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Tucows, Inc. (TCX)
Q1 2018 Earnings Conference Call
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**Executives**

Elliot Noss – President and Chief Executive Officer
Dave Singh – Chief Financial Officer

**Analysts**

James Barnby – DKAM
Patrick Retzer – Retzer Capital Management

**Presentation**

**Operator**

Good afternoon, ladies and gentlemen. Welcome to Tucows' First Quarter 2018 Conference Call. Earlier today, Tucows issued a news release reporting its financial results for the first quarter ended March 31, 2018. That news release along with the company's 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 1 hour following the completion of this call. Details on how to access the replays are available on today's news release.

Before we begin, let me remind you that the matters the company will be discussing include forward-looking statements and as such, are subject to the risks and uncertainties that could cause 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 the 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. With me is our Chief Financial Officer, Dave Singh. I'll begin with an overview of the financial operational highlights for the first quarter of 2018. Dave will then provide a detailed review of our financial results, and I'll return with some concluding comments, before opening the call up to questions.

The first quarter was a solid start to 2018 with strong year-over-year growth across each of our key financial metrics. Revenue grew 38% to $96 million and net income increased 53% to $3.7 million or $0.35 a share. Adjusted EBITDA increased 64% to $10.4 million and cash flow from operations increased to $9.6 million. And I will note here for comparative purposes, Q1 of last year includes the contribution of the Enom acquisition from January 20 onward, so for 70 days, compared to 90 days this year. With respect to adjusted EBITDA, there is now only the typical impact of deferred revenue.

Looking at each of our businesses, our Domains business continued its stronger performance. As I noted on our last call, with Enom now having been included in our results for essentially a full year, beginning this quarter, we are reporting the Domains business metrics on a combined basis. I will also note that at the beginning of the quarter, as discussed on our last call, we completed the bulk transfer of 2.7 million domain names, related to Namecheap and accelerated the recognition of $14.6 million in revenue associated with this name – with these names. And I further note, that was with very little gross margin.

In our wholesale Domain's channel, total registrations for the combined OpenSRS and our Enom businesses were $4.4 million. So right in line with performance over the last four quarters, taking into account the impact of the transferred Namecheap names. Notably, with the transfer of those names, the renewal rate for the combined wholesale channel improved quite significantly to 78%. As the transferred names has much lower renewals.

The retail channel also continued its consistent performance with total registrations for the combined Hover and Enom businesses at about 450,000. That represents year-over-year growth of about 12%. Although, I will note that this is a little outside due to the additional 20 days of Enom transaction in Q1 this year. So we expect the combined retail channel to trend back to low single-digit growth in Q2, when we have full quarter year-over-year comparison. The renewal rate for the retail channel also jumped in Q1 to 81%. We do expect that to return to a more typical historical level in Q2, but still remain nicely above the industry average.

Starting with OpenSRS in late Q1 and continuing with Enom in June, we have taken the opportunity to revise and increase our wholesale pricing. This was intended to address the increasing complexity, especially related to regulatory compliance and the impact of GDPR. This has also allowed us to deal with pricing disparities in the Enom business and to offer discounts that better reward size, growth and strong performance as well as to more closely align pricing for the two brands. Finally on Domains, the integration of Enom continues to progress on plan as does our work on GDPR. We continue to expect to be operational and compliant for the May 25 GDPR deadline.

Turning now to the Ting Mobile business. First, I want to mention that we did a bit of cleanup on how we were defining an active Ting Mobile account. Identifying and removing some accounts that did not actually have any active mobile subscribers, usage or revenue. As a result, our active accounts dropped by about 6,000 even before we get into actual adds and cancels for the quarter. Subscribers, which we have historically called devices, revenue and margins are unaffected, so accounts drop, subscribers revenue and margin per account all creep up a bit to land back in the same place.

We also made a change to how we measure churn. We opt in our customers who come to the service, take advantage of promotional credits and leave before ever paying anything out of their own pockets. We generally consider them as acquisition failure, rather than a retention failure. So we have been subtracting those customers from adds as if they never came. Well that might be the right way to track and diagnose the issue internally, it was problematic for public disclosure. Those customers could sometimes spend months with us on credits, before we determine that we have to go back and revise adds to never include them.

