link Media's real estate team focuses on trying to lower land costs over time and that means structuring terms that scale and when the price is right, purchasing permanent easements to eliminate the expense altogether.

In fiscal 2017, Link Media invested approximately \$500K into the purchase of land or perpetual easements permanently eliminating \$50K in current annual land costs that would likely grow over time. As part of the \$500K in purchases, we obtained excess land in one instance, which is listed for sale for \$120K. Link Media is happy to pay landowners cash upfront in exchange for permanently eliminating land costs, if the terms make sense for both parties.

Our focus on having some of the lowest land costs in the industry over time remains steadfast.

Overhead at Link Media consumed almost 17% of revenue in 2017 and this may increase in fiscal 2018 if we do not expand our asset base further. The value of a billboard is often calculated pre-overhead, given many transactions are completed between competitors with little to no incremental overhead cost necessary to manage more faces. Nonetheless, if you plan to keep and operate your billboard assets for the long-term, cash flow net of overhead is all that matters.

We break out overhead so you can track intrinsic value growth of the underlying assets and to better understand our present lack of scale. Many competitors with similar business models have overhead far below 10% of revenue.

Acquiring billboards has a large upfront cost. Last year we spent \$14.4mm through acquisitions and asset purchases and at year end our total tangible property, plant, and equipment ("PP&E") is listed at approximately \$9.1mm. In addition, we have a net investment in accounts receivable.

If our billboard revenue were to organically grow over time on our current asset base, our investment in accounts receivable would grow with revenue, but we would need to invest very

little into growing tangible PP&E net of depreciation for many years.

In February 2017, Jim McLaughlin joined Link Media as President and hit the ground running, improving operations from day one. For over 40 years, Jim has built and sold billboard businesses. Boston Omaha was attractive to him because for the first time, he could have the opportunity to buy and build with a multi decade mentality.

A long-term viewpoint in business is almost always a good idea. In billboards, when you are making long duration decisions with land leases and have an asset that lasts decades (steel or wood structures), it is paramount.

We believe Boston Omaha stockholders looking to track Link's progress should look closely at cash flow generated pre and post overhead, land cost trends over time, and free cash flow generated relative to our tangible PP&E investment.

Jim and his team at Link Media Outdoor are always searching for attractive billboard assets in our existing and new markets. If you have some boards to sell, give Jim a call at (404) 917-3439. For more information on Link Media please visit [www.linkmediaoutdoor.com](http://www.linkmediaoutdoor.com).

## 2018

As of December 31, 2018, we have invested over \$178mm in billboard assets. In exchange for our cash, we own approximately 2,900 structures and have approximately 5,400 advertising faces (approximately 5,900 advertising spots counting digital face flips) for rent in 11 states. Link is by far our largest business, both in assets and cash flow.

Big picture, we believe billboards are attractive for three reasons: (i) they generally earn a favorable return on tangible equity capital, (ii) from that initial return, cash flow can grow over time without needing much incremental capital, and (iii) that growth can endure long-term if demand continues to grow while supply constraints remain in many markets.

It's difficult to add materially to the number of billboard structures in a number of places in this country and near impossible in certain cities. Sure, there are some areas where new permits for a new structure are more tolerated than others. Throughout much of the country, and specifically in the areas Link attempts to target, huge increases in new billboard structures are limited. A meaningful source of the increase in supply of advertising faces today comes from swapping static billboard faces for digital faces that can generally sell seven or eight advertising spots a minute.

There are pros and cons to converting a static face to a digital one. On the pro side, there is generally an increase in breadth of customers. Advertisers who may have never considered billboards now can buy a billboard spot to attract customers to a limited time event without the labor or material cost of erecting a vinyl ad. As an example, McDonald's can now advertise its limited time offering of Alex's favorite delicacy, the McRib sandwich.

A con is that too much digital in a market can also mean unsold inventory. As a result, you have less revenue than planned yet you have the constant cost of the very real digital face depreciation. At the same time, more advertising spots could cannibalize other assets in the vicinity.

A few attributes we look for when buying more billboards are: (i) the day one cash yield relative to our purchase price, (ii) proximity to our owned boards for any cost efficiencies, (iii) a favorable geography both economically and regulatorily, (iv) attractive land lease and/or easement portfolio, and (v) occupancy and rate levels relative to both the competition and the billboard's history.

In last year's letter, we laid out the primary variables that drive our billboard business. Below is updated operational information we believe is useful in assessing our progress annually, but we also show Q4 2018 given our acquisition activity mostly occurred late in the year.

	<b><u>4Q 2018</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Revenue.....	\$7.1mm	\$14.1mm	\$5.3mm	\$3.2mm	\$0.7mm
Land Cost % <sup>3</sup> .....	19.9%	21.3%	26.7%	17.3%	16.1%
Overhead % <sup>4</sup> .....	9.0%	14.9%	16.7%	17.4%	15.1%
Net Working Capital.	\$3.1mm	\$3.1mm	\$0.8mm	\$0.6mm	\$0.2mm
Tangible PP&E, Net...	\$41.6mm	\$41.6mm	\$9.1mm	\$5.6mm	\$4.2mm

At Link we focus relentlessly on land costs. It is both a material line item and a variable we can try to manage and influence for the long term. Since Jim McLaughlin came on board as President, Link's land expense as a percentage of revenues has fallen from over 28% in Q2 2017 to just under 20% in Q4 2018. Link currently owns around 3% of the dirt underneath its boards.

The team at Link is working to lower our land costs further by focusing on acquisitions with existing favorable land costs, purchasing permanent easements when available at a reasonable price, and by negotiating lease renewals fair and favorable to the company. We believe those last two ideas are not mutually exclusive.

Sales expense is not broken out above but is also of large importance as incentives drive our sales team. When it comes to our sales team, having a seasoned operator like Jim McLaughlin able to structure, incentivize and coordinate is a tremendous value to the company.

<sup>3</sup> Land lease expense on billboards where we do not own the land as a percentage of revenue.

<sup>4</sup> Overhead is Link Media corporate employees, office and software as a percentage of revenue.

Rather than go into detail here about what makes Jim’s operation effective, and risk leaving a blueprint for competitors to follow, we will just point to his results.

In the two years since taking the job, Jim has built a sales team that has pushed occupancy up over ten percentage points while also increasing rate, and has materially increased our contracted future revenue. Jim and his team feel there is still considerable room for improvement, and we applaud both the work done to date and the simultaneous acknowledgement that there is much left to do.

Management at Link is highly incentivized to get the cash flow from the current assets up to 10% of the total capital invested. There is a lot of work left to do in order to improve the productivity of the assets from present run-rate levels.

Shareholders can best track the progress of Link by land cost trends over time, scaling of overhead expense, and calculating free cash flow generated relative to both our tangible PP&E investment and our total investment.

Finally, no discussion about Link would be complete without mentioning that, to date, we have zero debt. That will not always be the case as a conservative amount of Link debt (non-recourse to Boston Omaha) at relatively low cost makes sense to us in the billboard business given its many variable costs and low capital requirements. We are actively exploring our options with an emphasis on the aforementioned “conservative”.

## 2019

As of December 31, 2019, we have invested over \$190mm in billboard assets. In exchange for our cash, we operate approximately 3,000 structures and have approximately 5,600 advertising faces for rent in 11 states. Of all those faces, only 63 are digital, the rest are static. Link remains our largest business, measured in assets, revenues and cash from operations.

We have written extensively in previous annual letters on why we believe billboards are attractive for Boston Omaha. For a brief review: (i) they generally have earned a favorable return on tangible equity capital, (ii) from that initial return, cash flow can grow over time without needing much incremental capital, and (iii) that growth can endure long-term if demand continues to grow while supply constraints remain in many markets.

This past year, we made a paltry \$10mm in additional billboard purchases. We say paltry because that is 7% of what we spent on billboard acquisitions in 2018. It is important to not correlate progress with purchase activity. As we alluded to earlier, 2019 may have been the most transformative year for Link to date.

First of all, we bid a fond farewell to Jim McLaughlin in his retirement at the end of 2019. Jim guided Link from a subscale billboard operation to the sixth largest outdoor advertising business in the country.<sup>5</sup> In 2019, Link generated over \$7mm in operating cash flow

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<sup>5</sup> As reported by Billboard Insider on March 2, 2020

for Boston Omaha, and at a size and scale that allowed the company to access the debt market on attractive terms which provided Boston Omaha with an additional \$18mm of low-cost capital to deploy.

More importantly, Jim collected a team of talented managers who are doing the hard work of continuing to integrate 26 separate billboard deals into a streamlined and more efficient company at scale.

On April 3<sup>rd</sup>, we were pleased to announce that one of those managers, Scott LaFoy, was offered and accepted the CEO position. Scott has served as interim CEO since the beginning of the year. We conducted a thorough process and interviewed a number of exceptionally qualified and talented prospects; however, in the end, we were convinced that the right person for the job was already in that role.

Since coming onboard, Scott hit the ground running and hasn't stopped. In addition to immediately decentralizing our operations to unleash talented district managers, Scott is also making sure that Link is a good corporate partner to our many small and local businesses hit hard by the current pandemic.

Reviews of our progress on all fronts to date are good but there remains significant work to do both on the revenue side and on the cost side, to get to what we think is the underlying cash flow generating capability of our asset base. As the company continues to find ways to sell more ads while rationalizing costs, the cash flow can be sent to Boston Omaha for us to invest.

In our present footprint there are a number of tuck-in acquisition opportunities sourced by our team, and if the price and terms are right, we will consider purchasing for Link. As we are a larger company now, few of these are likely to reach the threshold of materiality necessary to trigger a separate filing requirement, but you will be able to continue tracking our capital spent on billboards in our filings and our letter.

Below are the updated pieces of data we believe are important to understand Link's progress.

<i>(\$ in millions)</i>	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Revenue	\$28.4	\$14.1	\$5.3	\$3.2	\$0.7
Land Cost % <sup>6</sup>	21.9%	21.3%	26.7%	17.3%	16.1%
Overhead % <sup>7</sup>	9.6%	14.9%	16.7%	17.4%	15.1%
Net Working Capital <sup>8</sup>	\$2.8	\$3.1	\$0.8	\$0.6	\$0.2
Tangible PP&E, Net	\$36.7	\$41.6	\$9.1	\$5.6	\$4.2

<sup>6</sup> Land lease expense on billboards where we do not own the land as a percentage of revenue.

<sup>7</sup> Overhead is Link Media corporate employees, office and software as a percentage of revenue. Overhead costs declined as a percentage of revenue in 2019 due to the Key, Waitt and Tammy Lynn acquisitions completed in Q3 2018.

<sup>8</sup> Adjusted for current portion of lease liabilities related to ASC 842 implementation.

Shareholders can continue to track progress at Link by revenue growth, land cost trends over time, scaling of overhead expense, and cash flow generated relative to both our tangible PP&E plus working capital investment and our total investment.

## 2020

2020 was a quiet year for acquisitions at Link but a busy year in building the business. Scott LaFoy exceeded all expectations as CEO as he navigated the pandemic which cratered advertising spend broadly in the first half of the year.

Most of our customers are small business owners as local businesses account for close to 95% of Link's revenue. Scott and his team worked with customers marvelously, adjusting contracts for those most effected by shutdowns and doing anything they could to be a great long-term partner for our customers.

At the same time, Link continued the work begun before the pandemic of decentralizing operations and putting budget control in the hands of regional general managers who know their specific costs better than any central office could, allowing them to make decisions directly.

The results speak for themselves. 2020's revenue decline, excluding acquisitions, was 4.7%, while expenses<sup>9</sup> decreased 3%. For comparison, in aggregate, the largest publicly traded out of home advertising companies lost 10-30% in revenue.

Most of our expense reductions were a direct result of this realignment to give general managers more autonomy and align incentives, not temporary cost cuts. Therefore, as we have seen demand return in many of our markets, Link has also enjoyed the incremental profitability from all the hard work done by Scott and his team.

We also have a relentless focus on reducing land costs whenever possible. In 2020 through easement purchases, greenfield developments and other reductions, we were able to realize a cost savings of nearly a quarter million dollars annually. As land costs are one of the largest expense line items in out of home advertising, pushing constantly to permanently reduce that cost pays off for years to come.

We did make a \$6mm tuck-in acquisition at the end of the year that closed in January bringing our total plant to approximately 3,200 structures and containing approximately 6,000 faces throughout 12 states. Tuck-in acquisitions bring opportunity for both growth and efficiency.

Along with remaining our largest business by capital invested, revenue and cash flow, we continue to believe billboards are an attractive fit for Boston Omaha. The billboards we covet have similar attributes (i) they earn a favorable return on tangible equity capital, (ii) cash flow generally grows at a higher rate than the incremental capital investment required, and (iii) growth can go on for a long time if out of home advertising continues to take more share of marketing dollars, while new supply of billboard faces is limited in the respective market.

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<sup>9</sup> Excluding non-cash depreciation, amortization, and accretion expenses as well as losses on disposition of assets.

In the pandemic year that was 2020, Link generated over \$7.5mm in EBITDA<sup>10</sup> for Boston Omaha. Link also drew an additional \$5.5mm of cash to fund an acquisition on its term facility bringing total outstanding debt to \$23.1mm as of December 31, 2020. We believe this debt is low relative to peers and, remember, this is non-recourse to the parent company.

There continues to be a number of tuck-in acquisitions in our present footprint that we are prospecting, as well as larger opportunities that may or may not materialize. We appreciate that the ability to build new locations is exceedingly limited; however, that results in us needing sellers of billboards to materially grow our asset base of billboard structures. That's ok as it encourages us to be patient, vigilant and ready to move quickly when opportunities do arrive.

Our general theory on raising capital has and always remains to raise it when you don't need it. For that reason, we will always try to have some excess cash and borrowing capacity at the ready to help Link be opportunistic as businesses come up for sale.

