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Tucows Inc. (TCX)
Q1 2017 Results Conference Call
May 00, 2017 05:00 PM ET

Executives

Elliot Noss - Chief Executive Officer
Dave Singh - Chief Financial Officer
David Woroch - EVP, Domains

Analysts

Hubert Mak - Cormark Securities
Patrick Retzer - Retzer Capital
Ralph Garcia - Echelon Wealth Partners

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to Tucows First Quarter 2017 Conference Call.

Earlier today, Tucows issued a news release reporting its financial results for the first quarter. That news release and the financial statements are available on the company's website at tucows.com, under the Investors heading.

Please note that today's call is being broadcast live over the Internet and will be archived for replay, both by telephone and via the Internet, beginning approximately one hour following the completion of this call. Details on how to access the replays are available in today's news release.

Before we begin, let me remind you that matters the company will be discussing include forward-looking statements and as such are subject to risks and uncertainties that could cause the actual results to differ materially. These risk factors are described in detail in the company's documents filed with the SEC, specifically the most recent reports on the Form 10-K and Form

10-Q. The company urges you to read its security filings for a full description of the risk factors applicable for its business.

I would now like to turn the call over to Tucows President and Chief Executive Officer, Mr. Elliot Noss. Please go ahead, Mr. Noss.

Elliot Noss

Thank you, operator. And thanks, everyone, for joining us today.

Let us start today by noting that for the first time, we will have Dave Singh as our Chief Financial Officer. And I want to take the opportunity in this forum to thank Mike Cooperman for his 18 years of long service. Mike is still with us and I know that you investors will join me in thanking him. And let's all be gentle with Dave. Thanks. For our call today, I'll begin with an overview of the financial operational highlights for the first quarter.

Dave will then provide a detailed review of our financial results. And I'll return with some closing thoughts before we open things up for questions. This will be the first quarter that includes the Enom business in our results. I will pull out or highlight those results where it is helpful.

The first quarter saw strong results in all business units. Revenue for Q1 grew 56% (sic) [55%] year-over-year to $69.6 million. Without Enom, revenue grew 11%, driven by organic growth in Ting Mobile and strong organic growth in OpenSRS, which is not something I've opened with in a long time.

Net income for the first quarter of 2017 decreased to $2.4 million or $0.23 a share from $4.4 million or $0.42 per share for the first quarter of 2016. Adjusted EBITDA for the first quarter of 2017 decreased to $6.2 million from $7.3 million for the first quarter of 2016. When I spoke with you after the Enom announcement, and again for the Q4 call, I noted that the accounting for both Enom and RingPlus would make Q1 tough to read. I noted that in relation to the Enom acquisition, there would be a deferred revenue impact of roughly $8 million in 2017. We have worked through the details and that number is pretty close to what we expected. The largest impact is in this quarter.

The impact of the accounting treatment of deferred revenue impacted adjusted EBITDA by roughly $4.8 million this quarter. We note, that this impact is on adjusted EBITDA as we used it prior to May 2016. In addition, there were about $400,000 in deal costs this quarter. I will begin our review of the various businesses with domains, as the Enom acquisition activity has such a large impact on the numbers.

Again, on January 20, Tucows acquired Enom, a wholesale domain name registrar from the Rightside Group for a purchase price of $83.5 million. The Enom business adds approximately $15 million in gross margin, less additional direct costs, which we hope to expand to $20 million over the next couple of years through additional synergies.

In total, we are now managing 24 million domains under the Tucows and Enom accreditations and another 5.5 million domains on behalf of other registrars. I will remind you that this transaction was overwhelmingly about generating scale and realizing efficiencies, primarily in platform efficiencies and licensed software. Based on trends over the last few years, the Enom customer base will likely negatively impact profit margin, gross margin growth and renewal rates.

We expect cost savings from integration to be mostly four to eight quarters out. We will continue to operate Enom and OpenSRS as distinct reseller brands and see the businesses as complementary and affording us the benefit of increased market coverage. We have started to integrate the teams from Seattle and Toronto and continue to be pleased, even in these first few months, with the skills and knowledge that the Enom team brings to the entire organization.

For this combined wholesale unit, total registrations were $4.5 million in the quarter with approximately half coming from Enom and the Melbourne IT domains acquired in April 2016. For the legacy OpenSRS business, or the resellers prior to the two acquisitions, we had our strongest quarter in a while, with total registrations growing 10% year over year. The combined renewal rate declined to 74% in the quarter, still well above the industry average, but deflated a bit by the Enom domains, which renew at a lower rate.