So now these customers which of course, we make every effort to avoid, we'll count as both adds and cancels. This will increase our churn rates a bits, but it will increase gross adds as well, such that net adds, the most important metric are unaffected. We also have revised historical numbers so that any comparisons for the past include both those higher churn rate and gross adds. With that change, we actually entered the year about 166,000 accounts and 282,000 subscribers. We finished Q1 with just over 165,000 accounts and about 286,000 subscribers. So accounts were down about 1000 and subscribers were up about 4000. And we saw churn outside of RingPlus customers, of 2.77% in Q1, down from a retroactively adjusted 2.94% in Q4 2017 and up a bit from 2.49% in Q1 a year ago.

So churn is still mostly in line with history and expectations. Also Ting accounts continue to activate more subscribers, which drives the healthier subscriber numbers. Our concern is really with gross account adds, which were down about 10% versus the prior quarter and a nearly 20% versus a year ago. That drop is driven by a significant decrease in unattributable adds. Those customers that come to us, presumably through word-of-mouth, beyond the attributable adds we drive through our marketing programs.

We are, as always, exploring ways to achieve broader brand awareness, to be more proactive media outreach, pursuing more off-line SIM card distribution, continually experimenting with scalable online channel and exploring narrower targets based on geography, demographics or affinity, where we can potentially enjoy a much larger share of voice. That is not enough. We now recognize clearly that the four major carriers who still own over 90% of the market have made significant changes and improvements since we launched Ting seven years ago.

They have made those improvements in their customer experience, most notably, in their desktop and mobile interfaces. They have addressed key customer pain points. Most importantly, across the board they have launched more affordable high data and unlimited plans and shouted about it from the rooftops. The acquisitions and relaunches of both Cricket and MetroPCS have filled in a lot of the white space we previously occupied. We see strong evidence of these improvements in some publicly available data.

In Consumer Reports, where Ting has enjoyed rating in the high 80s to low 90s, the carriers have gone from an average rating of about 66 in 2015, when we were first included, to about 73 in 2018. Average churn across the carriers is also down since our launch in 2012. It seems customers are generally less frustrated by their providers now, less inclined to look around and perhaps less impressed with what they see out there when they do a comparison. We still believe there is an enormous difference in experience between Ting and the carriers and our customer still boost real monthly savings.

Our net promoter scores and churn indicate that our customers are still delighted once they find us. But there seen to be less prospect out there looking in the first place. Plus, while the category has shifted considerably around us, aside from a couple of rate decreases, we have not made substantial changes to our approach in seven years. Our margins are frankly a bit higher than we need them to be. Our cost per acquisition remains low. We think that when we launched, we simplified this space. Now others have caught and passed us in terms of simplicity. The good news is, lower costs, higher margins and continued efficiency in operations will see cash generated continue to grow while we do our work.

Finally, I will inevitably get questions from shareholders of how our Ting Mobile Sprint merger affects our Ting Mobile business. I want to take this opportunity to efficiently announce that I have no idea. I think operating Ting on a larger faster network would help us better compete with AT&T and Verizon. We think new T-Mobile should be just as enthusiastic with the wholesale business as old Sprint and T-Mobile.

Enabling MVNO's like Ting would help support their claim to regulators, to the increasing competition and benefiting mobile customers. We think the category could become even more competitive at the top, as T-Mobile and Sprint claim it would be. That would make life tougher for Ting, or the carriers could become less competitive, particularly on price it can happen when one major player is removed, creating more opportunity for Ting.

A certainty that we will no longer be dividing our annual commitment between two carriers and this could further benefit our costs. The process of regulatory approval will take significant time and will have many twists and turns. Meanwhile, we remain focused on our opportunities and our greatly looking forward to a fresh look at a business with the higher – of the highest customer satisfaction for mobile phone service in the world.