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<sup>10</sup> EBITDA defined as net income before income tax expense (benefit), interest expense (income), depreciation, amortization, accretion, and gain or loss on disposition of assets.

Below is the table we provide each year to help shareholders view the progress of Link from our perspective.

<i>(\$ in millions)</i>	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Revenue	\$28.3	\$28.4	\$14.1	\$5.3	\$3.2	\$0.7
Land Cost % <sup>11</sup>	21.7%	21.9%	21.3%	26.7%	17.3%	16.1%
Overhead % <sup>12</sup>	9.3%	9.6%	14.9%	16.7%	17.4%	15.1%
Net Working Capital <sup>13</sup>	\$3.2	\$2.8	\$3.1	\$0.8	\$0.6	\$0.2
Tangible PP&E, Net	\$35.1	\$36.7	\$41.6	\$9.1	\$5.6	\$4.2

Though revenues declined this past year at Link, the ongoing expense base declined further. We believe the company as structured is in a materially better position after purchasing several easements, which permanently lower land costs, and converting a few static billboards to digital formats.

We believe intrinsic value grew last year at Link and that our asset base is capable of producing meaningfully more revenue than it did in 2020 without the need to increase expenses at the same rate.

## 2021

2021 was another year of growth at Link. Organic revenue grew 6.4%, our total number of advertising faces increased to over 7,400, and Scott LaFoy and his team continued to execute on tuck-in acquisitions, converting static faces to digital, and lowering costs. The team is heavily incentivized to reduce one of our biggest costs, land expense, while growing revenues. How about that for business insight?

Below is the table we provide each year to help shareholders view the progress of Link.

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<sup>11</sup> Land lease expense on billboards where we do not own the land as a percentage of revenue.

<sup>12</sup> Overhead is Link Media corporate employees, office and software as a percentage of revenue. Overhead costs declined as a percentage of revenue in 2019 due to the Key, Waitt and Tammy Lynn acquisitions completed in Q3 2018 reflecting the economies of scale we believe we can realize as we seek to grow our out of home advertising business.

<sup>13</sup> Adjusted for current portion of lease liabilities related to ASC 842 implementation.

<i>(\$ in millions)</i>	<b><u>2021</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Revenue	\$31.5	\$28.3	\$28.4	\$14.1	\$5.3	\$3.2	\$0.7
Land Cost % <sup>14</sup>	20.5%	21.7%	21.9%	21.3%	26.7%	17.3%	16.1%
Overhead % <sup>15</sup>	8.5%	9.3%	9.6%	14.9%	16.7%	17.4%	15.1%
Net Working Capital <sup>16</sup>	\$1.2	\$3.2	\$2.8	\$3.1	\$0.8	\$0.6	\$0.2
Tangible PP&E, Net	\$45.4	\$35.1	\$36.7	\$41.6	\$9.1	\$5.6	\$4.2

As shown above, Link uses approximately \$47mm of tangible capital while at the same time it continues to generate a growing \$1mm a month of cash flow. Link is a gem of a business inside of Boston Omaha, one that is scaling as the benefits of increasingly fixed land costs compound over time, and as a result, we strongly believe that its intrinsic value increased in 2021.

## BONDS

### 2015

In October we commenced operations at our subsidiary General Indemnity Group, for the purpose of underwriting specific types of insurance risk. To be clear, we have not written one dollar of premium to date, however; we plan to prospect in some potentially attractive niches of commercial insurance. While doing so, we recognize this is an ultra-competitive field and there can be no certainty of success. At a high level, here is our approach.

General Indemnity will be an underwriting and distribution operation first, not an investment operation masquerading as an insurance company. It has no pressure from management to grow premiums at a predetermined rate, no legacy liabilities to pay, a president with a general disposition to favor patience over action, no asset management arm to draw fees off it, and for better or worse, a clean slate in terms of its distribution model.

The insurance risk we are interested in taking will overwhelmingly be commercial, not personal, charge premiums well in excess of their anticipated losses, and be shorter tail in nature, meaning our policies will likely have durations around a year or less. There may be instances where we would write risk that varied slightly in one way or another, but generally, our current plan is to focus on high policy count, low loss limit business.

<sup>14</sup> Land lease expense on billboards where we do not own the land as a percentage of revenue.

<sup>15</sup> Overhead is Link Media corporate employees, office and software as a percentage of revenue.

<sup>16</sup> Adjusted for current portion of lease liabilities related to ASC 842 implementation and assumes a certain maximum level of cash in business for operational purposes.

Underwriting discipline in insurance is always paramount, regardless of what lines are being considered. In certain high commission, specialty commercial lines, the underwriting is quite straightforward, and it is the ability to obtain and retain customers at a low cost that allows the business to grow intrinsic value. Therefore, we are also actively interested in acquiring insurance agencies producing policies that meet our underwriting guidelines.

In October we were successful in recruiting a president for General Indemnity to guide and manage the fledgling operation.

Michael Scholl is an experienced actuary who brings over 25 years of hands-on knowledge to General Indemnity. We have known Mike for years and his background, passion and perspective convinced us he is the right person for the job. We have burdened Mike with big expectations, and to date, he has done nothing but rise to the challenge.

As mentioned, Mike and General Indemnity are on the hunt for acquisitions. Here are some of the criteria of what they are looking for:

- Retail agencies (distribution) specializing in high policy count/low average premium, writing anywhere from \$2 to \$50 million in premium annually of commercial business;
- Insurers (risk bearing) specializing in high policy count/low average premium with a high percentage of “minimum” premium business. Insurance rate per exposure well above expected loss cost. Prefer commercial lines with insurer surplus of \$100 million or less; or
- Managing general agencies (underwriting/distribution) with established profitable niche books of business, from \$2 to \$50 million in premium annually.

If you own an insurance business that seems to fit any of these criteria, and are looking for a permanent home for your business, please give Mike a call at (781) 237-1318 or visit us online at [www.gi.insure](http://www.gi.insure).

## 2016

General Indemnity Group (“GIG”) entered January 2016 as an insurance business subsidiary writing \$0 of premium.

We subsequently completed two key acquisitions in 2016: i) The Warnock Agency (“Warnock”), a full-service surety-only brokerage that writes commercial and contract surety throughout the U.S.; and ii) United Casualty and Surety Insurance Company (“UCS”), a Massachusetts surety insurance company.

As a result, GIG exited December as a business writing over \$4.7mm of surety premium annually.<sup>17</sup> This would put the company at 72<sup>nd</sup> on the list of top 100 surety underwriters in the country.<sup>18</sup>

Our Warnock transaction put us in partnership with the company’s founder, Lamon

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<sup>17</sup> This figure includes the results of both Warnock and UCS for all of 2016, although we completed the acquisition of Warnock in April 2016 and the acquisition of UCS in December 2016.

<sup>18</sup> 2016 SNL Insurance Statutory Market Share Report, Surety Line of Business.

Warnock, an extremely talented and hardworking insurance professional who has created tremendous value for Boston Omaha in his first year on the job. Lamon seized on an opportunity to originate profitable surety premium at low cost, and it's a pleasure to watch him iterate and improve an efficient, scalable surety distribution engine that we believe is truly unique in the industry. The Warnock team's performance to date has set a high bar at GIG, but no one has higher expectations than Lamon.

UCS is a Massachusetts based insurance company which specializes in writing only one line of business, surety. The company owns an enviable 28-year underwriting record of writing premium with a pure loss ratio of 1%. In addition, UCS is rated "Excellent" by A.M. Best and is on the United States Department of the Treasury Approved Sureties list,<sup>19</sup> meaning it is one of approximately 100 active entities holding a Certificate of Authority as an Acceptable Surety on Federal Bonds. This authority is often referred to in the industry as a "T-listing," and when it comes to bidding on government contracts, *don't leave home without it*.

When we acquired UCS, it was approved as a surety insurer in just nine states, and nearly all of its premium was historically produced in Massachusetts. We are well into our project of filing applications to expand UCS's authority to all 50 states and Washington D.C. and have already received approval in a number of them. The first approved expansion application was in Oklahoma (*which is OK by us*).

It is worthwhile to explain why we have targeted surety as our first line of business in GIG. Last year we stated:

*"The insurance risk we are interested in taking will overwhelmingly be commercial, not personal, charge premiums well in excess of their anticipated losses, and be shorter tail in nature, meaning our policies will likely have durations around a year or less. There may be instances where we would write risk that varied slightly in one way or another, but generally, our current plan is to focus on high policy count, low loss limit business."*

There could be no better description for the surety we write today. For a top down look at why we chose to start with surety, have a look at the 10-year average loss ratio for the period ending 2015 in the following lines of property and casualty business:

<b>Ten Year Average Loss Ratio</b>	
Personal auto... ..	75
Homeowners... ..	71
Commercial multi-peril... .	61
Liability... ..	69
Commercial auto... ..	71
Workers Comp... ..	79
Surety & Fidelity... ..	30

Source: A.M. Best

<sup>19</sup> Department of the Treasury, Fiscal Service, (Dept. Circular 570; 2016 Revision) Companies Holding Certificates of Authority as Acceptable Sureties on Federal Bonds and as Acceptable Reinsuring Companies, Effective July 1, 2016.

The reason that surety and fidelity enjoy a loss ratio that's less than half that of the industry has to do with two particular attributes of the surety business.

First, the nature of surety is a little different than other lines of insurance, in that surety is designed to prevent a loss rather than cover a loss.

Surety is a tri-party agreement, meaning that a surety company is generally guaranteeing a specific performance of the insured, ("*Principal*"), for a third party. In many cases, the ability of the Principal to stay in business demands that there are no claims outstanding on a required surety bond. The Principal often has a real incentive to minimize any claims for which they are bonded.

In addition to this incentive, the surety company has a number of tools at its disposal, from taking collateral to replacing the work done by the Principal. These help the surety keep the dollar cost of losses down.

And if surety, on average, is a profitable line for insurance companies, why isn't everyone in the industry chasing surety premium? To answer that question, here is another table:

**2015 Net Premiums Written (\$B)**

Personal auto... ..	200
Homeowners... ..	83
Commercial multi-peril... ..	74
Liability... ..	64
Commercial auto... ..	21
Workers Comp... ..	48
Surety & Fidelity... ..	6

*Source: A.M. Best*

Aspiring vice presidents at the large insurers are not mapping their ascent to the top of the corporate ladder by targeting the smallest line of insurance. In general, the competition is the fiercest where the dollars are big.

At our size, we are less than one tenth of one percent of the surety market and made it onto the top 100 underwriters. Tripling our premium would land us solidly in the top 50. If we are going to hunt for opportunity, in general we prefer to go where the crowds aren't.

If losses on average are low, then astute readers will naturally wonder why prices haven't declined over time accordingly? That highlights the second attribute of the surety business we find attractive, namely, high distribution costs.

Surety agents command a high commission for sending insurance companies valuable premium. That commission can be more than double the cost of other lines of insurance.

The low dollar premium and the traditionally manual work required to produce many types of commercial surety bonds act as another disincentive for many producers. In some

classes of bonds, believe it or not, typewriters are still required. These types of surety bonds generally have much lower losses than surety as a whole, but they are often neglected due to the simple math that an agent would rather get paid 35% on a \$10,000 bond than 35% on a \$100 bond.

We are more than happy to relieve agents of their low dollar bond burden.

There are over ten thousand different surety bonds in our online library, and we see tremendous opportunity to invest in making a former analog process increasingly digital. General Indemnity is focused on being the low-cost producer in this high-cost distribution business.

Like we did with our other wholly-owned subsidiary, at our first annual meeting, we presented our shareholders with a simplified calculation of the estimated value of a dollar of surety premium:

**Surety Insurance Economic Opportunity**

Net written premium... ..	\$ 1.00
Commission... ..	0.35
Loss ratio... ..	0.15
Other costs... ..	0.10
<b>Economic income... ..</b>	<b><u>\$0.40</u></b>

**Capital requirements:**

Surplus (e.g. NW P to Surplus 1:1 to 2:1)

*Note: Management's estimates of targeted insurance economics at scale*

You will notice that this table assumes a loss ratio much lower than the previously presented 10-year average, but that is because the 10-year average is for the surety industry as a whole. We are targeting a specific subset of the surety business that is far more transactional, smaller dollar, frequently recurring, and with generally lower loss ratios. Remember, 15% is 15 times the loss that UCS has experienced on average in its 28-year history.

As discussed last year, our insurance business is an underwriting and distribution operation first, not an investment operation masquerading as an insurance company.

Today GIG has a solid foothold in a highly profitable niche of insurance with the flexibility to invest in both its distribution platform and its underwriting platform. Investments in distribution support policy holder acquisition and retention, while investments in underwriting may be more in the form of additions to surplus. As mentioned earlier, we have already made meaningful contributions of additional capital to UCS in connection with their nationwide expansion. If premium growth necessitates it, we will invest more.

Shareholders making their own assessments of our progress are well served, in management's view, by tracking our growth in premium running through both our distribution and underwriting operations relative to capital employed, which includes customer acquisition and retention costs in addition to the capital needed to support written premium.

In addition to the organic growth available in our surety businesses, we are always interested in hearing from individuals who, for one reason or another, may have a profitable insurance business to sell. Here are some of the criteria of what we are looking for:

- Retail agencies (distribution) specializing in high policy count/low average premium, writing anywhere from \$2mm to \$50mm in premium annually of commercial business;
- Insurers (risk bearing) specializing in high policy count/low average premium with a high percentage of “minimum” premium business. Insurance rate per exposure well above expected loss cost. Prefer commercial lines with insurer surplus of \$100mm or less; or
- Managing general agencies (underwriting/distribution) with established profitable niche books of business, from \$2mm to \$50mm in premium annually.

