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Tucows, Inc. (TCX)
Q2 2017 Earnings Conference Call
August 08, 2017, 17:00 ET

Executives

David Woroch - Senior Key Executive
Elliot Noss - CEO

Analysts

Ralph Garcea - Echelon Wealth Partners Inc.
Patrick Retzer - Retzer Capital
Hubert Mak - Cormark Securities Inc.

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to the Tucows' second quarter 2017 conference call. Earlier today, Tucows issued a news release reporting its financial result for the second quarter ended June 30, 2017. That new release, along with the company's financial statements, are available on the company 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 in today's news release. Before we begin, let me remind you to the 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. Now I would 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 of our Chief Financial Officer, Dave Singh. Today's call will follow our usual format. I'll begin with an overview of the financial and operational highlights for the second quarter of 2017. Dave will then provide a detailed review of our financial results. And I'll return with some concluding comment before opening the call to questions.

I will begin by noting the second quarter marked our first full quarter contribution from eNom acquisition that we completed on January 20 of this year. All of the numbers we present today reflect the consolidated business. However, as I did last quarter, I would break out any numbers that I think would be helpful.

Q2 was highlighted by continued strong performance in all areas of the business, which combined with the eNom acquisition, generated solid year-over-year growth across all key metrics. Revenue grew 78% to a record $84 million, driven by the eNom acquisition as well as a continued growth in Ting Mobile, and the second consecutive quarter of above expectation performance in the incumbent domains.

Net income for Q2 saw a year-over-year increase of 29% to a record $5.2 million or $0.50 a share. The adjusted EBITDA grew 50% to $10.3 million from $6.9 million for Q2 last year. With respect of our Q2 numbers, I will remind you that the required accounting treatment of deferred revenue for the eNom acquisition will have a negative non-cash impact on adjusted EBITDA of about $8 million, the vast majority of which will be fell to 2017 and $3.8 million of which impacted the first quarter. The additional impact on Q2 adjusted EBITDA was $1.6 million. And of course, the Tucows business continues to generate strong cash flows with cash generation operating by activity for Q2 exceeding $8 million.

Looking at our Domains business, the integration of OpenSRS and eNom continues to go well as we pull people, knowledge, code and technology to ultimately deliver a great experience to our resellers and synergies to our shareholders. We continue our efforts to deliver these benefits by 2019 with the caveat that the European Union General Data Protection Regulation, or GDPR, could impact over time. I will describe this in more detail in a moment. In our Wholesale Domains business, total registrations for the combined OpenSRS and in eNom wholesale business for Q2 what approximately $4.5 million with slightly more than half of that total generated by OpenSRS. Again, we had another good quarter for registrations in the OpenSRS business which continues to exceed our expectations for the first half of the year. Notably, average gross margin for OpenSRS transaction was strong and up meaningfully from Q2 of last year.

The combined renewal rate for the OpenSRS and eNom wholesale channels in Q2 trends a little bit lower this quarter to approximately 72%, which reflects the lower renewal rate of the eNom domains. As OpenSRS continues to see its historically strong renewal rate well above the industry average.

We are now just over 6 months into operating eNom business and have the opportunity participate in a number of industry events and hosting conferences with both brands. Feedback from resellers as well as suppliers and other industry members has been universally positive. Bringing the 2 businesses together was a logical revolution for both businesses from our perspective and clearly that has resonated with our target audience. We are acknowledged for our leadership role in the wholesale domain market and having the expertise and resources to build something special and continue as a trusted supplier. Our resellers tell as they look forward to seeing what we can do with the combined businesses. In fact, a number of resellers have domains on both platforms and they look forward to simplifying their business operations.

In the combined retail channel, Q2 was highlighted by continued year-over-year growth in the incumbent Hover business. In terms of actual metrics for Q2, the combined retail businesses generated 400,000 transactions and had a very healthy 84% renewal rate. I will remind you that the acquired eNom retail businesses are mature businesses with high gross margins and lower growth. This will have a dampening effect on most measures of growth in 2018.

Coming back to the GDPR mentioned earlier. These are European Union regulations that are in a phase-in period and will take full effect in May of 2018. These regulations will impact every global Internet business that deals with the EU citizens and Tucows is no exception with millions of domain names registered by EU residents. At this point, the specific impact on domain name registration and most particularly public Whois is unclear, and there is a lot of work within the industry and company level to understand it. What is clear is that there will be material impact. it will change the delivery of public Whois. Privacy and proxy services and at a company level could impact the timing of some of the eNom integration market.