On the retail side, the business has effectively doubled with the addition of the Enom retail customers. Again, we acquired a mature retail business and customer base with slightly negative growth characteristics. While the Hover business continues to grow, combining the Hover and Enom customers into a larger single retail business will significantly suppress that growth as we look ahead to 2018.

In Q1, that combined retail business represented 400,000 transactions, over 350,000 customers and an 81% renewal rate. Again, for both wholesale and retail, I will report on the aggregated businesses going forward. I will only pull out particular metrics or stories on particular brands, if they meaningfully impacted the results or signal some new strategic direction or contain some other important piece of information.

Ting Mobile had a solid quarter of organic growth. We added 5,500 accounts and 12,000 devices outside of the RingPlus deal that I mentioned in the last call. It was our best quarter for net adds in four quarters; our best quarter for gross adds in six quarters; and our most gross adds ever in a Q1. It was also the third straight quarter of increasing growth.

Churn on Ting Mobile has been a pleasant surprise ever since we reduced data prices in December of 2016. Again, without RingPlus, which will complicate churn numbers for a while, churn was 2.27% in Q1, down from 2.4% in Q1, 2016. It is encouraging that more customers are coming to Ting and fewer customers are leaving us, as the incumbents have started pushing their unlimited data plans.

It also comes right before Comcast announced that it would be entering into the mobile space. And we received details of that announcement.

These are obviously significant threats, but we just keep hearing two things from Ting customers and prospects. First, Ting customers and hopefully millions like them, do not need unlimited data; and second, they're thrilled to spend even less than these unlimited plans cost. And in addition, customer experience matters. Customer experience and customer relationships continue to be our greatest advantages over the mobile carriers. And Comcast's entry into the category should hardly change that. It is also encouraging that most of the lifts we saw in adds versus previous quarters, came through attributable sources. In other words, things we have done and things we can track. We like that because it means we can potentially do more of these things.

We had a range of small wins in digital marketing programs such as Google AdWords, acquisition e-mail, retargeting, Facebook advertising and affiliate marketing programs with a handful of strategic partners. We also funneled leads more aggressively to our phone sales team and saw increased conversions there. On all of these, we are testing and optimizing to discover just how much we can scale within our desired cost per acquisition.

I mentioned last quarter, that we would be engaging in the next round of testing for the infomercial. We did that in April and are still picking through the prospects and performance now. It is not quite a winner that we are ready to scale or a loser that we are ready to give up on. We are mostly focused on conversion, and we'll keep searching for incremental improvements. There were things that were improved and things that still need to be improved. Work continues.

On top of our organic growth in Ting Mobile, there was RingPlus. As a reminder, RingPlus was a Sprint MVNO that was shutting down in Q1. We came to an agreement with RingPlus and Sprint to migrate all their customers to our platform. I will also remind you that these are among the most frugal and transient customers in the industry and that a significant majority of them were paying nothing for service at RingPlus. However, we were very willing to invest introductory service credits and a lot of hard work in customer service and across the business in order to find the valuable customers within that base.

We migrated over 45,000 RingPlus accounts, 22,000 of which accepted our terms of service, gave us a valid credit card and set up an account. Of those, about 3,500 departed even before the end of the quarter. So combining the organic growth and the RingPlus customers, Ting Mobile added 24,000 accounts and 35,000 devices in Q1 to bring our total to 175,000 accounts and 280,000 devices. I will add, through last week, just over 14,000 of those RingPlus accounts are still active. And of those 14,000, about 8,500 have used their credits and have now paid some portion of a bill out of their own pockets.

I also note that we have nearly broken even already on these customers, between the revenue we have collected from them and the cost of goods that we have paid to the carriers. Of course, we hope we have added a significant number of accounts that will behave like typical Ting accounts in monthly margin and churn going forward. But at the very least, we are pleased that we will likely have a positive return on the investment. And I would like to note that when looking at Q2 net adds, the continued churn from RingPlus customers will have an impact.