If any of these describe an insurance business you own, and you are looking for a fair deal and a permanent home for the business, please give us a call at (857) 246-9399, or visit us online at [www.gi.insure](http://www.gi.insure). Mike Scholl continues to do a tremendous job managing General Indemnity and he would love to hear from you.

## 2017

From its founding, we have invested over \$21mm of capital into General Indemnity Group, LLC (“GIG”). Approximately \$13mm was used to purchase a monoline surety insurance company, approximately \$3mm for a voluntary surplus addition to the same insurance company, and approximately \$5mm for several surety insurance agencies.

GIG currently writes over \$12mm of surety premium annually, and owns an insurance company with over \$8mm of capital licensed across most of the country. Through our subsidiaries, total gross written premium is over \$12mm per year; however, we only report the \$2mm that our insurance company underwrote on our 2017 financials, as well as the \$1.6mm in commissions our agents earned after sending much of that premium to other insurance companies. GIG continues to invest in its pipeline of acquiring surety premium whether it is purchased or grown organically.

In last year’s letter, we went into significant detail about the surety business, how and why it works and, most importantly, why we chose that line as our entrance to the insurance business. If you are unfamiliar with surety, or even familiar but want to hear our perspective on it, we encourage you to read our thoughts from last year. Surety doesn’t change all that much from year to year so even though it’s a year old, the information is not stale.

For a quick summary here on why we like surety, it has three particular characteristics we’ve found regularly appear in profitable lines of insurance, namely, high frequency of policies, low loss limits and short duration.

Smaller dollar surety policies generally have all three of those attributes and as a result, enjoy lower loss ratios than most other lines of insurance. From our perspective, there is an additional opportunity in the policy acquisition cost. Agents selling auto policies typically make

10-12% while surety can be more than triple that.

To best understand GIG's surety operations, one should start by breaking it into two parts: distribution and underwriting. Distribution is the traditional agency model, where premium is written for a commission and sent to any one of a number of insurance carriers, the underwriters, who put the risk on their balance sheet.

Last year was a record for agency mergers and acquisitions, and not surprisingly, private equity was far and away the largest buyer. Like billboards, we look at the economics a bit differently than buyers who have a sell by date. We look through to the value of each dollar of premium written, how "sticky" that premium dollar is, meaning how regularly it renews or at what cost it can be acquired, and what that dollar of premium would be worth if we were the underwriter.

Often agency acquisitions are valued on a multiple of revenue or EBITDA. If using a 35% commission rate as top line revenue, and assuming for argument's sake a 30% operating margin, an agency writing \$5mm in premium would have \$1.75mm in revenue and net around \$525K annually for its owners before taxes. Current market multiples for this kind of agency could value the business at \$4mm to \$6mm.

GIG takes a slightly different approach when valuing an agency. We look at the value of the whole premium dollar, not just the 35% commission. We are interested in how profitable the \$5mm of recurring surety premium is if we were to underwrite it and the prospects for that agency to continue to grow like premium at low cost. To date, GIG has acquired roughly \$10mm of surety premium through the purchase of agencies (meaning we control where it is underwritten, in effect, we own it) for approximately \$5mm.

Overwhelmingly, the capital deployed in GIG to date has been on underwriting. In 2016, GIG acquired a Massachusetts based insurer called United Casualty and Surety Insurance Company ("UCS"). This small, regional insurer specialized in writing only surety. For 28 years, it wrote business conservatively, with a pure loss ratio of 1%. In addition, it is rated "A-" (Excellent) by A.M. Best and is on the United States Department of the Treasury Approved Sureties list.

At the time of acquisition, UCS was approved as a surety insurer in just nine states. Over the past two decades, in aggregate it wrote approximately \$50mm in surety premium and around 90% of that was in Massachusetts.

In the last year, a significant portion of GIG's expenses were in the time and cost associated with expanding UCS's licensure to 50 states. The primary reason for expansion is that our agencies produce business in a lot more than just Massachusetts. Although expansion is painful in terms of costs of time, capital and resources spent to obtain each license, and those costs are expensed in the period incurred, we believe there is real long-term tangible value added each time we add a state.

Today the company is licensed in 46 states and Washington D.C. and GIG is actively working to become admitted in the other four states.

In addition to the benefits of having both distribution and underwriting capabilities, GIG is committing resources towards building systems to allow GIG to be a lower cost surety solution for its clients in the many ways that customers purchase surety products. There are more than

ten thousand different surety bonds of the commercial variety and much of that has traditionally gone through the agent channel at a high commission rate.

As we reiterate every year, our insurance business is an underwriting and distribution operation first, not an investment operation masquerading as an insurance company.

GIG is spending real money today securing state approvals and developing the platform needed to serve our customers tomorrow by saving them money and time when they buy their bonds. Similar to the licensure expansion, expenses incurred in building these scalable tools are being charged immediately and not capitalized.

In contrast to the licensure project, it is not as immediately obvious that investments in technology will pay off. We write business in a competitive market for surety customers with agents who write far more than just surety for their customers and will not go down without a fight when it comes to keeping them.

“If you build it, they will come” may work for baseball fields in Iowa, but it is far from certain for direct or automated surety sales.

Nevertheless, we think that economic history favors the low cost provider and the opportunity in surety is far and away in the current cost to produce these bonds. That is why we continue to spend money today on building efficiencies believing that these investments will position GIG favorably against its competition in the future.

Although distribution and underwriting are different halves of the whole, we suggest that Boston Omaha stockholders who want to track GIG’s progress should look closely at the aggregate gross written premium, growth in earned premiums, and underwriting profit over time.

General Indemnity has made a lot of progress in two years and has a long way to go to meet its current objectives of being a scalable, low cost producer of surety bonds nationwide. In your management’s opinion, the economic opportunity justifies the continued expense incurred investing in surety operations and premium growth.

## 2018

To date we have deployed \$29.3mm of capital into GIG. In exchange for that capital, we own a collection of five businesses which include UCS, (our licensed carrier now admitted to write surety in all 50 states and the District of Columbia), and four surety only agencies.

UCS houses admitted assets of \$21.5mm and surplus of \$15mm as of year-end. Due to the nature of insurance accounting, the revenue from underwritten premium is recognized only as it is earned, which is over the life of the bond. As a result, UCS wrote \$7.3mm of insurance in 2018 (a more than 200% increase over 2017), but only recognized \$3.2mm of revenue, a 57% increase over the prior year.

There are two primary costs that determine the profitability of our underwritten premium over time: insured losses from claims and the expenses we incur to obtain, underwrite, and manage claims on our policies.

Our losses and loss adjustment expense (loss ratio) to date has continued to be low, totaling close to 0% in 2017 and 12% in 2018 as a percentage of net earned premium at UCS. This may seem like a big jump, but to put this in perspective, this ratio remains well below industry averages for nearly every other type of property and casualty insurance and it is an increase we anticipated as we grew from writing in one state to doing business countrywide.

In our opinion, much of the opportunity is in reducing the high, "other-than-loss" expenses typically associated with surety insurance. Our \$6.9mm of employee and general and administrative costs remain exceedingly high relative to the amount of business revenue we currently recognize and we must expense this amount in the period incurred, as opposed to over the life of a bond.

GIG is focused on lowering these operational costs, investing in automation wherever possible, attempting to acquire more customers at lower cost, and increasing written premium through UCS to achieve more scale on our fixed expenses. If successful, net earned premium will grow over time at a faster rate than our employee and general and administrative costs.

This all sounds great on paper, but in practice, consistent execution in our operations has been met with many challenges. For example, each agency GIG acquired used a different system to record the bonds sold, manage cash and reconcile carrier submissions. Getting daily reporting across all companies required significant manual work from a number of employees. A large amount of the effort and cost associated with this daily time-consuming task was eventually replaced with software that now compiles and reports the information to GIG using more automation. Resources devoted to development and implementation of a back-office system are resources not deployed to other projects, and the list of other projects is long.

Whereas depreciation and amortization costs exceed likely capital expenditures in billboards, they underestimate capital required for the insurance businesses. Implementing a new system has been expensive and time consuming and there is much more work to do.

We continue to invest in GIG and its affiliates, adding an additional \$8.5mm to surplus last year and we believe that at scale, the economics remain attractive.

Shareholders can best track the progress of GIG by net earned premium at UCS over time compared to the growth of employee and general and administrative costs, our losses and loss adjustment expense ratio and surplus growth as a result of underwriting profit.

## 2019

To date we have deployed \$36mm of capital into GIG. Our investments in this business since the spring of 2016 have built a national monoline surety business writing over \$14mm in total business last year and having \$17mm of surplus at December 31, 2019.

The two sides of the business, distribution and underwriting, are increasingly benefiting from one another as our insurance carrier, United Casualty and Surety Insurance Co (“UCS”) has grown premiums written 582% since we purchased the business at the end of 2016 and received authority to conduct business in all 50 states. That rate of growth sounds high, but it was off of a tiny base to start with and is far more likely to slow than continue at that pace.

At the end of 2019, UCS held admitted assets of \$30mm. The chart below is a breakdown of the composition of UCS’s assets at the end of each year.

	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Cash	34.4%	72.9%	62.6%
Bonds	17.6%	20.2%	34.6%
Stocks	43.3%	-	-
Other	4.7%	6.9%	2.8%
<b>Total Admitted Assets<sup>20</sup></b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

As our admitted assets have grown, and we better understand the nature of the premium and development of our core businesses, we have allocated a larger component of our assets to equities. The composition of the equity portfolio limits exposure to large liquid securities and complies with various regulatory guidelines. Over time, this has the potential to provide additional earnings power for UCS beyond its underwriting operations.

Insurance accounting recognizes revenue from underwritten premium only as it is earned, which is spread over the life of the bond. Therefore, UCS wrote over \$14mm of insurance last year (a 100% increase over 2018) but recognized almost \$11mm of premium revenues, a 244% increase over the prior year.

Top line growth is of course, important to report, but there is a key metric we follow more closely.

<i>(\$ in millions)</i>	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Gross Written Premium	\$14.6	\$7.3	\$2.3
Controlled Premium	\$4.9	\$2.8	\$1.5

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<sup>20</sup> Admitted asset allocation is based off UCS’ statutory financials and are non-GAAP.

Controlled premium is a critical measurement for us at GIG. We use that term to mean premium that GIG originates in one of its affiliated agencies or at UCS and is where UCS bears the risk on the policy. In other words, controlled premium is where we control the whole premium dollar, from start to finish.

Controlled premium provides us the most comprehensive data possible on which we can make an economic decision for our capital investment because we incur both the distribution and underwriting costs for the entire dollar of premium. There are thousands of different types of surety bonds and we use loss data and customer acquisition expense to help us figure out where to build the business.

We have observed that often in traditional surety businesses, there is little communication between the agents and their cost to prospect and acquire customers, and the insurance companies that underwrite the risk. They each often only know the cost of their respective portion of the premium received.

There is a big difference between knowing the commission rate for a dollar of premium and knowing the actual customer acquisition cost for that same dollar of premium. As we focus our resources and attention on controlled premium growth, it is important to note that the remainder of our gross written premium may very well decline because we consider that opportunistic and we do not control the production. That premium can be moved to different markets by the agent, the nature or price of the risk profile can change so as to no longer meet our criteria, or it could go away for other reasons outside our control.

Dave Herman joined us over a year ago and has done a tremendous job coordinating the operations of the companies that comprise GIG. Dave has impressed us all with his rigorous use of data to dissect each component of each business to allow him and the team to make even better decisions on what surety risks to write and at what price. Dave also brings the same rigor to the analysis of acquiring more customers, determining how much to invest and what channels to use.

As we discussed in last year's letter, in addition to growing the business, we have been focused on appropriately scaling our overhead by making investments in people and processes across the various GIG acquisitions. Much has been done, and much is left to do, but progress to date has resulted in GIG achieving positive cash flow from operations for the first time in 2019.

	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Expense Ratio <sup>21</sup>	74.2%	102.4%	89.1%
Loss Ratio	16.3%	11.8%	0.7%

Last year's losses and loss adjustment expense (loss ratio) came in below our expectations, which will not always be the case. While our loss performance remains below industry averages, we expect as we continue to grow our premiums written that those losses are likely to increase as a percentage of earned premium. And that is fine by us, as long as we properly price for those losses.

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<sup>21</sup> Expense ratio includes acquisition and non-acquisition expenses.

We will also be watching for any potential impact that the economic slowdown caused by the pandemic may have on claims made.

Shareholders should continue to track the progress of GIG by net earned premium at UCS compared to the growth of employee and general and administrative costs, our loss ratio, and surplus growth.

## 2020

General Indemnity Group (GIG) is a monoline surety insurance company, licensed in all 50 states and D.C. For review, surety insurance is a type of tri-party arrangement, where for a fee, the insurance company provides a guarantee of their customer's obligations to another party.

2020 witnessed a tremendous shock to business in this country, with obligations of every kind in question as commerce was halted, and people ordered to shelter in place.

We are proud of Dave Herman and our team at GIG, who deftly navigated the storm. It was far from easy, with the ground literally shifting underneath us as the effects of the pandemic were felt.

Some municipal and state governments signaled a sudden willingness to rewrite insurance contracts essentially forcing insurance companies to potentially take risks on their balance sheet they had not priced when selling their policies. Thankfully, this did not happen to any of our policies directly; however, where we felt we no longer understood the risks, we decided to no longer write new bonds, particularly in the residential apartment rental market.

In addition, there was a significant overall decline in business activity. Contractors of all kinds halted projects for months. All variety of trades that operate requiring bonds, from courts to security guards to cleaning crews, sat idle while office buildings were vacated, and many made the transition to work virtually.

Our choice in favor of conservatism in underwriting, coupled with a general decline in overall business activity, resulted in a significant reduction in the net written premium for the year.