I will now move to the Ting Internet business. Last quarter, I shared that we have passed 16,000 serviceable addresses and had about 4500 customers across our three active markets Charlottesville, Holly Springs and Westminster. In Q1, we added 1,500 addresses and 500 customers for totals of 17,500 serviceable addresses and roughly 5,000 active customers. I note that this quarter contains a lot of preparatory work in Centennial and Sandpoint, continued retooling in Charlottesville. And in Westminster, we wait for the city to deliver more serviceable addresses, with the next build phases in the second half of the year. We remain on track to end the year with 40,000 serviceable addresses. Although, I do feel compelled to note that is in the construction project.

In Charlottesville, we expand the network to new neighborhoods, where we upgrade the network we acquired in original neighborhood. In Holly Springs, we march towards coverage of all those potential serviceable addresses by the end of the year. Construction in Centennial and Sandpoint is going well and both are on track to light up their first customers this summer.

While we continue to breeze through 20% preorders, we know the hardest work in this business will be getting from 20% adoption to the 50% we’ve talked about and we are excited to start developing the experience and skills we need to do just that.

Finally, just last week, we announced our next Ting town, Fuquay-Varina, North Carolina, just a few miles south of Holly Springs. Fuquay-Varina represents an additional 9,800 potential serviceable addresses. It has all the qualities we look forward to town, including perhaps most importantly, a team in town hall that is eager to partner with us and knows how to get big things done.

And in addition, we get some operating efficiency, being able to leverage our existing Holly Springs team. Our other towns have included corporate acquisitions, new kinds of public-private partnerships or an entirely new construction challenges. Each of them had a starting from scratch, building a team of ground and awareness in the community.

Here we get the leverage of construction team that has done great work just one turnover operating in a similar landscape. We also get to market to household that have been pining for us, since we announced Holly Springs about 2.5 years ago. That advantage has been evidenced already, as we have seen our best week of preorders ever following our first announcement.

We expect to start construction in something Fuquay-Varina this summer and hope to start lighting up the first customers by the end of the year. Again, we remain on track to expand from our current 17,500 serviceable addresses to over 40,000 by the end of the year.

We remain optimistic about the fundamental assumptions on the business. 20% adoption after one year and 50% after five, $2500 per home lit at that 50% adoption with the return of $1000 of recurring margin a year.

While I am at it, I would also like to reiterate our EBITDA guidance from last quarter. I'd now like to turn the call over to Dave to review our financial results for the quarter in greater detail. Dave?

**Dave Singh**

Thanks, Elliot. Total revenue for the first quarter of 2018 grew 38% year-over-year to a record $95.8 million from $69.6 million for the same period last year. The increase was primarily the result of the domains business, which increased $19.9 million and benefiting from an additional 20 days of contribution from the Enom in Q1 of this year, compared to last year as well as the accelerated revenue recognition of $14.6 million related to a bulk transfer of nearly $2.7 million Namecheap domain names during the first quarter of 2018.

I should note that as Elliot mentioned, that the accelerate revenue recognized also generated $14.5 million of accelerated cost of goods sold. In addition, the larger Ting Mobile subscriber base and contribution from the raw mobility asset acquisition in the third quarter of 2017, contributed to the overall revenue growth.

Cost of revenues before network costs increased 39% to $73.2 million from $52.6 million for the first quarter of last year, with the increase driven by our growth in revenue. Gross profit before network costs increased 32% to $26.8 million from $20.3 million. As a percentage of revenue, gross margin before network costs for the first quarter was 28%, down slightly from 29% for Q1 of last year.

The year-over-year gross margin percentage was positively impacted by the Q1 2017 required accounting treatment for deferred revenue under the Enom acquisition, which has now been almost fully realized. This positive year-over-year change was offset by the margin dilution associated with the bulk transfer, revenue and cost acceleration noted previously.

I'll now review gross margin for each of our Domain Services and Network Access businesses. For Domain Services, gross margin for the first quarter increased 35% to $15.4 million from a $11.4 million for Q1 2017. As a percentage of revenue, gross margin for Domain Services for the first quarter was 21% compared to 23% for Q1 2017, which reflects the full 90-day contribution of the Enom businesses in Q1 of this year impacted by the two drivers discussed above.