It's impossible to tell right now as we wait to see what comes out of the next ICad meeting, but we will keep you apprised as this develops.

Moving on to the Ting Mobile business. We continue to work through impact -- the impact of the large base of customers that migrated from RingPlus in Q1. As we shared last call, we would be calling this base through the first half of 2017. This has been complicated as we have learned more of the Q1 adds were attributable to the one-time RingPlus closing than we are originally believed. This is due to uncertainties and the way people move between the platforms as RingPlus was closing. This makes looking at the first half an aggregate of the easiest way to understand progress. Ting Mobile is currently at 170,000 accounts and 278,000 devices, up significantly from the 151,000 accounts and 245,000 devices we had just 2 quarters ago. Of the 19,000 additional customers, about half were RingPlus and half were organic growth. We are originally talked about 5,500 organic adds last quarter. After digging into the data a little deeper, it appeared that more accurate number will be 5,000 in Q1 and 4,500 and Q2. Most significant increases from the 3,000 adds in each of the 2 prior quarters. And the early part of Q3 looks like it is continuing to see improved gross adds. Although, we note that it's competitive environment continues to get more difficult.

Ting Mobile had another outstanding quarter of attention with monthly churn, not including RingPlus customers, at just 2.19%, down from 2.27% in Q1 and 2.38% in Q2 2016. It was the lowest churn we've seen in our customer base in 2 years. As I said last quarter, I'm especially comfort to see such healthy churn just as mobile carriers are aggressively ramping up their promotions and cable operators are rolling out their mobile offerings. Remember, that Ting is probably the easiest postpaid service in the industry leader. These churn numbers seem to validate our strong belief that people were come to sting for the savings and stay for the customer experience. I would remind you that churn historically goes up in Q3 and again in Q4, but with monthly churn numbers of 2.27% in Q1 and 2.19% in Q2, we're starting in a great place. We're also doing some really encouraging work with our customer data, identifying tactics today that could reduce our churn months or years into the future. For example, looking back over the past year, we measured a significant improvement in survival rate or said differently a significant reduction insurance, customers who have of their devices with us. This has a particularly excited about the ramp in iPhone sales in our shop since the Apple deal we mentioned last quarter. Most of those sales are going to existing customers. It also has us promoting new devices more aggressively to customers that are holding older models are gone long periods without an upgrade. With 278,000 active devices, customer retention start to rival customer acquisition and its potential impact on the business. Combined with our increased emphasis on data gathering and analysis, we hope to discern a whole new set of rich strategic opportunities.

Now an update on that RingPlus base. Again, we initially migrated over 45,000 accounts. 20,000 of those initially accepted our terms of service, gave us a valid credit card and set up an account. 3,500 have departed even before the end of Q1, leaving us with 18,500. We fully expected many more to leave us in the months to follow as happens with any involuntary migration. In Q2, about 9,400 more RingPlus customers left with about 9,100 remaining. Dive in deeper, that trend, was 4,100 cancels in April, 3,100 in May and 2,200 in June and we've seen even fewer RingPlus cancels again in July. It is tough to say when we get to a cohort that they have like typical Ting customers and lifetime value but were quite happy with what we got and the effort expended.

One final part on Ting Mobile and the increasingly competitive mobile landscape. It now seems clear that there will be more casualties in the RingPlus. As tomorrow the services can be a challenge as they've often grown accustomed to unsustainable pricing model. With those pricing model by definition will get tougher to find. What is appealing about these customers is that they have picked up their heads and looked beyond the major carriers. This is the first crucial step to discovering Ting. As I've said before, we are well-positioned as incredible State sustainable alternative to major carrier plans and major carrier experiences. The weather so deal with a outgoing Ambien owes themselves our campaign directed to their customers, I him hopeful more of these losses can be our gains.

Meanwhile, Ting Internet continues its steady progress. Charlottesville is really only limited by how many customers we can install in a week, West Minister by a quirk in a town can expand the network and Holly Springs by how quickly we are excel can expand the network. In Centennial, Colorado and [indiscernible], we are early stages of a network planning and deployment and the pipeline remains solid. While Charlottesville continued its steady goat in Q2, the combination of Westminster and Holly Springs both at earlier stages, more than doubled in customers regarding revenue and most importantly operational capacity. Since we launched this service, our efforts have been much less of the building demand for our services and much more of a building capacity to serve the demand. This capacity includes install teams and processes, network expansion, network equipment set operations, pulled permits, printing technologies, customer support teams, industry knowledge in the form of senior hires, and of course, a pipeline of potential new Ting Towns. It also include city and encumbered relations, digital divide project and dealing with the additional complexities of business and enterprise customers. And the theme over and over again in this finding efficiency and scalability through systems in processing.