Finally, I would like to announce that after 5 years of trying to get them to return our phone calls, Ting has signed its own carrier deal with Apple. First, this is a remarkable testament to our brand

reputation and our business success. It gives us something that only network operators and a very small handful of MVNOs have. More importantly, it delivers tremendous benefits for our customers. Ting will now offer the iPhone with a Ting SIM right in the box, rather than sending folks elsewhere to try to find the appropriate model. Ting will always have the latest iPhone, the moment it is available for preorder. Ting will now offer AppleCare+ service and 24-month financing on all new phone models. Ting will now procure certified used iPhones directly from Apple. Ting will also get the Apple carrier bundles on all iOS devices, which includes visual voice mail and WiFi Calling. This deal will give our customers better phones, better purchase terms and protection for those phones, and better experiences activating and using those phones.

We will roll this out in the Ting shop and on Ting devices within the next few days.

In many ways, it feels like Ting Mobile has truly arrived. Our carriers send us acquisition prospects, Apple likes us, and customers increasingly turn to us as a credible, sustainable alternative to major carrier plans and major carrier experiences. Most importantly, net adds are trending up through improvement in both gross adds and churn. Meanwhile, Ting Internet continues its progress. In Charlottesville, we continue to see growing adoption in serviceable neighborhoods and we continue to expand our network to neighborhoods where preorders are waiting. We find now that we need less to explain who Ting is and what gigabit and fiber are and more to overcome hurdles and objections.

We are also just now lighting up our third apartment building of over 200 tenants. I remind you that most fiber businesses start with enterprise, anchor tenants, MDUs and greenfield builds. We have started with true fiber to the home and then work our way up to the more profitable opportunities. To that end, we've hired leadership for an enterprise sales team to work across all our Ting towns. They'll be working closely with our product, support, network and operations teams, to develop a high-end feature set, account management capabilities, and a Service Level Agreement that puts us in a position to support large businesses, hospitals, college campuses, schools, government buildings, and more.

Q1 saw the beginning of increased activations in Westminster, where the town has expanded its network. And Holly Springs, where we are aggressively building out our [roam].

The experience and people that we have acquired in Charlottesville have been crucial to helping these towns start to ramp. But each town requires some of its unique, own unique efforts on staffing, government relations, public relations and more. So we've been giving Westminster and Holly Springs a lot of attention in recent months. Having three very active Ting towns, now also allows us to use our centralized systems and processes, looking far ahead to a future where could have numerous Ting towns. So as examples, we've been improving the way we provision and monitor accounts, the way we schedule and track installs and more.

As I've always said, the Internet business includes a lot of elements that will always be hyper-local, like awareness building and trench digging. But we are identifying every opportunity for centralization and automation and readying ourselves to scale more efficiently.

Our other two Ting towns, Sandpoint, Idaho, and Centennial, Colorado, are still hard at work on their own municipal core fiber networks. We will share more as we get closer to being able to build out off these networks and start lighting up customers there.

Our pipeline of new potential Ting towns remains full. We're excited about opportunities of all different sizes and shapes. We feel like we are being courted more than we are courting. We are also dealing with governments, which tends to take time. Our efforts so far on the ground have helped reinforce the core assumptions and metrics that I have shared on the Ting internet business. We expect to see 20% adoption amongst serviceable addresses in a year and 50% in five years. At these take rates we will be paying about $2,500 to $3,000 per customer and those customers will be worth about $1,000 a year in margin.

I'd now like to turn the call over to Dave to review our financial results for the quarter in greater detail. Dave?

David Woroch

Thanks, Elliot. As Elliot discussed, Q1 saw our financial performance achieve strong revenue growth alongside an overall solid financial performance. In looking at our results for the quarter, I would remind you that Enom's operations have only contributed to our results since January 20, 2017. Second quarter will be the first time our results reflect the full quarter of contribution from Enom.

Revenue grew at 56% to $69.6 million, from $44.7 million for the first quarter of last year, driven by the acquisition of Enom, the larger Ting Mobile subscriber base and the incremental contribution of the Melbourne IT international wholesale domain reseller channel, which we acquired in the second quarter of last year.

Cost of revenues, before network costs, increased 70% to $48.9 million from $28.7 million for Q1 of last year, driven primarily from the revenue drivers noted above. And this resulted in an increase in gross margin before network costs of 27% to $20.3 million from $15.9 million.

I would note for you that as a percentage of revenue gross margin was impacted by the Enom acquisition and contracted to 29% from 36%.

Please remember that, as Elliot mentioned in his comments, that domain gross margins this year will be negatively impacted by our amortizing into revenue -- deferred revenue that was recorded at fair value at the acquisition.

The impact of this accounting, which can be cap rated by referencing our 8-K filing from April 3, will lower our overall disclosed adjusted EBITDA and gross margin by approximately 10% or $8 million. The majority of this impact will be reflected in our 2017 results.