Statutory accounting requires recognizing revenues from the sale of a policy over the life of the policy, so while earned premium continued to flow through our income statement from previous years, newly written premium decreased 43% over the previous year. Absent an increase in new premium and assuming our reserves for ultimate losses are accurate, this will result in lower earnings power for the business in the near future, despite significantly larger operating earnings in 2020, due to this lag effect.

As a quick refresher on how we look at GIG, we can bisect the business into insurance operations and, as we have grown, a small portfolio of investments. By far, our focus has been and continues to be insurance operations. Therefore, we will discuss the insurance business first, reviewing both distribution and underwriting.

Distribution is the agent and the agent gets paid for selling the bond. Underwriting is our insurance company, United Casualty and Surety Insurance (UCS), which keeps whatever premium remains after paying commissions and losses.

Throughout much of the surety landscape, these two halves of the whole operate in their own silos, with neither having true transparency into the costs of the other. We believe that better underwriting selection and a relentless focus on reducing the cost to produce these bonds will allow the business to take share overtime by providing a valuable service to its customers at a competitive price.

Below is a table of the business that UCS produced each year broken out by the gross written premium, which includes surety that was produced by non-GIG agents and GIG agents, and controlled premium, surety that was produced all in-house.

<i>(\$ in millions)</i>	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Gross Written Premium	\$8.3	\$14.6	\$7.3	\$2.3
Controlled Premium	\$4.3	\$4.9	\$2.8	\$1.5

The gross written premium decline of over 43% had mainly to do with our own decision to discontinue writing certain bonds in the apartment rental market.

While all premium is important, our goal overtime is to grow the controlled premium, which are the bonds we produce ourselves. Controlled premium declined around 13% in 2020, due to the slowdown in business last year caused by the pandemic.

The reason we focus on our controlled premium is because that is where we have complete visibility from the customer acquisition cost through to the ultimate losses. This data allows us to better understand, better price and better produce surety policies over time.

For a review of our timeline, we acquired UCS at the end of 2016 and spent much of the next two years getting our authority to write business in every state and DC.

The last three years have allowed us to start measuring the results of our investments to produce controlled premium directly at GIG, and while admittedly slower than we would like, the data remains encouraging that surety premium can be acquired at a cost that provides attractive returns. In addition, the vast majority of the premium we write every year is renewal business.

With much of the systems work completed between all of the subsidiaries at GIG, we have again added acquisitions to the mix of opportunities. This spring, GIG acquired another agency who has already begun to move meaningful amounts of premium to UCS's books.

We will continue to evaluate both build and buy as options for increasing controlled premium. Over time, we believe this will scale nicely, though at the present size, returns are not adequate for the investment to date. For GIG to achieve its desired returns, expenses will need to continue to decline as a percentage of earned premium.

	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Expense Ratio <sup>22</sup>	67.2%	74.2%	102.4%	89.1%
Loss Ratio	24.9%	16.3%	11.8%	0.7%

To date our paid losses in every year have been below our reserves. The good news is that so far, in periods of stress, our underwriting performance has met expectations.

With the most important side, insurance operations, covered, we can now discuss the investment side and its ability to also generate earnings power.

At the end of 2020, UCS held admitted assets of \$40.6mm. The chart below is a breakdown of the composition of UCS's assets at the end of each year.

	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Cash	61.5%	34.4%	72.9%	62.6%
Bonds	7.0%	17.6%	20.2%	34.6%
Stocks	28.0%	43.3%	-	-
Other	3.5%	4.7%	6.9%	2.8%
<b>Total Admitted Assets<sup>23</sup></b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Being in the insurance business requires us to put up equity capital to support our underwriting activity, and rightly so. We are, after all, providing guarantees for the performance of third parties and we always need to have adequate capital should those guarantees be called upon.

However, we can invest that equity capital productively while simultaneously using it to write insurance premium. In effect, the benefit or possible cost of having

<sup>22</sup> Expense ratio includes acquisition and non-acquisition expenses.

<sup>23</sup> Admitted asset allocation is based off UCS' statutory financials and are non-GAAP.

equity capital at UCS is that we have the chance to get two turns on our money. This optionality is attractive, in our opinion, because we believe vertically integrated surety insurance can be a profitable business with a disciplined and thoughtful management team. Over time, we believe our equity capital will be more valuable at UCS, comparatively, due to this dual pronged ability to grow in value.

Overall, it is hard to say whether intrinsic value increased or decreased at GIG over the past year, so in our opinion this one is probably a push.

## 2021

General Indemnity Group (GIG) owns and operates United Casualty and Surety Insurance Company (UCS) our monoline surety insurance company, licensed in all 50 states and D.C. Other GIG subsidiaries sell both UCS and other surety bonds. For review, surety insurance is a type of tri-party arrangement, where for a fee, the insurance company provides a guarantee of their customer's obligations to another party.

Below is a table of the business that UCS produced each year. Our focus has been and continues to be controlled premium, surety produced all in-house.

<i>(\$ in millions)</i>	<b><u>2021</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Gross Written Premium	\$9.3	\$8.3	\$14.6	\$7.3	\$2.3
Controlled Premium	\$5.5	\$4.3	\$4.9	\$2.8	\$1.5

Controlled premium provides complete visibility of the true cost of producing a dollar of surety premium. This data allows us to better understand, better price and better grow surety policies over time.

Last year we acquired an agency for \$2.2mm that was producing about the same amount of premium annually and growing. Our experience since 2017 indicates that over time \$1 of premium can produce around \$0.40 of economic income at scale. This is why we continue to see a large opportunity for GIG and support Dave Herman, GIG's manager, and his team as they work to grow the business both organically and through acquisitions.

To reach scale expenses need to decline as a percentage of earned premium.

	<b><u>2021</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Expense Ratio <sup>24</sup>	88.6%	67.2%	74.2%	102.4%	89.1%
Loss Ratio	11.2%	24.9%	16.3%	11.8%	0.7%

<sup>24</sup> Expense ratio includes acquisition and non-acquisition expenses.

Investment income increased making our insurance business profitable last year. Intrinsic value also rises when we grow recurring, profitable, controlled premium at a reasonable cost. In 2021, GIG was profitable and grew controlled premium.

## ASSET MANAGEMENT

### 2015

We always prefer to own all of an attractive business, but when that is not possible, we will own a minority stake in a business under certain circumstances. Last year we made two such investments.

First, we acquired a 30% interest in a company called Logic Commercial Real Estate. Logic is a Nevada based company with operations in property management, brokerage, capital markets and other services aimed primarily towards the Las Vegas commercial real estate market. At its helm is Brendan Keating, a fourth generation local.

Logic currently is heavily dependent on one geography; however, the economic variables that affect each line of business within Logic can vary. Brokerage volume, market share, property under management contracts, and loan demand can differ under various economic conditions, and therefore, our revenue will be cyclical. Nonetheless, we believe Las Vegas commercial real estate markets are currently back to levels we would more or less refer to as normalized or slightly above normalized in terms of pricing and transactional volume.

We are excited about our partnership with Brendan and his team at Logic. Our business relationship with Brendan goes back many years prior to the formation of Boston Omaha. In February 2016, Brendan joined our Board of Directors.

With Logic, we are long-term partners who intend to be there to help grow the business through future real estate cycles. There may be many opportunities for Logic to utilize additional capital from Boston Omaha in the coming years.

The second minority stake we acquired was in a residential housing operation in a Master-Planned Community called Leyden Rock in Arvada, Colorado. Leyden sits in a unique area, as the second most successful selling community over the past year in Denver, based on housing starts.

For decades, Boulder County has purchased nearly all of the available land to be developed along the Front Range, the area between Denver and along the Rocky Mountains. Finding new construction in that area is rare. Leyden sits between Boulder and Golden, just a few miles from Interstate 70 and some of the best skiing and mountain activities in the country.

Patrick Zalupski is another entrepreneur we have had the pleasure of getting to know over a number of years. Over the past eight years, Pat has grown his company, Dream Finders

Homes, from building just a few single-family homes in Jacksonville, Florida, to over one thousand annually in multiple markets in Florida including Jacksonville, Orlando, Amelia Island and St. Augustine; as well as Savannah, Georgia; Austin, Texas; and Denver, Colorado. Similar to Brendan, Pat’s enthusiasm for his business is infectious and he has a track record of building value for his business and his partners.

In the case of Leyden Rock, Boston Omaha is a minority investor in a group that purchased 75 developed homesites at what we believe is a meaningful discount relative to the sales prices underwritten by Pat and his team at Dream Finders Homes. Leyden consists of over 1,400 home sites with ours being among the last 400 or so to be built and sold.

In addition, our lots are on the highest land in this area of Leyden with the broadest views, providing a margin of safety to our purchase price not included in the underwriting of our investment. In this case, better lots have the potential to be sold with lot premiums that fall directly to the bottom line of the project.

The nature of this investment, in contrast to our investment in Logic, is likely to be rather short lived. Once the homes are sold, the proceeds from our investment will be sent back up to Boston Omaha for redeployment. In the case of Logic, we will own our 30% perpetually, and we may have the opportunity to own more over time. Logic is a very different investment than Leyden for that reason.

Going forward, we should be clear that residential real estate development is not intended as a core business of Boston Omaha. Investments like Leyden Rock surface in the course of normal business interactions and we are optimistic that the road ahead will present similar opportunities for Boston Omaha to consider.

## 2016

Last year we introduced our minority investment in Logic Commercial Real Estate (“Logic”). Our first purchase of stock in this business was in October 2015, and when we had the chance to acquire more shares in June of last summer, we could not write the check fast enough.

To recap, Logic is a Nevada based company with operations in property management, brokerage, capital markets, and other services. Logic is run by Brendan Keating, who also serves on the Board of Directors of Boston Omaha.

You will understand our enthusiasm for Brendan and his team by looking at what they were able to accomplish in their first full calendar year in business.

<b>Business line</b>	<b>2016</b>	<b>2015*</b>
Property management.....	1,377,824 SF	684,772 SF
Brokerage commissions.....	\$4.9mm	\$1.3mm
Capital markets loans originated....	\$6.7mm	\$0

*\*Logic commenced operations 8/20/2015, so dollar figures are indicative of partial year*

*performance.*

We are long-term partners in Logic with Brendan Keating and intend to be there to continue to help grow Logic through future real estate cycles. The business lines in Logic are highly complementary and give the company visibility and opportunity throughout all parts of the real estate cycle. If we are lucky, there will be many additional opportunities for Logic to utilize additional capital from Boston Omaha in the coming years in a host of ways.

Logic, like Link Media and GIG, is looking for more opportunities to grow with like-minded individuals in the commercial real estate business. If you are looking to sell all or a portion of your real estate services business, or see an opportunity to do business with Logic, head to [www.logicCRE.com](http://www.logicCRE.com) or contact Brendan directly at 702-954-4108, or [bkeating@logicCRE.com](mailto:bkeating@logicCRE.com).

For the right operator, Logic is a wonderful long-term partner that can add real business value through efficiencies, relationships, access to capital and experience in various business lines.

Below are Logic's general criteria for acquisitions:

- Operating in a metro area with a population greater than 500,000;
- Prefer both a property management and brokerage division; and
- Prefer management to stay and operate with skin in the game.

## 2017

As of the end of 2017, we had invested capital in minority investments amounting to \$11mm and we hold these investments on our year-end balance sheet at \$11mm using the equity and cost methods of accounting.

At the end of last year, we made a \$10mm investment in a private residential homebuilder. For those who have read our first annual letter, Dream Finders Homes ("DFH") likely rings a bell. One of our earliest investments was in a development outside Denver, Colorado with DFH as the builder.

Over the years we have gotten to know DFH's Founder and President, Patrick Zalupski and we are impressed with the operation he has built. Last year, DFH built and closed over 1,111 homes and expanded from their base operations in Jacksonville, Florida to Orlando, Denver, Austin, Georgia, and the Washington D.C. metro area.

Patrick has built DFH into a national and profitable homebuilder, but even more interesting to us, he has done so using a disciplined approach often talked about by other homebuilders, but not often achieved. Specifically, DFH has built their business using mostly option contracts to acquire lots from developers, rather than owning land outright. Although there is nothing magic about operating in this manner, it is a disciplined lower risk approach that is hard to employ efficiently and even harder to stick to in bull markets. DFH's model has allowed it to historically manage inventory and land exceedingly well, earn high returns on the actual capital employed in the homebuilding business, and, in our opinion, operate at lower risk

than if they were to hold financed land on a constant basis.

The primary downside of the model is not capturing the upside in land values and the fear of not being able to secure lots at reasonable pricing in a bull market. Patrick likes the trade-off and so do we.

It is the successful use of this lower risk, less capital intensive strategy by a proven management team, the durability and lack of competitive threats to the product, and the overall performance of the mostly management owned company that attracted us.

In the background, the housing market continues to face an interesting supply demand dynamic, a function of single-family housing starts being at 40-85% of the historical average for almost a decade and about 50% of peak production. Recent months supply of inventory was the lowest on record.

We believe that Patrick and the DFH team are well equipped to help solve that problem, adding high quality supply of new homes to the market and high quality earnings for their shareholders.

Boston Omaha purchased just under 5% of DFH for \$10mm, valuing DFH at \$200mm before our purchase. However, a feature built into our deal is that if DFH fails to earn more than \$60mm pre-tax over the next two years, we will receive additional equity increasing our ownership to an effective pre money valuation of \$140mm.

Excitement is mutual between DFH and Boston Omaha to be in business together for the long haul. 100% of our investment went into the business for growth, as Patrick is the overwhelming majority owner and there were no selling shareholders in the deal.

\* \* \* \* \*

Having a few minority ownership positions at Boston Omaha has to date served shareholders well, as on a percentage basis, our approximate 30% ownership of Logic was the best return on our capital for the second year in a row.