Drilling down into the individual components of Domain Services, gross margin for wholesale channel increased 34% to $10.7 million from $8 million from Q1 of last year. As a percentage of revenue, gross margin for wholesale decreased 17% from 19%. Excluding the bulk transfer, accelerate low margin revenue of $14.6 million, the gross margin for the wholesale channel this quarter would have been 22%, which would have been 3.5% increase over Q1 2017.

Gross margin for the retail Domain Services increased 42% to $4 million from $2.8 million from Q1 last year. As a percentage of revenue, gross margin for retail services increased to 48% from 44%, mainly driven by the impact of last year with the amortization of the fair value adjustment. Gross margin for portfolio services increased 8% to just over $700,000 from just over $650,000 for Q1 last year. As a percentage of revenue, gross margin increased to 79% to 71% in Q1 2017.

Moving to Network Access, gross margin for Q1 2018 grew 28% to $11.4 million from $8.9million for the same period last year, driven primarily by the Ting Mobile subscribers. As a percentage of revenue, gross margin for Network Access increased to 48% from 46% from Q1 of 2017.

Turning now to costs. Network expenses for the first quarter of 2018 increased 27% to $4.2 million from $3.3 million for the same period last year. The increase was primarily due to the additional 20 days of contribution from Enom operations and amortization and depreciation of the Enom technology assets acquired.

Total operating expenses for the first quarter 2018 increased 22% to $16.9 million from $13.9 million from Q1 last year. The increase is primarily due to following: workforce and third-party workforce related expenses, excluding stock-based compensation increased $2.1 million, primarily the result of the continued growth in our Ting Mobile and Internet subscriber base and footprint; and to a lesser extent, unfavorable foreign exchange impacts from stronger Canadian dollar in the first quarter 2018 as compared to the first quarter of 2017.

Stock-based compensation was up $300,000, promoting from the grants in the third quarter of 2017, while credit card processing and professional fees were also up $300,000. Depreciation and amortization was up $450,000, primarily related to the acquired Enom intangibles related to brand and customer relationships. These increases were offset by marketing expenses being down $400,000 year-over-year, due to the timing of Ting private marketing planning in various markets compared to this year.

As a percentage of revenue, total operating expenses decreased to 18% from 20% for the same period in the prior year. Net income for the first quarter of 2018 increased 52% to $2.7 million or $0.35 per share from $2.4 million or $0.22 for Q1 last year. Adjusted EBITDA for the first quarter increased 64% to $10.4 million from $6.3 million for Q1 2017.

Turning to our balance sheet and cash flows. Cash and cash equivalents at the end of the first quarter of this year was $16.6 million, compared with $18 million at the end of the fourth quarter of 2017 and $15 million at the end of the first quarter of 2017.

The decrease in cash from Q4 was a result of the use of $4.5 million for the repayment of our loan, the investment of an additional $5.1 million in the continued buildout of the Ting Internet footprint and $1.2 million for the acquisition of the remaining 10% of Bluridge Internet. These are substantially offset by the generation of $9.6 million in cash flow from operations.

Deferred revenue at the end of the first quarter 2018 was $151 million, down from $166 million at the end of the first quarter of last year, $161 million at the end of Q4. The decrease from the fourth quarter is due to the Namecheap revenue acceleration I previously mentioned.

That concludes my remarks, and I'll now turn the call back over to Elliot.

**Elliot Noss**

Thanks, Dave. I have the opportunity to be at Omaha last week for the Berkshire Hathaway AGM. One cannot walk away from this event without thinking about simplicity, cash on cash returns, betting on people, long-term thinking and most importantly, compounding. That feels very consistent with our view of 2018 as a bridge year, as a year where we're engaged in generation of work to set us up for the next number of years.

In both the Domains business and the mobile business, we are at pivot points. In mobile, after seven years of successfully running the same playbook, we've identified a clear need to reposition the service and set it up for the next phase of growth. Doing so, on top of a loyal, satisfied customer base makes that work easier. I will talk more about this next quarter.

With the Domains business, I want to show a longer view. Since the launch of the Ting telecom businesses, we've been talking with investors about the Domains business using adjectives like consistent, reliable and low to moderate growth. We've positioned it as a business that provides a platform for these other lines of business to grow from, both in terms of capital and competency.