I would now like to give you bit more color on the gross margin drivers. Starting with Domain Services, for the first quarter gross margins increased 47% to $11.6 million from $7.9 million for

the corresponding period last year. As a percentage of revenue, gross margin for Domain Services decreased to 23% from 28% for the reason I just mentioned.

Looking at the components of Domain Services individually. Gross margin for the wholesale channel increased 50% to $8.1 million from $5.4 million, with the increase attributable to the incremental contribution from the acquisition of Enom, and to a lesser extent, the acquisition of international wholesale reseller channel for Melbourne IT.

As a percentage of revenue, gross margin decreased to 19% from 23%. Gross margin for Retail Services increased 49% to $2.8 million from $1.9 million for the first quarter of last year. As a percentage of revenue, gross margin for Retail Services was down to 43% from 54%.

On the Portfolio Services, gross margin was up -- was $0.7 million, up slightly compared to $0.6 million for Q1 of last year. As a percentage of revenue, gross margin for Q1 of this year was down to 71% from 78%.

Turning to Network Access. Gross margin increased by $0.6 million or 8% to $8.7 million from $8.1 million for the first quarter of last year, with the increase driven by Ting Mobile, offset slightly by our continued investment in Ting Internet. As a percentage of revenue, gross margin for Network Access decreased slightly from 47% to 46%.

Turning to costs. Network expenses for the first quarter of 2017 more than doubled to 3.3 million from 1.6 million in the same period last year. The increase is due to the additional Enom network expenses and increased amortization associated with the Enom technology assets.

Total operating expenses for the quarter were up 72% to 13.9 million from 8.1 million for Q1 of last year. The majority of the increase is due to the inclusion of the Enom operational expenses. However, I would highlight the following non-Enom operational related changes. Workforce and third-party workforce-related expenses increased by 1.1 million, primarily the result of the continued growth in our Ting Mobile and internet customer base, including additional support costs incurred for the RingPlus migration. In addition, the increase was impacted by our reversing in the first quarter of last year, the $400,000 overachieving bonus provision relating to 2015 that was determined to be no longer payable.

Marketing expenses increased by $800,000 year-over-year, primarily for the acquisition and ongoing support of Ting Mobile and Ting Internet customers. Credit card processing fees, primarily to support the growth of Ting Mobile and Ting Internet, public listing and stock-based compensation, increased by 0.2 million. From a foreign exchange perspective, we had a 0.2 million unrealized gain from Q1, 2017, as compared to 0.2 million unrealized loss in the same quarter of last year, which represents a year-over-year reduction of 0.4 million in expenses. Offsetting this, we had a 0.4 million increase in expense from realized foreign exchange gains in Q1 of 2016 that did not repeat in Q1, 2017.

And depreciation and amortization, excluding Enom, increased 0.3 million, primarily the result of the amortization of the customer relationship intangibles, associated with the acquisition of the reseller channel of Melbourne IT. As a percentage of revenue, total operating expenses were up

to 20% from 18% a year ago, driven by the Enom acquisition. Net income for the quarter decreased 45% to 2.4 million or $0.23 per share from 44.4 million or $0.42 per share for the same period last year. The decrease was primarily driven by increased amortization expense associated with intangibles assumed as part of the Enom transaction and interest expense primarily associated with the 84.5 million, additional bank loan to facilitate the Enom acquisition.

Turning to EBITDA. Adjusted EBITDA for the first quarter decreased 15% to 6.2 million from 7.3 million for the corresponding period last year. The decrease was driven in part by the higher realized foreign exchange gains in the first quarter of last year and the reversal of the overachievement bonus, as noted previously.

Taking a look at our balance sheet and cash flow during the quarter. Cash and cash equivalents at the end of the first quarter 2017 remain essentially flat at 15 million, when compared to the fourth quarter at the end of last year. During the quarter, we drew an additional 81 million, net of principle repayment, from our credit facility, and generated 5.4 million from operating activities, from which we invested an additional 3 million in noncash operating working capital. These inflows were offset by the use of 76.2 million, net of cash, to acquire Enom and to invest an additional 3.7 million in property and equipment, primarily for the continued build of our Ting Internet footprint. In addition, we exercised our call option under the BRI agreement and extended our ownership in the BRI Group from 70% to 90% for 2 million.