For our newer shareholders, Logic Real Estate Companies, LLC (“Logic”) is a Nevada based company offering property management, brokerage, capital markets, and other services. Brendan Keating runs Logic and also serves on the Board of Directors of Boston Omaha. His team’s performance speaks for itself in the statistics below, which occurred from a standing start in the second half of 2015:

<b><u>Business line</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015*</u></b>
Property management.....	2,547,700 SF	1,377,824 SF	684,772 SF
Brokerage commissions.....	\$5.6mm	\$4.9mm	\$1.3mm
Capital markets loans originated....	\$38.2mm	\$6.7mm	\$0

*\*Logic commenced operations 8/20/2015, so dollar figures are indicative of partial year performance.*

To date, we have invested \$360K in Logic and own approximately 30% of the company.

Logic generated operating cash flow of approximately \$400K in 2017 and as a service business requires little in the way of maintenance capital expenditures. Our investment in Logic is held at a value of about \$330K on our balance sheet as an equity method investment, due to us owning less than a 50% interest.

Logic is an important operation for Boston Omaha and we look forward to its continued growth both in their home market and expansion opportunities. The business requires little capital to grow organically; however, Boston Omaha stands ready for logical (*pun intended*) acquisitions and organic growth projects.

## 2018

Our minority investments as a whole comprise just under 10% of our total assets and, as mentioned at the beginning of this letter, the three operating businesses are Logic Commercial Real Estate, Dream Finders Homes and Crescent Bank and Trust.

We stress the “operating” in this section because we also have a few non-operating investments in real estate ventures of one kind or another. In aggregate, these non-operating investments total less than \$1mm in cost and we won’t spend time on them here.

Here are our minority investments in operating businesses, showing capital invested and our percentage of their pre-tax earnings in 2018:

<i>(in millions except for percentage ownership)</i>	<b><u>Capital Invested to date</u></b>	<b><u>% ownership</u></b>	<b><u>Our share of 2018 pre-tax earnings on a look through basis</u></b>
Logic Commercial Real Estate..	\$0.36	30%	\$0.25
Dream Finders Homes.....	\$10.0	4.7% <sup>25</sup>	\$0.81
CB&T Holding Corp.....	\$19.1	15.0%	\$1.02
Total.....	\$29.4		\$2.08

### **Logic Commercial Real Estate**

Logic generated approximately \$1.2mm in operating cash flow in calendar year 2018, an amount that equals the total invested capital ever put into the business. Boston Omaha owns

<sup>25</sup> Based on \$200mm valuation at the time of investment which may become \$140mm valuation unless DFH earns a cumulative \$60mm pre-tax in 2018 and 2019.

approximately 30% of Logic and has received \$0.34mm in distributions as of year-end 2018 and \$0.39mm to date. Any earnings not distributed have been retained in the business for growth.

In the three years since its founding, Logic has become one of the larger commercial real estate brokerage and property management firms in Las Vegas. In 2018, for the first time, Logic used a portion of its retained capital to expand its footprint outside of Las Vegas, to Reno, NV. We look forward to watching the continued progress in Reno and the possible expansion to other new markets in the coming years.

In May 2018, Logic started a real estate investment advisory business named 24<sup>th</sup> Street Asset Management (“24<sup>th</sup> Street”) inviting Boston Omaha to invest in the venture. We did so through a new wholly-owned subsidiary, Boston Omaha Asset Management (“BOAM”). The investment is minimal in dollars since starting an investment advisor does not take a lot of capital, however we like its long-term return prospects.

Brendan Keating, Logic’s CEO and Boston Omaha board member, and Adam have a long track record together of profitably investing well over \$100mm of equity in distressed or turnaround commercial real estate assets and originating high yield loans secured by real estate. As their former partnerships were structured to return capital rather than recycle it, they thought it was appropriate to set-up a new entity should new deals ever come about.

24<sup>th</sup> Street is that entity, and BOAM is happy to own just under 50% of its future economics on a look through basis via our Logic stake and our direct stake. Brendan is the manager and he and his team at Logic own the remaining 50% interest.

Brendan describes 24<sup>th</sup> Street as a “sharp shooter asset manager” focused on high return opportunities rather than perpetual asset gathering. In 2018, 24<sup>th</sup> Street began operations and currently manages a single \$6mm asset.

In our view, having an asset management business along with the full suite of commercial real estate services at Logic is a great combination. When commercial real estate is booming, the services business generally has a tailwind, and when times are tough, the asset management business should be getting into full gear searching for investment opportunities.

Our stakes in Logic and 24<sup>th</sup> Street are carried together on our balance sheet at a value of \$0.32mm at the end of the year.

### **Dream Finders Homes**

Dream Finders Homes (“DFH”) earned over \$17mm pre-tax last year, of which Boston Omaha’s current share is around \$0.81mm. We say “current” because our percentage

ownership in DFH is contingent on their earnings over two years. Our deal with DFH is that we invested \$10mm at a \$200mm valuation, as long as the company earns at least \$60mm in cumulative pre-tax between 2018 and 2019, otherwise, we receive additional shares equating the valuation of our initial investment to a value of \$140mm. Therefore, our year one return on investment could end up being higher depending on how 2019 turns out. Either way, this investment continues to be held on our balance sheet at a value of \$10mm.

Regarding this investment, some have asked us if we are hoping that DFH doesn't make their hurdle so that we effectively end up owning more of the company? The answer to that question is easy. Absolutely not.

We always root for the companies we invest in to succeed and this structure is only about price. The goal was to align the value of our investment with the earnings power of the company at this stage in its growth.

A key differentiator between DFH and other homebuilders is its focus on being a finished lot builder as opposed to both a land developer and homebuilder. Well managed finished lot builders tie up less capital in the generally lower return and higher risk acquisition and development of land. Instead, DFH focuses deployment of its capital on the vertical construction of homes that customers have already decided to buy.

Finished lot developers, like DFH, secure their land purchases with option contracts often paying 3% to 8% of the lot value upfront in exchange for the right to purchase the lot at a predetermined price at a later date. This is in contrast to the long and capital-intensive process of developing land which often requires the use of material amounts of debt to obtain a reasonable return on equity capital.

The efficient capital utilization can be observed via return on equity. Note, that we believe finished lot builders achieve these higher returns on equity with less full cycle business risk than homebuilders who own a lot of land.

**Homebuilder 5 Year Average Return on Equity**

Bloomberg Homebuilder Comps <sup>26</sup> .....	12.8%
NVR, Inc.....	41.7%
DFH.....	32.0%

<sup>26</sup> Bloomberg North American Homebuilders Comps; NVR, PulteGroup, D.R. Horton, Toll Brothers, Meritage, KB Home, Lennar, M.D.C. Holdings, Taylor Morrison Home, TRI Pointe, William Lyon Homes, LGI Homes, Century Communities, M/I Homes, The New Home Company, Beazer Homes

The reason we break out NVR, Inc. from other homebuilders is that they are the single best example of a finished lot builder. DFH aspires to follow their example and is off to a good start, but has a long way to go. Last year, NVR delivered 18,447 homes, a 15.6% increase over the prior year, while DFH closed 1,408, a 26.7% increase from 2017.

It's important to note that maintaining the discipline in all cycles to remain a finished lot builder is difficult, otherwise everyone would do it. It takes building relationships with land developers, structuring financing with third parties for the acquisition deals, and lots of patience. Most importantly, it takes a culture that starts at the top and persists throughout the enterprise to adhere to a focus on being an efficient quality home builder and not straying into land development deals.

Though DFH started in Jacksonville and that is where the majority of its homebuilding occurs, in 2019 DFH projects they will build nearly as many homes outside of Jacksonville as they did in Jacksonville last year. We are pleased to be long term partners with DFH as they continue building homes and their brand across Jacksonville, Orlando, Austin, Denver, Savannah and the D.C. area.

### **CB&T Holding Corporation**

CB&T Holding Corporation, which wholly owns Crescent Bank and Trust, earned \$6.8mm in pre-tax income last year, of which Boston Omaha's share is around \$1mm on a look through basis. Our year one return on investment would equal about 5% but 2018 earnings are well below our view of the banks probable normalized earnings power. The CBT investment is held at \$19.1mm on our year-end balance sheet.

In calendar year 2018, CBT's pre-tax return on assets equaled 0.7% and pre-tax return on equity equaled 6.5%. From 1991, when the Solomon family and a few other partners took control of the bank, to 2018, CBT earned an average pre-tax return on assets and equity of 2.2% and 28.4%, respectively. We expect 2019 to likely be another year of subnormal returns as CBT builds loan volume, but we believe the longer-term future is bright.

CBT is a unique bank. Since the early 90's, the bank has primarily been an indirect sub-prime auto lender on the asset side of its balance sheet, an area that was very profitable for the bank for a long time. However, as is often the case, excess returns invite competitive capital.

For the past several years, many players and loan pools in the subprime auto loan space have been experiencing above average stress in certain vintages mostly as a result of excess capital entering the industry that was enthusiastic to provide credit at inadequate terms. The result was, and is, an exceedingly competitive environment with loan yields declining and loan duration expanding as each player backed with fresh capital tried to outdo the next. The problem was the loan terms changed but the underlying credit backing the loan stayed the same or got worse.

CBT is one of the few players in the space that goes to battle in this very competitive field with a structural advantage. As a bank, in order to fund its auto loan purchases, CBT can issue attractive yielding certificates of deposits to customers at rates materially below the interest expense incurred by its non-bank peers. Those peers have to use bank debt or the (at times manic) securitization market. CBT can also make greater use of its balance sheet, using less equity capital to hold loans than many lenders without bank charters.

Armed with its funding advantage, the bank is hard at work investing in both automation and growth. One example is on streamlining and scaling their servicing operation. Auto finance is a high-volume game as CBT receives tens upon tens of thousands of applications a month. To the extent that CBT is able to process, underwrite and service loans using more automation at a lower cost, they can increasingly supplement their existing 150-500 basis point funding advantage over non-banks in the marketplace.

The Solomon family owned nearly all of CBT and as of last year, invited Boston Omaha to own about 15% at a cost of just over \$19mm. We are extremely pleased to be in business with Gary, Martha, and their children, and we share their long-term approach to operating their bank.

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To sum up the discussion on our minority operating interests, we have invested \$29.4mm to obtain our current interests. These companies produced over \$2mm in pre-tax earnings in calendar 2018, primarily retained by the entities in which we invested. We believe a few of our investments' 2018 reported earnings are well below normalized levels and, more importantly, we believe that each of these businesses have both important advantages relative to their competitors and are run by able and aligned management.

## 2019

Our minority investments as a whole are around 10% of our total GAAP balance sheet assets but our share of their collective earnings power is far more material to Boston Omaha in our estimation of intrinsic value. These investments are in four private businesses: Logic Commercial Real Estate, Dream Finders Homes, Crescent Bank and Trust, and 24<sup>th</sup> Street Asset Management.

Here are our minority investments in operating businesses, showing capital invested in common equity, and our percentage of their pre-tax earnings in 2019:

<i>(\$ in millions)</i>	<b><u>Common equity capital invested to date</u></b>	<b><u>Look through % ownership</u></b>	<b><u>Our share of 2019 pre-tax earnings on a look through basis</u></b>
Logic Commercial Real Estate	\$0.36	30%	\$0.3

Dream Finders Homes	\$10.0	5%	\$1.9
CB&T Holding Corp	\$19.1	15%	\$0.7
24 <sup>th</sup> Street Asset Management	<u>\$0.05</u>	49%	<u>\$(0.0)</u>
<b>Total</b>	<b>\$29.5</b>		<b>\$2.9</b>

### **Logic Commercial Real Estate**

Logic Commercial Real Estate (“Logic”) reported approximately \$1.3mm in operating cash flow in calendar year 2019. Boston Omaha has owned its 30% interest in Logic since 2015 and has received \$0.6mm in distributions to date. In addition to our distributions, Logic has a capital value today that is likely materially more than our carrying value.

From a standing start in 2015, the commercial sales brokerage has been responsible for nearly \$1.5 billion of activity in over 1,000 transactions, the square feet under management has grown over 130% to 3.5mm square feet and capital markets has originated more than \$100mm in loans. Brendan Keating continues to impress us with his management abilities and his vision.

Commercial real estate services is a cyclical business and business has been good. We believe over time this business will continue to grow both in its current markets of Las Vegas and Reno, NV, and also into new markets.

Nonetheless, there will be down cycles in commercial real estate activity, and therefore it is not a straight line upward. We could be entering one as we type this letter. Given Logic’s management team and financial position, we would expect down cycles to be beneficial even if earnings were to decline, as the opportunity for them to push the peddle on growth, either organically or through acquisition, in talent and new markets, increases.

Logic generally distributes its free cash flow because its business does not take much retained capital to grow organically, and therefore we have received our share on a regular basis which Boston Omaha can then redeploy.

### **Dream Finders Homes**

Dream Finders Homes (“DFH”) reported earning over \$40mm pre-tax last year, of which Boston Omaha’s share is just under \$2mm. When we purchased shares in DFH at the end of 2017, our \$10mm investment was based upon a \$200mm valuation as long as DFH earned at least \$60mm in combined cumulative pre-tax earnings in 2018 and 2019. Otherwise we would receive additional shares valuing DFH at \$140mm.

This would have been a bet we were happy to “lose” and were it not for a couple of unexpected events out of DFH’s control, we are fairly confident that DFH would have met its target. But things happen and as it got closer to the end of 2019, it looked like it could have gone one way or the other. Rather than sitting down to fight over every penny, we decided this was an opportunity to show that we are good partners and agreed to split the valuation down the middle.

Therefore, we did get more shares as we agreed on a \$170mm valuation. Unlike Logic, DFH is more capital intensive and will continue to retain earnings. This means we do not obtain our share of cash flow for redeployment. DFH reported a 70% pre-tax return on equity in 2019.