And it may be time to return to some of our dreams. When we created the wholesale Domains business, as a dawn of the new millennium in January of 200, our dream was to create the greatest distribution channel on the Internet. In many respects, we were successful. We have loyal, long term channel partners all over the globe. They represented some of the most successful Internet services retailers in the world, through three generations of Internet services retail.

From .com boom COS like Lycos and Yahoo, through first generation web hosts like the Endurance group, to next-generation Internet services retailers like Squarespace and Shopify, and despite a hypercompetitive low-margin industry, this business has grown in terms of gross margin dollars in contribution, in 17 of it's 18 years. And it is a fantastic record for any business in any segment.

And now, with a platform work that is well underway, with an increased importance on privacy and users being able to control their data and with people having an increased need for health and simplicity and dealing with all of this online, the role of the trusted service provider and our role as a key supplier to them takes on increased importance.

We are coming with this opportunity with a fresh set of eyes, thinking long-term, simplicity, compounding, people and relationships. Compounding, every time we treat a customer fairly is compounds, every time we take a little longer on an install, it compounds. Every time our customer service people help a customer with the service that is not ours, it compounds. This compounding is why Fuquay-Varina is so eager to have us to come to town. This compounding is what changes we make to simplify and improve our existing services that have outsized effects.

And with that, I like to turn it over to the operator for questions. Operator?

**Question-and-Answer Session**

**Operator**

[Operator Instructions] Your first question comes from James Barnby with DKAM. Your line is open.

**Q - James Barnby**

Hey there Elliot and Dave.

**A - Dave Singh**

Hi, James.

**A - Elliot Noss**

Hi, James.

**Q - James Barnby**

I'm just wondering if you could talk through the synergies from the Enom acquisition, where we are with that and is it kind of going according to your plan?

**A - Elliot Noss**

Yes. So first, all is moving nicely to plan. I'll always – I have been caveating that for probably the last three quarters with GDPR is a bit of a black hole that certainly causes a bit of slowdown. We've tried to leverage as much of that as possible. So that shouldn't be a big deal. We're still pointing to seeing the dollars synergies, while the work goes on, sometime kind of middle of the next year or so. And where you really see the synergies is when we can take advantage of reducing the data center footprint getting away from some of the licensed software on the old Enom platform and then a couple of others kind of operating angles like that. So the work goes for a fairly long period of time before we start to see those dollars drop.

**Q - James Barnby**

So in terms of kind of what you outlined for dollar synergies, have you realized about half of it, or are you halfway through? Or are you further along with that?

**A - Elliot Noss**

No, I'd say the vast majority of the $5 million is still to come.

**Q - James Barnby**

Okay.

**A - Elliot Noss**

We've been talking really about that since the time of acquisition as – almost all of that will come as we are really able to kind of shut down the older platforms.

**Q - James Barnby**

Right. So kind of end of this year, or early next year is when…

**A - Elliot Noss**

I kind of say middle of the next year. Again, you got the GDPR work, which we really have to see what happens when it gets in the market. I'll remind everyone on the call starting May 25 you will not be able to look up the ownership of a domain name with nearly either the ease or details that you could before. So if you're wondering about any get those lookups in.

**Q - James Barnby**

Okay. Thank you. Just related to that as well, the sales and marketing was a little higher than I had projected. And I think Dave mentioned something, but I didn't catch it, so I was wondering if you could just give any color on the increase in the sales and marketing expenses there?

**A - Elliot Noss**

You said quarter-over-quarter, now?

**Q - James Barnby**

Yes, yes.

**A - Elliot Noss**

So what you might have seen quarter-over-quarter, if you remember back to last quarter, we went through that pullback in the Ting Mobile marketing, where we wanted to get a better read objectively on attributed versus unattributed and what the knock-on effects of the advertising was. So in the quarter-over-quarter comparisons, that will stick out a bit. If you compare that number sort up to previous quarters, you go over a longer timeframe, you should see a – I mean, there’s always going to be a little bit of movement around there depending on the programs and where and when we are running them. But you should see relative smoothness. Anything else Dave?

**A - Dave Singh**

And just to reiterate that our sales and marketing number includes our customer service costs. Yes, so those are up year-over-year from Q1 of last year.