Deferred revenue at the end of the first quarter 2017 was $166 million, up significantly when compared to $73 million at the end of the same quarter last year or $79 million at the end of the fourth quarter last year. These increases primarily reflect the additional deferred revenue from the Enom acquisition.

I'll now turn the call back to Elliot. Elliot?

Elliot Noss

Thanks, Dave. 2017 has started off strongly. While there is a lot of accounting noise this quarter, and I expect to spend much of my time in the next 90 days explaining it to our investors, the financial results were strong. And most importantly, our businesses are executing well. The Enom integration has gone very well this quarter, with the heaviest lifting on the operational integration and on converging their data behind us; with pleasant surprises on the people side and most importantly, with the business itself comfortably meeting expectations and holding some interesting opportunities that we had not counted on. In Ting Mobile, we've continued the trends of increasing core net adds with continued improvement in both gross adds and churn. We have sorted through a number of tactics that will hopefully continue to bear fruit. We were also able to successfully digest the RingPlus customer base and have it perform roughly in line with what we hoped for. And after 5 years, we are now one of the very few MVNOs to have a direct relationship with Apple to sell the iPhone, a real tribute to how you're seen in the market. With the OpenSRS business, we had our strongest quarter for organic growth in the last number of years.

While we are not counting on this continuing at quite this pace, it is nice to be able to talk about this business, one that we have a long industry in and take great pride in and see strong organic growth. With all of this extra work and burden, and with a number of extra costs, we are able to reiterate our guidance of $42 million, which is the $50 million, less $8 million of the impact from deferred revenue, that I've discussed on previous calls.

And with that, I will open the call to questions. Operator?

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from the line of Hubert Mak with Cormark Securities. Please go ahead. Your line is open.

Q - Hubert Mak

The first question is really just on the accounting adjustment. So I just want to clarify, I guess there was an $8 million revenue adjustment for the accounting. So it basically would have been under, I guess, adjusted probably, so it would've been $8 million higher. So does that mean next year at the same time, from a GAAP purpose, it would be $8 million higher?

A - Elliot Noss

Maybe a cleaner way to think about it is that it's, that $8 million revaluation of deferred revenue balances washes out overwhelmingly. Kind of 90-something-percent of it washes out in a year, so you don't see that impact going forward. In other words, the growth in 2018 will be as if that never happened.

Q - Hubert Mak

Okay. And then on the adjusted EBITDA, I may have gotten the numbers mixed up because in the press release you talked about $1.4 million in the quarter related to accounting adjustment, and then I think I heard on the conference call here, just, you talk about $4.8 million. So can you just kind of clarify, how I would look at the adjusted EBITDA, compared to the $15 million that you have talked about?

A - Elliot Noss

Yes. So first -- well, let me start by saying Hubert, and then I'll go into my explanation. I want to note that I dropped a video in editing, I probably try and get it up over the next couple days. So there will be something that you and investors will be able to go and look at, that hopefully provides a more detailed explanation.

Next, to your specific question, the one -- the total impact of deferred revenue, not on adjusted EBITDA, but the total impact of deferred revenue sort of on the balance sheet, is $4.8 million.

Now $1.4 million of that comes from purchase accounting, which the SEC allows us to connect to adjusted EBITDA. The other $3.4 million is a resetting of the deferred revenue balances, which as of May of 2016, the SEC does not like, related to adjusted EBITDA.

So you'll see us talk about those numbers differently. So of the $8 million that comes from the changes in deferred revenue balances due to accounting policies in relation to the transaction, $1.4 million of that we -- it's okay for us to connect to adjusted EBITDA and $6.6 million of that, we should not connect to adjusted EBITDA. So that totals to $8 million and that's kind of the $50 million going to $42 million. I won't even ask you if that made sense, because I doubt it did. I'll ask you to maybe digest it, listen to me say it again on the transcript or on the recording and watch the video. And I apologize for this being so complicated. Believe me, it's not my choice.

Q - Hubert Mak

Okay, that's fair enough. And then just on the mobile side. I just want to also clarify, the number you'd put on -- so in terms of net adds, that -- is that excluding the RingPlus potential migration? Or does that just -- specifically on the Ting Mobile side?

A - Elliot Noss

So the 5,500 net is the number you'd compare to last quarter's 4,000 and change and then the -- I think it was 4,000 something, 4,000 something, 3,000 something. So that 5,500 is kind of the organic. The RingPlus is that combined number we gave. And I do want to reiterate, that there is a chunk -- if you compare that to sort of the 5,000 to 7,000 we'd hoped for, you'd compared the still -- whatever it is -- 13,000 and change that are around. We do expect there to be significantly more churn, and we're seeing that in the first few weeks as that continues to burn down. We do expect to see more churn. So that will impact the Q2 numbers as well. And we're going to continue to make it nice and easy to see, here's what's organic and here what's RingPlus.