While DFH relies on significant debt to finance its vertical construction, the company has generated its historical returns while maintaining a disciplined model of being a finished lot builder, rather than using capital to hold significant amounts of raw land. The current economic landscape could be tough for all builders, especially ones with too much debt or too much land or both. DFH and Boston Omaha will keep an eye out for opportunities should they appear.

We continue to carry our initial investment in DFH at the same \$10mm, but we do own more of the business now and therefore own more earnings power than we did previously. Over 5.5% to be exact.

This change will also mean we report DFH in our financials differently starting in 2020, using the equity method. Our share of earnings will now appear on our income statement. Regardless of the accounting, we will keep shareholders posted on operations each year in our annual letter.

In early 2020, we obtained the additional shares from our original investment in DFH and in 2019 we also invested an additional \$12mm into two series of 1 year 14% redeemable preferred to assist DFH in an acquisition. Subsequent to year-end, we were repaid \$6mm of the preferred series.

Confused yet? Here is a breakdown of the securities we own in DFH and their basic characteristics as of today.

<b><u>DFH Security</u></b>	<b><u>Purchased</u></b>	<b><u>Outstanding</u></b>	<b><u>Terms</u></b>
Common	\$10mm	\$10mm	Non-voting units, over 5.5% ownership
Convertible Preferred	\$12mm	\$6mm	14% interest year one, 17.5% interest year two, convertible to common under certain circumstances at our option

DFH sold over 2,000 homes last year, making them one of the larger private homebuilding companies in the country.

Pat Zalupski and the team he has assembled at DFH are continuing to build their business sticking to the discipline of investing capital primarily in the vertical construction of homes. If done in a disciplined manner over entire cycles, we believe it can lead to attractive returns on equity, and with less risk than would be assumed if equity or debt capital were deployed in large amounts to own land.

### **CB&T Holding Corporation**

CB&T Holding Corporation (“CBT”), which wholly owns Crescent Bank and Trust, earned around \$4.8mm in pre-tax income last year, of which Boston Omaha’s share is around

\$0.7mm on a look through basis. The bank continues to earn well below our calculation of its probable normalized earnings power, and it remains on our balance sheet at its cost of \$19mm.

In calendar year 2019, CBT's pre-tax return on assets equaled 0.5% and pre-tax return on equity equaled 4.6%. As we indicated in last year's letter, we anticipated subnormal returns for the bank as it continues to undertake significant investment in its systems and operations. These investments will be ongoing into 2020 to some degree and are designed to allow it to scale its loan volume, service loans more efficiently, and lower operating costs.

We are pleased with all the work being done by the team at CBT and believe they are positioning the bank to potentially achieve higher returns on assets and equity over time. Automation of their underwriting is producing higher quality, more profitable loans in a fraction of the time and cost. However, the team is being prudent as they roll this feature out, watching and studying the results carefully to make sure that the application of this newer technology in their platform meets expectations.

CBT continues to enjoy a significant structural advantage among other subprime auto loan providers in that it is a bank among many non-banks in the business. As laid out in last year's letter, CBT issues competitive yielding certificates of deposits to customers thereby funding their operations at a low cost. More importantly, a low cost materially below the interest expense incurred by its non-bank peers who use bank debt or rely on the unreliable securitization market. This can provide CBT with a competitive advantage.

We will not be immune from any loan issues that may arise in the near term given the economy but we believe CBT is as prepared as any competitor with access to capital to fund new loans and excess equity capital over and above its regulatory minimums.

We continue to be extremely happy being 15% partners with the Solomon family who control the ownership of CBT, as they have since 1991. We have told Gary Solomon that we would own more if given the chance as he continues to grow and scale the business over time.

## **24<sup>th</sup> Street Asset Management**

24<sup>th</sup> Street Asset Management ("24<sup>th</sup> Street") was organized in 2018 and we own just under 50% of its economics through a direct investment in 24<sup>th</sup> Street and our 30% ownership of Logic. Brendan Keating and his team own the other half.

24<sup>th</sup> Street makes loans and direct investments in commercial real estate. Long before Boston Omaha existed, Adam and Brendan managed partnerships together to invest in commercial real estate.

The opportunity we see at present revolves mostly around secured lending on commercial real estate, as funding for many participants appears to have come to a halt. We believe we can earn reasonably good returns for the risk taken in these shorter-term secured loans as we wait out the possibility of prices to actually buy and operate commercial real estate returning to attractive levels.

Boston Omaha shareholders benefit in two ways from 24<sup>th</sup> Street, first as a potential investor (we are investing \$3mm in the first fund that is now getting underway) and second, through owning half of the asset manager.

In our view, having an asset management business along with the full suite of commercial real estate services at Logic is a great combination. When commercial real estate is booming, the services business generally has a tailwind as it has had the past few years, and when times are tough, the asset management business has a growing opportunity set as we may see unfolding today.

### **Investments in Securities**

In 2019, another type of minority investment position entered our balance sheet in a more material way: publicly traded securities.

We analyze and make any investment decisions with a public security in the same manner as our private minority investments. We look for good management of a business we understand with a price we believe to be attractive.

However, there is a difference between the two as a public security has a market open between the hours of 9:30 am ET and 4 pm ET Monday through Friday where one can exchange their interest for cash or add to their interest, should they so desire. That option has value, even if its amount is vague and debatable.

Boston Omaha's investment policy in regard to common stocks limits us to large market cap, liquid securities. The publicly traded nature of these securities, though prices can and do change materially at times, provide an ability to move capital more easily between both the private and publicly traded options available to us.

During calendar 2019, Boston Omaha invested approximately \$35mm into these types of liquid public securities. Shareholders should not be surprised to see us putting additional amounts to work making general purchases of stocks or bonds for our account, as we have done so far this year.

What you should be surprised by is hearing us talk about what we bought and why, as we do not intend to review that in any more detail than we are required to in our filings. Doing so opens a Pandora's box of opinions from those that agree and disagree with our purchases. Regardless of how well intentioned all that advice may be, we prefer to leave the phone lines to HQ clear for calls on potential business opportunities.

We believe that adding the option of investing in liquid public securities for Boston Omaha has the potential to enhance shareholder returns over time if we apply the same disciplined approach that we do to our other investments. However, it will also add the potential for material volatility in our reported earnings as market price changes flow through our income statement quarterly. These short-term market price changes will often have little correlation to the underlying businesses operating results, which are what we follow with great interest. Long-term, security prices tend to converge with the underlying businesses results.

## **2020**

As our investment operations have evolved, we decided to consolidate them underneath another wholly-owned subsidiary, Boston Omaha Asset Management (BOAM). Here we hold

our interests in 24th Street Holding Co., Yellowstone Acquisition Company, and generally any investment funds where we are raising outside funds and managing third party capital. BOAM is small today, but we hope to increase its scope over time. Certain new investment opportunities may be uncovered where it may make more sense in a fund structure with limited partners investing alongside Boston Omaha, as opposed to Boston Omaha pursuing the idea with its limited balance sheet.

24th Street Holding Co. is the parent company of 24th Street Asset Management which has raised two funds to date in order to make loans and direct investments in commercial real estate. Boston Omaha owns just under half of 24th Street Holding Co. and has invested \$6mm in aggregate in the two funds. In this way, Boston Omaha shareholders participate in both the returns of the funds and the returns earned managing outside capital raised alongside ours.

We have talked often about our appreciation of working with owner operators and, from time to time, we are approached by entrepreneurs with terrific businesses looking for long-term capital that exceeds our investment ability because of its size.

Yellowstone Acquisition Company was formed exactly for that purpose.

In October, we raised \$136mm in an IPO for this special purpose acquisition company (often referred to as a SPAC) with the goal of creating a business combination with a company that would otherwise be too large for our typical minority investment.

Boston Omaha has invested approximately \$7.8mm through the purchase of shares of stock and warrants in Yellowstone. We have indicated an interest in the homebuilding, building materials, banking or commercial real estate industries, but we have also made it clear that we will look at anything as long as it is not in the billboard, surety insurance or broadband businesses, as those would compete directly with Boston Omaha, the sponsor.

If you would like to learn more about Yellowstone, or just appreciate some relaxing video loops of the National Park, please visit [www.yellowstoneac.com](http://www.yellowstoneac.com).

Compared to our other wholly-owned businesses, BOAM is at a fairly early stage so there is not much to report at this point, and certainly, though we believe there is large potential for BOAM, we would not ascribe much intrinsic value to the business today. That will have to be earned by achieving acceptable investment returns, and if that happens, we will aggregate those earnings and report them to you here, so you can follow our progress along with our other subsidiaries.

### **Minority Interests - Operating Businesses**

We of course prefer to own all of a great business, but when partnering with owner operators, often all that is available is a minority interest.

That is fine by us, because the businesses in which we hold minority stakes are truly fantastic operations run by managers with whom we are grateful to partner.

You can see in the chart below, our capital invested to date and share of earnings of each of these companies over the past year.

<i>(\$ in millions)</i>	<u>Common equity capital invested to date</u>	<u>Look through % ownership</u>	<u>Our share of 2020 pre-tax earnings on a look through basis</u>
Logic Commercial Real Estate	\$0.36	30%	\$0.4
CB&T Holding Corporation	\$19.1	15%	\$1.3
<b>Total</b>	<b>\$19.4</b>		<b>\$1.7</b>

### **Logic Commercial Real Estate**

Logic Commercial Real Estate (“Logic”) earned \$1.2mm pre-tax in 2020 and as far as Boston Omaha is concerned, is the gift that keeps on giving. We said it last year and will say it again, Logic continues to distribute earnings well in excess of our investment and we believe its intrinsic value is far higher than our carrying value.

Last year was a perfect example of why owning a piece of a full service commercial real estate business creates opportunities in every part of the cycle. Few cities were hit harder than Logic’s home of Las Vegas. For a city that thrives on tourism, McCarran Airport saw a 56% decrease in passenger traffic from the year before.<sup>27</sup>

The cyclical nature in real estate provides opportunities not only in our service business but when occupancies and rates temporarily decline, purchasing commercial real estate assets for investment, in a market we know exceedingly well, can become more attractive. During 2020, 24th Street Fund I fully deployed its capital and Fund II was formed and got right to work.

Brendan Keating has assembled an impressive team of professionals in Las Vegas and Reno and they continue to execute in all parts of the cycle. We expect to continue to work closely with Brendan on a number of real estate opportunities at BOAM.

### **CB&T Holding Corporation**

CB&T Holding Corporation (“CBT”), which wholly owns Crescent Bank and Trust, earned around \$8.9mm in pre-tax income last year, of which Boston Omaha’s share is around \$1.3mm on a look through basis. Though CBT still earns well below our calculation of its probable normalized earnings power, they made it through the last year with flying colors.

In a year that saw historic unemployment, CBT prepared itself by taking a massive reserve for anticipated losses. Those losses did not materialize anywhere near expected levels. CBT is primarily in the business of acquiring subprime auto loans and defaults on those loans relative to unemployment were low. Also low, were losses on vehicles when loans did default, due to the strong pricing in used vehicles.

Last year CBT earned a pre-tax return on equity of approximately 7% which has set it up with a current capital ratio of nearly 16%. That means it is primed to grow its auto loan portfolio

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<sup>27</sup> McCarran Airport served 22.2 million passengers in 2020, its first year-over-year decline since 2010 and a 56% decrease from 2019 when a record 51.5 million arrived or departed. - Travel Weekly, February 08, 2021.

substantially, and it has made the necessary investments over the past few years to do so successfully.

CBT continues to compete in an industry where it enjoys a significant structural advantage among other subprime auto loan businesses. Being a bank means that it can fund itself by using customer deposits, which generally carry a significantly lower interest cost than other forms of debt capital, and allows it to use capital more efficiently than its non-bank competitors. With a small market share in a big field, we believe it should be able to grow its balance sheet, and if it does so, achieve continued growth in returns.

Given its capital position and performance through the past year, we can confidently say we believe intrinsic value increased for CBT in 2020; however, we continue to hold our interest at its cost of \$19.1mm. We are happy to remain partners with Gary and Martha Solomon and pleased with their leadership of the bank through this tough time.

### **Investments in Securities**

Last year we discussed our philosophy on publicly traded securities and how we would not be discussing their details. Nothing has changed on either front, just as with all our investments, controlled or non-controlled, we look for good management of a business we understand with a price we believe to be attractive.

Below is the cost basis, market value or proceeds from sale of securities, and unrealized and realized gains/(losses) as they stand at the end of 2020.<sup>28</sup>

#### **Unrealized:**

<b><u>Cost</u></b>	<b><u>Market Value</u></b>	<b><u>Unrealized Gain/(Loss)</u></b>
\$57.9mm	\$52.6mm	\$(5.3)mm

#### **Realized:**

<b><u>Cost</u></b>	<b><u>Proceeds</u></b>	<b><u>Realized Gain/(Loss)</u></b>
\$36.6mm	\$41.9mm	\$5.3mm <sup>29</sup>

To date, we believe our investments in securities have been a successful value add endeavor for Boston Omaha as judged by returns on our capital over the time period in which the capital was used. The above realized statistics unfortunately do not provide a clear picture of actual IRR as we sold securities within a short-term time period. As a reminder, Boston Omaha has an investment policy for common stocks that limits us to large market cap, highly liquid securities.

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<sup>28</sup> Boston Omaha only, excluding securities held at UCS.

<sup>29</sup> Realized gains from sale of securities were all in 2020.

The values referenced above exclude our investment in Dream Finders Homes, with a cost basis for our shares of \$10 million from an investment at the end of 2017 and as of June 30<sup>th</sup>, were valued at approximately \$114mm. As Dream Finders Homes is publicly traded, we are required by SEC accounting rules to mark the value of this investment to its market price at the end of each quarter and to reflect any change in value on our income statements as gain or loss.