**Q - James Barnby**

Right. And were there any costs related to the bulk transfer included in just kind of your general expenses?

**A - Elliot Noss**

Sure. There is some solid professional fees in there for sure.

**Q - James Barnby**

Professional fees being technical.

**A - Elliot Noss**

Professional fees being legal.

**Q - James Barnby**

Okay. Sorry, where is that captured under?

**A - Dave Singh**

That's under G&A.

**Q - James Barnby**

G&A, okay, perfect.

**A - Elliot Noss**

I never like doing too much of that, it's a onetime event. So we're really pulling that out.

**Q - James Barnby**

Okay. That's helpful. With the Fuquay-Varina, we are happy to see that expansion and I imagine it must be a lot easier to expand to neighboring communities than starting a brand-new Ting town in a brand-new state. And I was just wondering what the likelihood of seeing this kind of dynamic occurring with other Ting towns.

**A - Elliot Noss**

So I think you'll see some of it with just about every footprint, or if I was thinking of let's say, three years from now, five years from now, I think you'll see it more often than you won't. Sandpoint, right from our initial discussions with Sandpoint we were talking about, we're talking with some of the surrounding towns. In fact a lot of those dialogues were right at the beginning – were concurrent. With Charlottesville, we've already done some work sort of out side of city limits, if you're in a place like that, now it's a new housing development is going up. They are in touch with us, before we know about it. So I think you see that kind of – that spilling into contiguous areas. It will take different forms in different markets, but I think it will be more the rule than the exception.

**Q - James Barnby**

Right. Okay. That's helpful. Last question if I may…

**A - Elliot Noss**

Again, sometimes towns – a whole town like it is here, sometimes it just contiguous neighborhood, et cetera.

**Q - James Barnby**

Got you. Okay, that's helpful. Last question, just on the subscriber count for Ting Mobile. I kind of understood how you are redefining it. If I was defining it under the old way, would the Ting subscribers go from 172 down to 171? Like it was a net subtraction, correct?

**A - Elliot Noss**

Yes. We're still – it was an equally poor quarter in that regard.

**Q - James Barnby**

Right. Okay. I understand that. Okay. Well thank you very much and talk to you again soon.

**A - Elliot Noss**

That's great. Thanks very much.

**Operator**

Your next question comes from the line of Patrick Retzer with Retzer Capital Management. Your line is open.

**Q - Patrick Retzer**

Good afternoon, gentlemen. Thanks for another good quarter.

**A - Elliot Noss**

Thank you.

**Q - Patrick Retzer**

So I believe it was in your 10-K, I saw that you own 38,000 surnames over in the Domain business?

**A - Elliot Noss**

Yes.

**Q - Patrick Retzer**

I mean, it seems to me that that's likely pretty valuable hidden asset. Can you talk about what the value of that is? What those trade at and versus what it might be on the balance sheet?

**A - Elliot Noss**

So there's a few things there. First and most importantly, those are – like with all the domain names, but the surnames as well, they relatively be liquid. So, I don't like to make too big of a fuss about them. I will say that they have been consistently performing. We have a few go to realnames.com, we have a service where we offer personalized e-mail addresses. It's been around for over a decade.

The customers there love it, and it's one of those things where I've never been able to figure out, why it doesn't sort of blow off the shelves. Everybody that I know that gets a personal e-mail address, so pat@retzer.com or net, loved it. They get it for their families et cetera et cetera. One day, I'd love to see something big happened there. But I'm always reticent, to sort of – over the years, I've been reticent, I've been trying to point too much to kind of off balance sheet value, because I always rather under-promise and over-deliver. So having it sort of not and contributing every once in a while is a preferred by me, when we do solid surname, which is rare but occasional, that it tends to be solid mid five figuring up sale.

And I think the last point I'd make, I mean, there's been years of amortization coming out of it, but it's probably that stuff is still on the balance sheet in the $12 million range or so, Dave? $11 million, I wasn't bad, that's not bad. I got pretty close there without having looked at that number for a long time. Thanks.

**Q - Patrick Retzer**

Okay. So there I'm going to bet there you're balance sheet for about $300 per and they trade in a $40,000, $50,000, $60,000 range, occasionally?