Q - Hubert Mak

Okay, so last quarter, I think I heard that the potential migration is 80,000, if I'm correct. And I think in the press release you talked about 20,000 moved over. So there's 60,000 that still hasn't moved over at this point?

A - Elliot Noss

No. We were told by the parties that there were 80,000 accounts. It turned out that probably something like 35,000 of them were dormant or were people moving things from one plan to another or just were irrelevant. So then, when Sprint did the migration to our platform, they moved 45,000 accounts onto our platform. Before we let them manage those accounts on our platform, they had to come in, agree to our terms of service, they either had to just immediately port out, go somewhere else and port out, or agree to our terms of service, give us a valid credit card and set up an account, which is kind of just, set it up with name, rank and serial number. So 45,000 were migrated to our platform, 22,000 and change went through that three step process.

Q - Hubert Mak

Okay, and then as of today, you're saying that there's still 14,000 that's within your system.

A - Elliot Noss

That's right. And then we broke out again I'd have to go back to the script, how many have actually paid us something and how many are still working through their credit. Off the top of my head, I want to say that's like 88 and yes. So I mean you can jump in, Michael.

A - Mike Cooperman

Yes, about 9,000, let's say, have already paid a little something on their credit card and 5,000 are still enjoying credits.

Q - Hubert Mak

Okay, which is why you're suggesting that sort of the 5,000 to 7,000 is where you think that..

A - Elliot Noss

It's 8,500, 9,000 have paid something, we'd love, we could technically call them customers, at that point, they've paid something. But when we think about that 5,000 to 7,000, we think about that as typical Ting customer. So we're hopeful that, that's what the numbers look like.

Q - Hubert Mak

Okay, and then in terms of the sales strategy, it sounds like some things have worked here in the quarter. Like, how do I think about any additional changes in strategy? Like as far as I can remember, you talked about infomercials, that being the key one, and I think that was relaunched I believe in the quarter. Can you sort of talk about how that is working out here and then, post quarter, and any additional changes potentially on the sales strategy?

A - Elliot Noss

Sure. So again, I would refer to just to use the words a little bit differently, I would say that the infomercial is a larger strategy as opposed to a key strategy, because it's all important. But we call out those larger ones, because we're spending more money on them and we want to let you follow along more easily. So there's no change in strategy. With the infomercial, we did a second round of testing. There was plenty we liked, and plenty we could see that we could still work on. So it's not there yet, It may not get there. It's not there yet, but there's still plenty of encouraging signs in there. And so we're going to go to the next round of testing. And I'll let you know exactly when that's going to be, either on the next call I'll tell you how that went, or I'll let you know when it's going to be.

And then, and I would note there was one other relatively speaking larger effort, which was something of a mixed media effort geared toward seniors, and that really didn't bear fruit. But it's the kind of, sort of bets, we're trying to make. And then, we're always talking about on the call, where we did see some reasonable traction, is in a bunch of the little things. So think about this as just doing a bunch of little things, a little bit better. I've talked a couple times on the call about sort of rebuilding some folks on the people side in marketing. And we're just seeing some of that take hold. So I don't think it's anything complicated, I just think it's a little more and a little better people doing a little more and a little better.

Q - Hubert Mak

Okay, and then just on the iPhone, any preliminary thoughts in terms of how that might that impact your subscriber growth here going forward?

A - Elliot Noss

It's tough to tell, because,- so, anytime you make things easier, that should have a bit of an impact. But it's tough to tell how much of a burden going to the Apple Store was instead of buying from us on the website. I'm somebody who uses an iPhone with a Ting SIM in the U.S. and I really dislike not having visual voice mail. So it will be nice to have that now. I'm looking forward to that carrier pack dropping. Should that impact? Yes, I think that should have a little impact. And then we'll see. There's a bunch of those little things in there, like the financing alternative, we'll see, we rolled out some financing alternatives that didn't really have much impact. Maybe with the iPhone, in particular, it will.

Q - Hubert Mak

Okay, and then just a couple other quick questions here. Just on the network expense, I noticed it looks like it's doubled, Is that really just coming from Enom, additional Enom expenses?