## 2021

Last year we stated, “Compared to our other wholly-owned businesses, BOAM is at a fairly early stage so there is not much to report at this point, and certainly, though we believe there is large potential for BOAM, we would not ascribe much intrinsic value to the business today. That will have to be earned by achieving acceptable investment returns, and if that happens, we will aggregate those earnings and report them to you here, so you can follow our progress along with our other subsidiaries.”

What a difference a year makes. As Boston Omaha Asset Management (“BOAM”) reorganized and continues to grow, we think it makes sense to walk shareholders through our assets and believe “acceptable investment returns” have been achieved to date. Given the economics of an asset management business, we believe growing this business is an excellent use of shareholder capital, as long as we continue to find good opportunities.

GAAP asset values as of December, 31, 2021:

<i>(\$ in millions)</i>	<b><u>2021</u></b>
Sky Harbour Group (formerly Yellowstone)	\$55.0
Dream Finders Homes	\$53.4
CB&T Holding Corporation	\$19.1
Logic Commercial Real Estate	\$0.7
24th Street Asset Management	\$6.0
Boston Omaha Build for Rent	\$7.2
Breezeway	\$0.1
<b>Total BOAM Assets</b>	<b>\$141.5</b>

To date, Boston Omaha has never offered a fund structure where investors could invest alongside the company. That changes now with Fund One : Boston Omaha Build for Rent (“BFR”).

For a number of reasons, certain ideas are better suited for a fund structure than a holding company. In the specific case of BFR, owning and operating residential homes for rent,

at scale, may best be structured as a Real Estate Investment Trust (“REIT”). As a result, there are REIT ownership requirements that influence our decision to fund this business with the combination of our own capital and that of outside investors.

As Boston Omaha raises outside capital to invest alongside our own, we have the potential to receive revenue in two ways. First, we have our actual capital investment in the idea and its performance over time. Second, if we make great returns for our partners, we earn a share of their profits for sourcing, managing, and operating the investment on their behalf.

The asset management business is nothing new to your Co-Chairmen as that was the business that gave us both our start.

Before we discuss BFR, let’s first review BOAM’s track record to date.

**Sky Harbour Group Corporation (NYSE: SKYH)**  
*Formerly Yellowstone Acquisition Company*

In January 2022, Yellowstone Acquisition Company combined with Sky Harbour Group Corporation (“SKYH”). Between the \$166mm in public activity bond financing (fixed low interest rates and long duration) SKYH was able to obtain in its 2021 offering, its current land leases, the finite nature of certain airport real estate, and what has been growing demand, we believe SKYH has a great opportunity to own advantaged infrastructure assets that produce for shareholders for decades to come.

Below is BOAM’s investment and recent market value. BOAM owns approximately 23% of SKYH with warrants equal to another 6% should we exercise them.

<i>(\$ in millions)</i>	<b><u>Class A Common Stock</u></b>	<b><u>Warrants</u></b>
# of Shares/Warrants Owned	13,118,474	7,719,779
Cost Basis	\$100.0	\$7.7
Market Value as of 4.22.22	\$105.1	\$5.8

Our stock and warrant holdings in SKYH have been volatile to say the least since the deal closed on January 25, 2022. We look deeper than the market prices to determine value and we believe our cost basis in SKYH has the potential to provide acceptable returns as the business expands to new airfields.

**Dream Finders Homes (NASDAQ: DFH)**

We have spoken extensively about the multiple investments made in Dream Finders Homes (“DFH”) since the inception of Boston Omaha. BOAM has provided everything from preferred equity capital to common equity capital to acquisition debt financing to assist DFH in its impressive growth over the years. Below are our holdings of DFH common equity as of December 31, 2021, our only investment at present.

<i>(\$ in millions)</i>	<b><u>Class A Common Stock</u></b>
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# of Shares Owned	2,748,037
Cost Basis	\$5.9
Market Value as of 12.31.21	\$53.4
Realized Gains through 12.31.21	\$30.8

BOAM made the above common equity investment, \$10mm initially, back in December 2017. As of December 31, 2021, we had unrealized and realized gains totaling more than \$78mm. Not too shabby.

We mark our DFH stock position to market each quarter and therefore it is held at its public market value on our balance sheet.

Below are the other historical investments we have made in DFH.

<i>(\$ in millions)</i>	<b><u>Preferred Equity</u></b>	<b><u>Term Loan</u></b>	<b><u>Other</u></b>	<b><u>Total</u></b>
Invested Capital	\$12.0	\$20.0	\$0.5	\$32.5
Realized Proceeds	\$13.5	\$21.3	\$0.8	\$35.6
Time Weighted IRR	15%	22%	13%	17%

### **CB&T Holding Corporation**

CB&T Holding Corporation (“CBT”), which wholly owns Crescent Bank and Trust, earned around \$44mm in pre-tax income last year, of which Boston Omaha’s share is around \$6.5mm on a look-through basis. We purchased 15% of CBT in May of 2018 at a cost of \$19.1mm, and that cost basis is now equal to 83% of the bank's year-end book value per share.

Calendar 2021 was an abnormally good year for CBT as it earned a pre-tax return on equity capital of 29%. To further the point, the bank achieved that return while holding substantial excess equity capital of more than \$50mm which sat idle earning close to a 0% rate of return.

To date, CBT has retained all earnings since we invested in May 2018, a decision we prefer. Retaining capital at CBT will allow it to eventually grow its loan book substantially when market conditions warrant, and the more the loan book grows the more the bank’s operational expenses scale, only bolstering further its existing cost advantage in deposit capital funding (as contrasted to other finance companies which pay higher interest rates on borrowed funds than CBT pays its depositors). In effect, the bank’s advantage grows as the size of its loan book grows.

The low losses in auto loans in 2021, due in part to the demand for used cars, will not last, but in our judgment, we believe CBT has the ability to earn over time returns on equity capital of 15-20%; assuming the bank maintains its competitive advantages and makes intelligent credit decisions. We have discussed these in detail in past letters.

As a result, shareholders can calculate their own view of what our return on investment has been with CBT, using their own judgment of what return on equity capital can be achieved and also what multiple of book that return is worth to arrive at intrinsic value. All earnings have been retained to date, so our return is the difference between today's intrinsic value and our cost basis of \$19.1mm over a 4 year period. In our opinion, our investment in CBT has increased in value substantially yet remains held on our balance sheet at cost.

## **Logic Commercial Real Estate**

Logic Commercial Real Estate (“Logic”) earned \$2.4mm pre-tax in 2021. To date, our share of pre-tax earnings since the original investment of \$360k spread out between 2015-2017 has been a cumulative \$1.8mm. We say it annually, but Logic continues to distribute earnings well in excess of our investment, and besides the cash returns we also believe its intrinsic value is far higher than our carrying value.

Brendan Keating has assembled an impressive team of professionals and leaders in both Las Vegas and Reno, and as of last year, he is now spending substantial time helping us build out BOAM. An outcome we both enjoy and look forward to for many decades into the future.

## **24th Street Asset Management**

24th Street Asset Management is our commercial real estate investment management company headed by Brendan and Adam, which manages two real estate funds. BOAM owns approximately 50% of the management company and is also an investor in each fund.

First, let’s look at our investment in the funds. In 2020 we invested a total of \$6mm of cash between the two commercial real estate funds and as of year-end 2021, we have received approximately \$300k in distributions and our capital investment is worth approximately \$8mm based on appraised values we believe may be conservative. Adding it all up, our return on capital has been approximately 38% on a gross basis.

Second, there is BOAM’s roughly 50% interest in the management company. Here we invested \$48K and again using year-end 2021 appraised values, we have earned distributions since inception of \$304k and have an estimated carried interest value of our 50% of \$1mm. In reality, we believe that carried interest estimate is very conservative. There is of course risk that the carried interest value changes based on market conditions and commercial real estate values before it is actually earned, however, we hope this illustrates the economics for shareholders that have encouraged our plans to expand in the asset management business.

In aggregate, we believe the returns to date have been quite attractive since we made the investment in the management company in 2018 and the funds in 2020.

## **Breezeway**

The seeds of our investments are often planted in business relationships existing well before Boston Omaha. After founding and then selling an online vacation rental company in 2012, Jeremiah Gall started Breezeway as a software company for property managers of the same clients he served in his first business. Jeremy saw the opportunity to streamline and automate the workflow of maintenance, cleaning, inventory and guest interactions to drastically improve the property experience.

Breezeway has since executed to take an estimated 10% of the market share for vacation rental property managers with over 50 units in the U.S. and they continue to expand into several adjacent verticals. Today, nearly 100,000 properties around the world are using Breezeway and that number is growing quickly.

Boston Omaha first invested in Breezeway in 2016 through General Indemnity Group and in return received a first look at writing any future insurance products they may offer clients. A relatively small investment of \$100,000 is now valued at nearly twice that amount, and Breezeway is working together with us to develop a first-of-its-kind property operations software for our build for rent business.

We believe this collaboration can bring meaningful operating cost reductions and an increase in customer satisfaction and retention, while helping us scale our business.

### **Investments in Securities (excludes SKYH and DFH)**

Our philosophy on publicly traded securities is the same as all of our investments. We look for good management, a business we understand, with attractive economics and available at a price we believe will provide an acceptable return relative to our other options generally available to us at the time.

Below is our aggregate performance in publicly traded common stocks. Many securities were held for short periods during the volatile times around the pandemic. We also must adhere to the 40 Act, which in several cases altered some investment choices we would have made.

<i>(\$ in millions)</i>	<b><u>Marketable Securities</u></b>
Invested Capital	\$94.5
Realized Proceeds (incl. dividends)	\$111.5
Time Weighted IRR (dividends plus capital gains)	19%

### **Fund One : Boston Omaha Build for Rent**

Fund One: Boston Omaha Build for Rent, is our newest venture and the first managed entirely by BOAM, seeded by our capital, where we hope to invite like-minded individuals to invest alongside us.

To date, we have invested approximately \$7mm to purchase parcels of land located in both Las Vegas and Reno, NV where we plan to build around 100 new homes for rent. We have no plans to sell any of the homes in the short-term. These are long term investments which we believe are financeable with the ability to generate free cash flow.

Each neighborhood will enjoy several amenities, including, but not limited to, smart home technologies enabled by high-speed fiber internet (built by our subsidiary Fiber Fast Homes), text-based property management services (built by Breezeway), and desirable locations adjacent to schools and recreational activities. Approximately 80% of our current backlog is slated for Reno, which is enjoying tremendous population and job growth while a short ride from Lake Tahoe.

The single family home rental market has been a popular area to invest capital for the past several years. However, not all single family home rental operations are the same. We like the asset when it is new, purpose-built rental neighborhoods as opposed to buying older homes on a scattered basis.

Of course the dominant economic reason for our interest is we believe we can source well located land, and through efficient property management and increasingly vertically integrated construction and operations management, we believe our all-in per unit cost should be materially lower than the cost to purchase an equivalent home in the same market. If we are correct, this will allow for attractive rent economics and a potential cost advantage relative to our competitors.

Other efficiencies also present themselves when homes are built for rent, for example, maintenance costs should be reduced as we source and bulk-buy every component, which is not true for many competing single family home rental companies managing acquired units that are on average a few decades old.

Even though significant capital has chased areas of the rental market, it should be clear that the build for rent industry is still in its early stages, at least in the United States. Of the approximately one million single family homes completed last year<sup>30</sup>, it is estimated that less than seven thousand were built for rent. Even with that number estimated to double this year, build for rent would still represent less than 2% of homes completed.<sup>31</sup>

We will remain patient and keep a very close eye on planned competing supply in our markets. Land costs have increased materially in the past couple of years, as have construction costs, the latter we believe may eventually correct to some degree. Nonetheless, our long-term funding base and unwillingness to build simply because we have the capital, may lead to opportunities from more leveraged competitors giving us the chance to grow both organically but also via acquisition at good prices.

BOAM is beginning the process of putting our current build for rent assets in a fund structure, and following the example of 24th Street, looking to bring in outside partners to invest alongside us in this venture. BOAM will commit to being at least a 10% investor in the fund, but

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<sup>30</sup> St. Louis Federal Reserve New Privately-Owned Housing Units Completed: Single-Family Units, not seasonally adjusted totaled 969,600 for 2021.

<sup>31</sup> RentCafe.com and Yardi data of 6,740 in 2021 and estimated 13,910 in 2022.

<https://www.rentcafe.com/blog/rental-market/market-snapshots/built-to-rent-single-family-homes-double-in-2022/>

is limited both due to our finite capital base but also because our longer term goal is to spin-off the build for rent operation as a REIT once scale has been achieved.

REIT structures have strict ownership limitations, but they also serve as a potentially tax advantaged way to get cash flow from our build for rent assets efficiently into the pockets of owners. This will take time, however, to reach scale sufficient to where a REIT structure makes sense.

If you have an interest in joining us in our build for rent investment, you can learn more at [www.bostonomahaam.com](http://www.bostonomahaam.com). Boston Omaha was capitalized initially by two partnerships, then many of the individual partners in those partnerships. In Fund One : Boston Omaha Build for Rent, we have come full circle working again with like-minded partners to capitalize a business we believe has the potential to generate acceptable returns for its investors and for BOAM as the general partner.

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The aforementioned BOAM investments have propelled the intrinsic value of Boston Omaha to a material degree over the past 7 years, doing the heavy lifting that allowed for outsized returns for shareholders while our operating businesses were being built and scaled.

Looking forward, we continue to believe BOAM will be of immense value as we opportunistically find ways to put capital to use, and at the same time, we should now enjoy increasingly scaled operating results at Boston Omaha from our billboard, broadband and bond businesses. In other words, we now have a better performing ground game to go along with our passing game sizzle.