**A - Elliot Noss**

I can't argue with that Pat. But again, they trade very many of [Audio Dip].

**Q - Patrick Retzer**

So congratulations on the Fuquay-Varina sign up. Now looking at the map, there is about 10 or 12 other cities, municipalities within 5 or 10 miles of Holly Springs. And following up on the previous caller, should we be expecting that each of your current cities sort of become a locus from what you branch out into neighboring municipalities and just continue to grow?

**A - Elliot Noss**

Yes, I think that – I repeat parts of that answer. I mean, I do think that will be more of the ruling an exception. I do want to be clear that we are not opportunity constrained here. I would describe that, as we are building as effectively as we can. And I didn't say as fast as we can, because we really do try and get that right as we are doing it. I can connect that back to my compounding comments. It takes a little bit longer to do it all well as fast as possible. So we really do try and only take on what we can handle organizationally and not overstretch ourselves. But the early opportunities are there and every time something like this happens, you can be sure that there is another town close by say one of us.

**Q - Patrick Retzer**

Okay. Well, great. So I mean, you have the ability to grow that business as fast as you determine it's prudent? Is that correct?

**A - Elliot Noss**

I am not opportunity constrained. I mean, I don't want to create – I think, there is a lot of moving parts to this business and being operationally constrained is a real constraint. I mean, it's a real substantive constraint and I think that you're going to see us consistently increasing the number of serviceable addresses that we deliver every quarter and every year. I would love that to be the case year-over-year for years. But whether that increase is from 16 to 40, whether it's like $24,000 like it is this year. Does that go up next year, is it 30, is it 40, is it 50? That pace will be dictated as we go along. And I'm sure there will be some discontinuity in it too, in the sense that there will be an opportunity or two that's outsized that might have a little bit of a step functions there. But generally speaking, it's just keep increasing that number, just keep the crank turning.

**Q - Patrick Retzer**

Okay. And then I believe in the last call, you said the fiber business in and of itself would be cash flow positive in – from today, what's less than a year from now, is there in?

**A - Elliot Noss**

It will start to be around that time. And again, I am going to give more visibility every quarter as we get closer and I guess, the only other caveat there is that's on a sort of a direct expense or city level. That's not considering there Toronto or the head office expenses. Kind of, I like to think about those businesses as the sum of a series of small businesses. Charlottesville is a fiber business and Holly Springs is a fiber business. Do we combine Fuquay-Varina and Holly Springs, been thinking about it, probably. But each of those is kind of their own business and they each of their own idiosyncrasies, their own operating characteristic, their own competitive landscapes et cetera.

**Q - Patrick Retzer**

So you talked about long-term. You've got two cash cow business in the fiber, which within a year is likely to turn into a cash generator. When you lean back in your chair and think about that, you've been masterful at allocating capital, where you think the opportunity is will be to utilize all that free cash flow?

**A - Elliot Noss**

I’m going to be – I don’t think we are going to be laying fiber for the foreseeable future. There is so much opportunity we think in this space, that’s – we are not going to tap out for while.

**Q - Patrick Retzer**

And then in the Domains business, just speculating a bit, you talked about those new requirements that everybody needs to get have the speed on. Do you think that will limit the competitive field? And perhaps give you some pricing power?

**A - Elliot Noss**

Well, I think that anytime you increase the regulatory complexity, you raise the barrier to entry. But it would be a mistake to ever consider that the domain name businesses is not a competitive business and one more you could ever sort of count on being able to just have pricing freedom. It’s an incredibly competitive business, even with our significantly large customer base, by far the largest in wholesale. Boy, there is still two, three, four other small competitors who are very, very confident in that we respect and wouldn’t consider taking any of the [Audio Dip] either competitively or at the customer level.

**Q - Patrick Retzer**

Well, thanks, Elliot. You can continue to be the master of the understatement and sorry, about the raptors, but thanks for another great quarter.

**End of Q&A**

**Operator**

There are no further questions at this time. I’ll now turn the call back over to Mr. Noss.

**Elliot Noss**

Thank you, operator. Thanks to everyone listening. We look forward to speaking with you all next quarter.

**Operator**

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