Particularly when you are a challenger, and one that is eager to please as we are, it is tempting to so solve a problem for 1 customer and 1 town that is not necessarily repeatable for others. So we are forcing ourselves to operate with 3 active towns like we would with 30. Of course, all this into context, we need hyper local businesses. In terms of demand, people simply seem to product net output and the price we are offering. We are doing a great job integrating ourselves into these communities and demonstrating that we are a different kind of provider.

There are so many external forces in our favor. Internet activities continue to demand faster mobile viable access, wireless technologies will and as the value of our fixed networks, and customers will continue to assert their power and look beyond encumbered to smarter more innovative more attentive service providers. Our current early small sample size numbers are too simply high to report. We continue to expect 20% adoption amongst serviceable addresses in a year and 50% in 5 years. These take rates, and with all the operational improvements I mentioned, will be paying about $2,500 to $3,000 per customer, and those customers will be $1,000 get a module. We are in active conversations with some viable prospects to be neutering does. I know that these discussions are always on this early quite until they're not.

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 noted, our Q2 strong performance in all areas of the business that was reflecting the solid growth across all key financial metrics for the period. I will note here that our results for Q2 reflect the fourth quarter of contribution on the eNom acquisition that we completed in January 20 of this year.

Total revenues in the second quarter grew 78% to $84 million from $47.3 million from last year driven by the acquisition of eNom, the larger Ting mobile subscriber base, and to the lesser extent, 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 98% to $58.8 million from $29.7 million from Q2 last year driven primarily by the top line growth in the areas of the business I just mentioned. Gross margins for our network cost increased 43% to $24.8 million from $17.4 million. I would remind you that all of our gross margin for the share will be negatively impacted by acquisition of eNom business the accounting which required amortizing into revenue deferred revenue recorded a fair value at the time of acquisition. The impact of this accounting, which can be cap rated by our efforts in our 8-K filing from April 3, will lower our overall gross margin and disclosed adjusted EBITDA by approximately 10% or roughly $8 million. The majority which will be reflected in our 2017 results. As a result, gross margin for network cost for Q2 of this year contracted to 29% from 37%.

I will now walk you through the gross margin for each of the Domain Services and Network Access businesses. Starting with Domain Services, gross margin from second quarter increased 36% to $15 million from $8.5 million in the corresponding period of the year last year. As a percentage of revenue, gross margin for Domain Services decreased to 24% from 30% for the reason I just discussed. During the latest components in the Domain Services individually, gross margin for the wholesale channel increased 89% to $11.1 million from $5.9 million in Q2 of last year, with the increase attributable went to the incremental contribution from the acquisition of eNom, and to a lesser extent, the acquisition of Melbourne IT reseller channel I mentioned a moment ago.

As a percent of revenue, gross margin decreased to 21% from 25%. Gross margin for retail services increased 62% to $3.1 million from $1.9 million for the second quarter last year. As a percentage of revenue, gross margin for retail services decreased to 41% from 54%. Gross margin for portfolio services increased 11% to $0.8 million from the corresponding period last year. As a percent of revenue, quarterly gross margin picked up slightly to 81% from 80%.

Moving to the Network Access business, gross margin for the second quarter of this year increased 16% to $9.8 million to $8.9 million for the same quarter last year, with the increase driven primarily by the growth in Ting Mobile, offset by continuing ramp in Ting Internet investment ahead of revenues.

As a percentage of revenue, gross margin for Network Access decreased slightly to 46% from 48%.

Turning to costs, network expenses for the second quarter of 2017 increased 89% to $3.4 million from $1.8 million for the same period last year. The increase is due to additional eNom network expenses and increased amortization associated with the enough technology assets. Total operating expenses for the second quarter of this year increased 50% to $14.3 million up from $9.5 million for the same period last year. The majority of the increase is due to the additional eNom exploration expenses. However, I would highlight the following additional changes not resulting from the eNom acquisition. Workforce and third-party workforce related expenses increased by $0.6 million, primary the result of the continued growth in our Ting Mobile and Internet customer base.