Comparing results to date between our operating and investment businesses could trigger a shareholder to question if we should have allocated more capital into investments from the get go?

The answer for both of us is a resounding NO. Like a good combination of ground and passing game, we believe that operating and investing in businesses provides a balance of risk and reward that benefits the whole.

# BROADBAND

2019

## Fiber Operations at AireBeam

*“This Internet Thing is Apparently Going to be a Big Deal”*

– Adam circa 2019

In 2004, AireBeam was born south of Phoenix and today provides broadband internet services to over 7,000 customers in southern Arizona. Most of the current network is fixed wireless, meaning that AireBeam broadcasts from towers to receivers on homes. This works well in a geography where there aren't many trees or other structures blocking those signals.

Of particular interest to us, AireBeam has been spending its free cash flow laying fiber optic cable to homes in its existing network. It's natural that you may wonder *“why we would be interested in fiber?”* Glad you asked.

We think fiber to the home has the potential to be an attractive business because it has a stable revenue, tax advantaged cash flow, anticipated growth in demand for the foreseeable future, and low ongoing costs to maintain the long-life of the network.

Like many businesses, there is a long road to hoe from attributes that look good on paper to achieving real financial returns. Much of the latter depends on a strategy, market selection, and execution that leads to enough customers on your network long-term to justify the financial cost of laying the fiber.

There are a certain number of “pipes” going into and out of homes carrying various essentials such as water, electricity, gas, sewage and data. Of those essentials, data is the most likely to grow orders of magnitude larger five, ten and twenty years from now. Glass in fiber optic cable comprises the one pipe that can support massive increases in volume throughput without the corresponding capital needed to expand its current physical pipe size.

And greater capacity is needed. Data usage has recently been growing over 30% per annum.<sup>32</sup> Hopefully your sewage needs are not.

Furthermore, there has been a pronounced observable relationship between higher capacity networks and consumption to date. Provide users more capacity and their usage has increased.

When we learned about AireBeam's current assets, their strategy and particulars of their markets, we dropped everything and boarded a plane to Phoenix. What we found was a business

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<sup>32</sup> OpenVault Broadband Industry Report 4Q 2019 the median monthly weighted average usage was 190.7 GB, up nearly 32% from 4Q18's 144.8 GB.

earning attractive returns on its existing assets and a runway that with additional capital looked scalable.

In our opinion, AireBeam's operations and targeted markets combine a host of variables to create a local competitive advantage. However, the single most attractive attribute going forward may be the discipline to target areas where laying new fiber provides customers with a *significantly* better product as opposed to just a better product, leading to high take rates on the built network.

What is a significantly better product? The answer is a product that can provide a lot more capacity. Fiber to the home can offer far better speeds than copper-based lines.

Returning to the earlier pipe analogy, one way to compare the data delivery capacity between copper and fiber, if copper were a two-inch-wide pipe, fiber would be a river fifteen miles across.<sup>33</sup> AireBeam prospects and builds internet connectivity currently in areas where largely the only option is digital subscriber lines (DSL), the version of copper used most often by traditional telephone companies.

Cable companies also use copper in coaxial cable lines; however, this particular technology can deliver more bandwidth than phone lines. Coaxial's data capacity remains far below the capacity of fiber, but with bundled services such as television and phone, cable companies at present offer a more competitive product and therefore a higher hurdle for customer acquisition.

We prefer lower hurdles and appreciated AireBeam's focus on finding markets where they can be the first truly high-speed network in town.

Like buying billboards, building fiber networks requires investing large amounts of capital upfront. And like billboards, fiber assets generally last longer than the timeframe in which they are required to be depreciated on our income statement. If we are right about that timeframe, the depreciation expense we will incur annually exceeds, by some margin, the actual amount of capital expenditures necessary in the medium term to keep those assets producing growing cash flow.

In the short term, our book value could take a hit from those non-cash amortization and depreciation charges, even though the underlying intrinsic value is growing.

We have entered the fiber to the home business without the use of leverage. Again, similar to billboards, fiber assets lend themselves at scale to benefit from the reasonable use of leverage, and if it makes sense in the future to add some debt, we will do it. Of course, expect that if we use debt, it will likely be in lesser amounts than our peers and never with recourse to the parent company.

The fiber business, and AireBeam in particular, is a great fit for Boston Omaha. It takes significant capital upfront, the skills of experienced engineers and broadband entrepreneurs to execute the business plan and should benefit from a forever-home with no sell by date.

As we continue to look for opportunities to grow our fiber footprint in a disciplined manner, and as we harvest the anticipated cash flow from the existing network, shareholders

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<sup>33</sup> Fiber: The Coming Tech Revolution - And Why America Might Miss It, by Susan Crawford

can track our progress as we report homes passed, subscribers, ARPU (average revenue per user), and total capital expenditures.

## 2020

Continuing to flex our creative naming muscles, we came up with “Fiber is Fast” for the name of our broadband holding company. Why “Fiber is Fast” you ask?

Well, because it is.

When we started Boston Omaha, one CEO lived in Boston and the other lived in, (you guessed it), Omaha.

You are probably thinking to yourself, “If there were Oscars given out for creative company names, surely you would receive a nomination.”

Thanks for that thought. *And don't call me Shirley.*<sup>34</sup>

To be clear, Fiber is Fast (FIF) is not our fiber brand, but rather the vessel in which we hold our majority interests in two broadband internet businesses: AireBeam and Utah Broadband.

Steve McGhie founded Utah Broadband (UBB) in Salt Lake City 19 years ago, and today it serves nearly 11,000 customers with high-speed internet throughout the front and back of the Wasatch Range. In addition to humbly describing himself as an accomplished golfer, tournament level bass and fly fisherman and dedicated family man, Steve is an entrepreneur at heart, and got his start setting up wireless antennas on his neighbor's roof to provide better internet access to his friends.

UBB, like AireBeam, approached the problem of providing rural internet by first building a fixed wireless network of customers. From here, advances in radio technology and bandwidth throughput allowed the high-speed data network to offer a competitive solution to rural areas of the country that had traditionally been served by copper phone lines and older coaxial cable providers.

And like AireBeam, UBB was excited to find a long-term partner for the heavy capital investment of building fiber to the home in their existing footprint and beyond.

The approach of both companies is interesting because existing wireless customers in a neighborhood are a great jumping off point for a fiber network build. Where it would be impractical to install additional radios in certain areas, passing your own customers' homes with fiber allows you to pass other homes as well, picking up additional customers that appreciate having the best quality internet service possible.

The global pandemic highlighted, more than ever before, the importance of having a dependable and fast home internet connection. In addition, before 2020, the relevance of symmetrical speeds was perhaps not appreciated significantly.

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<sup>34</sup> Leslie Nielsen, *Airplane!* (1980)

Cable and telephone internet services are optimized to push data *downstream* to their customers and not so much for data that the customers push *upstream* back to the internet. For the past thirty years or so, that made sense because cable and broadcast television consumed the majority of the bandwidth and that is more of a one way direction.

Consumers now appreciate the amount of data that is produced and pushed back upstream over their home internet connections. The best example is video conferencing, something that, out of necessity, became the way much of the world communicated during this challenging time.

But it doesn't stop there. All kinds of devices from game consoles to fitness monitors to our smartphones are loading data up to the cloud in a constant stream of two-way communication from each house.

When it comes to broadband internet, we believe there isn't a better product than fiber. Copper speeds top out around 1 Gbps and various cable modems can get up to 10Gbps. Remember, these speeds may sound fast compared to what is sold, that is because they have to be shared among a number of users across a network, and in every case, the upload speeds are far less than the download speeds.

Fiber can transmit around the same amount of data that can be transmitted over copper, *per wavelength of light* and with the tremendous number of wavelengths of light traveling both ways along a single strand of fiber, the resulting data throughput can be more than 100 times what is available on the fastest cable network. In addition, fiber carries that amount of data symmetrically up and downstream.

Another important development has helped adoption of data only internet plans, namely, the advent of over-the-top video content offerings: Netflix, Disney+, Hulu, Amazon Prime, HBO Max, and many more that have made their way to market.

Add this, along with the growth of internet connected TVs, which in the last quarter of 2020 topped out at more than 100 million sold worldwide for the first time, and the result is that subscriptions to the traditional triple play of video, internet and telephone offerings are falling across the industry while data only plans are growing.

We view the opportunity to lay fiber to the home much like the opportunity to electrify homes nearly a hundred years ago. And we are not alone in this perspective, our competitors see the opportunity too, so there is no time to waste in putting fiber in the ground and on the pole to reach as many customers as possible for that last mile.

It is estimated that broadband providers will spend in excess of \$60 billion over the next five years building fiber to the home across this country<sup>35</sup>, and we plan to do our part in our markets from Arizona up through Utah and beyond.

In addition to our markets out west, we have begun working on some greenfield projects with our friends at Dream Finders Homes to pioneer a partnership where we build fiber to their new home builds.

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<sup>35</sup> RVA Market Research and Consulting, March 10, 2021

Here again, the naming committee convened a special meeting and came up with “Dream Fiber Homes brought to you by Fiber Fast Homes.” Fiber Fast Homes is the name of our fiber to the home business that works with homebuilders.

We believe this is a win for both parties as new homeowners are often surprised to discover that they have to call a cable company to come and hook their home up to the network after it has been built.

In our homes, the customers walk in day one to a house of the future, fully installed with the most dependable and affordable high-speed broadband that can easily scale up to meet their needs. If you are looking to buy a fully connected home of your dreams, visit [www.dreamfiberhomes.com](http://www.dreamfiberhomes.com) today and experience why people in the know say *fiber is fast!*

To date we have spent roughly \$46mm for both acquisitions and additional capital expenditures to build fiber to homes, and we have, at present, roughly 18,000 high speed data (HSD) customers. Including the minority non-controlling interests in both companies, that comes to around \$2,500 per HSD customer. Our blended average revenue per user (ARPU) is just under \$70 per month. With gross margins over 85%, that’s a 30% yield before operating overhead, depreciation and other non-cash expenses.

Of course, that operating overhead is significant and at this stage, so are our capital expenditures, but we believe these economics are attractive and, more importantly, further deployment of fiber and expansion are in our control, rather than dependent on additional acquisitions.

That is not to say that we will not consider acquisitions if they meet our criteria, but we look through the lens of buy vs build when considering our growth opportunities.

As we said in last year’s letter, we believe the fiber to the home business is a great fit for Boston Omaha. It takes significant capital upfront, the skills of experienced engineers and broadband entrepreneurs to execute the business plan and should benefit from a forever-home with no sell by date. It is also a business we can understand, as it provides a valuable benefit to customers at a competitive price and a service for which we believe demand will continue to increase for years to come.

In our assessment, the intrinsic value of Fiber is Fast grew significantly over the past year with the addition of Utah Broadband, investments into AireBeam and the launch of Dream Fiber Homes. In addition, the runway of planned organic fiber builds within all three segments is robust and we believe each dollar put into passing homes with fiber at a certain cost base, adds materially to intrinsic value. We are excited about the opportunities in front of all of these businesses and expect them all to consume increasing amounts of Boston Omaha capital in the coming years as they each add HSD customers to their services.

## 2021

Fiber is Fast (“FIF”) is not our fiber brand, but rather the vessel in which we hold our majority interests in four broadband internet businesses: Utah Broadband, AireBeam, Fiber Fast Homes (“FFH”), and now InfoWest.

Near the end of 2021, we consolidated all of our broadband businesses under the managerial control of Steve McGhie. Steve is not only a competent operator, he also has a keen eye for attractive acquisitions.

In early April of 2022, we announced the acquisition of InfoWest, which more than doubled our subscriber base, revenue, and expected cash flow in our broadband business, which is now quickly catching up in size to our billboard operation.

InfoWest is a perfect example of the advantages of obtaining some scale, as we've been able to leverage the experience and network of our team. Steve knew the owners and operators of InfoWest for some time, and it was he who sourced, negotiated, diligenced and ultimately executed the acquisition.

Shareholders can think about our broadband business as one cohesive enterprise, where capital can be deployed into projects ranging from small communities in Arizona, to mountain towns of Utah, to entirely new neighborhoods in Florida. Each project brought to Steve's attention is reviewed and capital allocation plans for the year are made according to long term return expectations.

Below is a breakdown of some general business statistics from calendar 2021 and 2020 (our first year of operations and following the consummation of an acquisition in late December 2020) on FIF (excludes FFH and the newly acquired InfoWest).

<i>(\$ in millions)</i>	<b><u>2021</u></b>	<b><u>2020</u></b>
Revenue	\$15.2	\$3.8
EBITDA	\$4.6	\$1.0
Subscribers	18.2k	17.7k

With InfoWest, we have added approximately 20,000 new high speed data subscribers to the business. Our most recent acquisition also comes with significant investments in conduit in new neighborhoods and a fiber ring around growing areas of new home builds. These last two assets generate little revenue today but provide a foundation for more rapid growth in fiber subscribers in the future.

Importantly, InfoWest comes with an experienced, first-rate management team that is already working with Steve on several additional fiber growth opportunities, materially expanding FIF's managerial bandwidth.

Boston Omaha continues to deploy capital into fiber builds in new neighborhoods where the houses are yet to be built via our FFH subsidiary. We exclude these costs from the cash flow table above to show the core profitability of current operations, as these investments at FFH are nascent and have a different customer acquisition process. When we make an investment at FFH, our future homes passed go up considerably but it will take time for homes to be built and sold, deferring revenue generating capability.

We believe these investments are good uses of capital in the long run, and unlike billboards, opportunities for deploying additional capital are less dependent on assets for sale,

as we have plentiful opportunities to build last mile fiber to the home in our existing markets. The past year, our broadband business witnessed a transformative increase in intrinsic value.