A - Elliot Noss

Yes. On the network side, that's right. And I should note, I do want to call out, that is a bit [outsized]. That is one of the areas where we've noted that there was real room for efficiency. So as we move forward on the platform integration project, that's a place where you will see a pretty nice savings realized. But again, that savings in particular, you're probably talking 8 quarters out.

Q - Hubert Mak

Okay, and then on the CapEx, it came in around $3.5 million for the quarter.

A - Elliot Noss

Yes.

Q - Hubert Mak

So are you guys still thinking about $30 million to $35 million in terms of CapEx?

A - Elliot Noss

Yes, I, so I'd say 2 things, Good catch. I didn't call that out and I didn't update it. The primary reason, Hubert, is, we've been so inundated on the data side this quarter that, that work just couldn't get done. So I'm pretty comfortable saying, it'll be less than $30 million, $35 million, and the primary reason is because governments, municipal governments are just a little slower than we might expect. We have to build up our expertise at estimating their timelines. And I think we kind of had a little bit of happy years maybe in a couple cases and that'll slow down the spending. But I'm going to give you some more detail on that next quarter.

Operator

Your next question comes from the line of Patrick Retzer with Retzer Capital. Please go ahead. Your line is open.

Q - Patrick Retzer

So you reiterated the guidance for $42 million in EBITDA, that's after the $8 million reduction by the noncash acquisition-related expenses. The adjusted EBITDA, after that adjustment this quarter, was $6.2 million. Right?

A - Elliot Noss

Yes.

Q - Patrick Retzer

So you're essentially saying you'll have $35.8 million of adjusted EBITDA over the next 3 quarters?

A - Elliot Noss

Your math is impeccable, Pat, as always. Yes. Now, while that might seem like a ramp that's an aggressive ramp, I will note for you that the significant majority, $4.8 million of $8 million of the impact from deferred revenue was in the first quarter. So you not only have sort of the business growing underneath, as the rest of the year plays out, you also have succeedingly smaller impacts from the deferred revenue.

And those impacts in total in the next three quarters are still only about two thirds of what the impact is in this first quarter. The other thing is, I don't -- I want to be clear on the language. This is -- the $8 million is impact on the deferred revenue balances on the balance sheet, It is noncash, but it's not an expense per se in the same way. When you use the phrase, transaction expense, I didn't want anybody to get in their heads that it was deal costs or anything along those lines.

Q - Patrick Retzer

Okay. And I believe in the previous quarter's conference call, you said you expected to perhaps, announce two to three new fiber markets this year. Do you still think that'll happen?

A - Elliot Noss

I'm going to say -- you say, do I think that'll happen? If I had to make a best guess, I think two to three would be about right. But again, I'll stress, we've got lots of work to do, it's what we have on our plate. And I'm quite fine if we don't announce anything. And there's lots of action out there, and so it could even be 3, 4, 5.

Q - Patrick Retzer

Okay. With Google backing away from new fiber markets are -- do you find Ting is in a better position when you talk to municipalities about using an already-existing backbone, if it exists, or permitting, things like that?

A - Elliot Noss

I think that will play out over time. There are certainly -- what would I say -- markets that had, had some conversation with Google who have been in contact with us. But at the end of the day, it's such a big market, and Google had such big halo, that I don't know that, that will necessarily have a material impact. It's not, in any way, like Boy, we're pleased that Google Fiber is limited now to the 11 markets they're in and not expanding further. We really believe that in the case of fiber to the home, a high tide rises all boats and we would love to see more players in the space, not less.

Q - Patrick Retzer

Okay. So near existing markets that you're in now, specifically, Holly Springs, there's been chatter that perhaps Ting fiber will expand out to neighboring communities, which I would think would be a great way to get incremental high gross margin growth around each of your markets. Do you anticipate that happening?

A - Elliot Noss

I don't know where you hear those rumors, Pat. What I would say is, I think with any fiber build, there tends to be some fiber envy in contiguous areas. And I'd be surprised if in general, when we're in a fiber footprint, we wouldn't be expanding in some direction outside of it, as we have completed the build in that market.

Q - Patrick Retzer

That would be really efficient growth, wouldn't it? Versus coming in cold?

A - Elliot Noss

It would be. You would get -- so where the efficiency would come from there would be in leveraging the -- really two things, the staff that are on the ground in that city and some of the brand awareness and just sort of word-of-mouth that you'll build up and reputation from being already in the area.