Marketing expenses increased by $300,000 year-over-year, primarily from the acquisition and ongoing support in Ting Mobile and Ting Internet customers. Credit card processing fees, primarily to support the growth of Ting Mobile and Ting Internet, facility cost in stock-based composition increase by $0.4 million. From a foreign exchange perspective, we had a $0.2 million unrealized gain in Q2, 2017, as compared to $0.2 million unrealized gain in the same quarter last year, which represents a year-over-year reduction of $0.1 million in expenses. In addition, we had a $0.2 million decrease in expense in the realized foreign exchange losses in Q2 2016 that did not repeat in Q2, 2017. And finally, depreciation and amortization, excluding eNom, increased by $0.1 million, probably the result of investment in Ting Fiber.

As a percent of revenue, total operating expenses decreased to 17% from 20% from Q2 last year.

Net income for the second quarter of this year increased 29% to $5.2 million or $0.50 per share from $4.1 million or $0.39 per share for the same here last year. Adjusted EBITDA for the second quarter increased 50% to $10.3 million from $6.9 million for the course pointing period last year. The increase was driven to a larger extent by the contribution of eNom but also reflect of $1.6 million negative acquisition impact eNom for the purchase price accounting adjustment as I mentioned earlier. This being the impact of purchase price according agenda for the year to $5.5 million.

The year-over-year increase in adjusted EBITDA also reflect the growth in our incumbent domains and Ting Mobile businesses.

Turning to our balance sheet and cash flow's cash and cash equivalents at the end of the second quarter this year were $15.1 million, up very slightly from $15 million at the end of the first quarter of this year and up from $5.9 million at the end of the second quarter a year ago. During the quarter, we generated a cash flow from operations of $8.1 million, which was for the most by the use of $4.6 million of repayment of our loans and an additional $2.9 million invested in property equipment for the continued build of our Ting Internet footprint.

Deferred revenue at the end of the second quarter 2017 was $165 million, up significantly when compared to $77 million at the end of the second quarter a year ago and down slightly from $166 million at the end of the first quarter of 2017. The increase in the second quarter of last year primarily reflects the additional deferred revenue from the eNom acquisition. I'll now turn the call back to Elliot. Elliot?

Elliot Noss

Thanks, Dave. Well, 3 years ago, when we first shared of our broad plans to pursue a fiber to the home strategy, we talked about a simple hypothesis for the future of telecom. Fixed network would always outperform over network. Therefore, people would use fix networks when they could and mobile network when they had to. When the availability of fixed network would naturally increase. Over the last 3 years, we have seen that trend develop and evolve. This quarter, we saw in particular, a number of independent data points that really suggest we are starting to see the next phase of telecom. We saw acquisitions by both fixed and mobile incumbents in areas including fiber and fixed spectrum. We saw fixed income and commenting upon how competitive and difficult the mobile business was.

We saw device announcements that include preparedness for the heterogeneous world that the transition to 5G now looks like. We can now see that the transition to 5G over the next couple of years will drive all of these trends significantly and will come out the other side will look very different than where we are now. Will see the addition to the mix of additional spectrum in bands like 600 megahertz, 2 gigahertz and 3.5 gigahertz, each with robust equipment at a system that do not exist today but will 24 to 36 months segments from now, each with business approaches that are likely to be different from those we see today. Luckily for us, Ting Mobile is small enough and nimble enough in this market to be able to continue to find growth and a market that is not growing and as becoming increasingly competitive, all while building our confidence, back-office and fiber miles that set us up to be the great position to take advantage of the next phase in telecom.

To conclude, all segments of our business continued to perform well. Performance was evident in our Q2 financial results. We are executing on a strategic initiatives that will drive our growth for the future for the longer-term and enable us to further take advantage of the significant leverage in our business. Our domains team is making great progress on the integration of eNom as we look ahead to the significant future synergies that are expanded scale generates. Ting Mobile business continues to add customers and satisfy those we have as demonstrated in even lower churn. And Ting Internet continues to ramp as we take meaningful operational steps toward scalability are beyond our existing team counts. For the first have 2017 financials under our belt, we remain on track towards our guidance of $42 million, or $50 million less the $8 million impact on the deferred revenue accounting for the eNom transition elect transaction. I say this is much a form of reiteration of guidance as a reminder of the adjusted $42 million number. As is often the case year, the near-term looks bright and the long-term looks even brighter. And with that, I'd like to open the call to questions. Operator?

Question-and-Answer Session

Operator

[Operator Instructions]. Our first question is from Ralph Garcea from the Canadian West partners.

Q - Ralph Garcea

If you look at the difference in the renewal rates between your eNom business and OpenSRS. I mean, what are the main differences on why so much better on your end versus eNom? And how many quarters, I guess, can you get sort of renewal rates on par or better from the eNom site?