Q - Patrick Retzer

Okay. And then in terms of where you plan to be with regard to Holly Springs and Charlottesville by the end of this year, will you have fiber passing most of the relevant addresses by then?

A - Elliot Noss

Well, I think that in this quarter, frankly, relatively speaking, for probably the first time, the most time and the most in the last six quarters, there was so much going on outside of the fiber business that I didn't update it around a bunch of those details. And I do plan on spending more time, probably significantly more time on fiber next quarter. So I'll update on that and a bunch of other things.

Operator

You're next question comes from the line of Ralph Garcia with Echelon Wealth Partners. Please go ahead. Your line is open.

Q - Ralph Garcia

Just some quick ones here. Just to clarify something you said earlier on the Enom side; did you say it would take eight quarters to get their margins to where your domain business is?

A - Elliot Noss

No, it will take 8 quarters to get from -- to get the extra $5 million or so, in cost synergies that we expect. So that will strictly be about building the new platform, building a new platform, and migrating their existing book of business onto it and thereby reducing a bunch of costs. Most of those costs will come from data center footprints and commercial software licenses that we'll avoid.

Q - Ralph Garcia

So on the margin side, I mean, you should get to similar margins hopefully within the next two or three quarters?

A - Elliot Noss

So first of all, we'll be learning. The businesses had different approaches to data and so we're rationalizing some of that stuff. But we generally think of their businesses on the wholesale side, their business as being slightly lower margin, slightly lower renewal rate, and kind of a longer-tail profile customer.

Q - Ralph Garcia

Okay. And then just on the OpenSRS side, I mean what -- was there anything in particularly that drove the growth this quarter? And do you see that continuing sort of through the rest of this year?

A - Elliot Noss

So it was pleasantly surprising, the growth there, I think it exceeded even some of the folks working on it who were quite optimistic. I think it came generally from some of the larger customers, who were just engaging in successful activities. It wasn't any one customer. But that growth, the outsized portion of that growth, was concentrated in between five and 10 customers and there's enough there that I'm hopeful, so I'm not going to quite take up my expectations on that business. But I'll certainly be pushing it a little more. And we'll see if some of those people can keep it up.

Q - Unidentified Analyst

Okay. And then if we use that, go on to, move into the Ting Internet side, if we use that 20% penetration in year 1, are you still comfortable with that and sort of modeling 17,000 subs or so, by the end of this calendar year?

A - Elliot Noss

No, what you've done there is you've applied 20% to the 85,000. The 85,000 is a complete footprint build for the 5 cities that we've have announced. We haven't even put a shovel in the ground in Centennial and Sandpoint. We won't be, we'll, I'll be updating in some detail across the other 3 markets. But that's not, those are different things. And again, I want to reiterate just for people listening, less so for you, [Ralph], when I put out that 85,000 number, it was to help people understand that even with the 5 markets that we've announced today, there was a lot of meat on the bone, so the purpose of putting out that number. I will, again, start to update a little bit more next quarter on the serviceable addresses, et cetera. And we continue to be comfortable with that 20% first year take rate number.

Q - Unidentified Analyst

Okay, that's fair. And then just tying onto Pat's previous question. I mean, if you do move into contiguous cities and you add automation and some of the stuff you've learned on the trench digging side, can you get the cost down to $2,000 to $2,500 per home? Or what sort of leverage can you get off of some of those builds?

A - Dave Singh

Yes, so you hear the grinding is really incremental. I think that one of the things, and I don't know this, but I wouldn't be surprised if one of the things that discouraged Google was the, you can't -- a home costs to build what it costs to build. There are some savings, but they are smaller. I think that, that's a number that we're consistently looking at. We have found some neat ways to save money on a per home basis. We find that experience is helping us. But -- and I do want to, when I talk about that $2,500 to $3,000, that's a lit home, so at 50%. So we think about $1,000 to $1,400, plus the install to build a home. You're not going to get that $1,000 down to $500. And if you're in a geography, the range there is because of the different costs in each geography. If you're in a geography where it's costing you $1,200 and you can get down into the lower $1,100s or into the high $1,000s, you're doing fantastic. So we're always looking for ways there, and we're finding those ways, but they are grinding for sure.

End of Q&A

Operator

There are no further questions. I will turn the call back over to the presenters.

Elliot Noss

Thank you, operator. And thank you all for joining us. I look forward to speaking with you all again next quarter.

Operator

This concludes today's conference call. You may now disconnect.