A - Elliot Noss

Well, I don't know that you'll ever see those rates start to double. The primary reason for the difference in rates -- well, there's 2, but the biggest component is different nature of customers. So one of the things that I've talked about, if you would remember on the last couple of calls and in connection with the transaction, the eNom business has more traditional web hosting companies in North America and Western Europe. Whereas, on the OpenSRS side, we've done very well in those a next generation web hosting companies and in parts of the developing world, and we really see a lot of some difference in those customers performance manifest in different renewal rates. So that's not going to change, because what will happen really over time as I will just move everybody to a new platform.

We are not in a call them 1 customers or the other come. We might maintain the brand, but we're kind of looking at them on par. If you were to go back in time 5 years, 8 years ago, you would have still seen a differential and renewal rates between the 2 businesses. Not quite as large, but at that point, it was because we had more of the larger customers who sort of valued the deeper customer relationship and the eNom platform did a better job of getting the customers as they were sort of coming out of the gate and getting started. Their onboarding process was better and the couple elements of their platform just made it that small a longer-term customer was there, and it also tended to be a couple few points of difference anyone read that would be driven by that. So because that's about our type of customer, it not just some sort of kind of widget in the machine that we can kind of get in and sync with and change. So I think that we knew we were getting what we signed up and we're quite fine with that.

Q - Ralph Garcea

Okay. And then on the Ting Mobile side, I mean, what sort of marketing campaigns do you anticipated in the next 6 to 12 months? Do you sort of rerun some of the TV sports, or the late night TV spots that you were doing? Or do you have to change the campaign at all? Are you happy with some of the results after a couple of quarters?

A - Elliot Noss

I would say, we continue to tinker with all of it. So we've had some successes with a couple different tactics that I don't want to go into specifically, but that we are new to the marketing mix. And I think we had really getting more and more comfortable with is that it is a lot of little things and then it's each thing a little bit better over time. So we are really doing what we like to do which is put our head down and grind. I wish I had a big dramatic -- here's a couple of thousands per quarter addition that we can point to, but there isn't. I really think in terms of customer acquisition tactics, the things that may be emerging and we'll see if the traffic yields any outcomes, but some of this sort of smaller MVNO or less focused MVNOs and who sort of talk with us about taking of our customer, because there is more certainly message traffic than this being.

I stress with PTel that it is not likely repeatable. RingPlus I said well, maybe every now and then but not often and I know what you guys are thinking it happens every year. We'll see now, because it's certainly the case that it looks like that stepping up of competitive pressures and market that has stopped growing is squeezing some of the weaker hands. And specifically, when you're talking about the in the TV spots, we're tinkering with those again and we are likely to trial the next potentially in some different time slots.

Q - Ralph Garcea

The same ad or you're going to rework the ad? Or what's the strategy?

A - Elliot Noss

No, I think we are okay with the coffee. We want to see some other things with it.

Q - Ralph Garcea

Okay. And just on the Apple front, can you quantify percentagewise, or however you feel comfortable on how many of the net adds this quarter were on the Apple side?

A - Elliot Noss

So I'm going a bit we on the top of my head there could well be wrong. But it's 2 things. One, we tend to be roughly 50-50, may be slight edged to iPhone versus Android in our base. And we've seen that tick up a couple of points as we've introduced Apple. Not -- it's not fundamentally changing the distribution. What it is changing is some of the stuff we talked about last quarter, the customer experience, and it's giving us and other weapon, just sort of another lever to play with.

Q - Ralph Garcea

Okay. And just on the Internet side. You keep quoting the 20% penetration at year end. I mean, do we model that as by the end of 2018 you hope to 20% of the homes passed? Or what milestones should we work towards in trying to model that?

A - Elliot Noss

Well, I think that to try and be specific, and I really do appreciate that for you and anybody trying to model, that we made the Internet business more challenging than we like. I think we'll start really providing you a specific numbers around certain them accessible addresses. It going to higher to model that stuff. But what you can think about at this point is when we're talking about that 20% number, we are typically seeing the bulk of that in pre-ordered and we have outside of Charlottesville, we still don't even have a single market where we've been somewhere for the year.

With the accession of the Westminster trial phase. Now Westminster Phase 1 is been a few months and the [indiscernible] been into with the order. And that trial phase, which has been around now for well over a year, was only 300 homes and some of the retirement committees. We didn't quite have the full company on the ground. We are I want to say 28 points there, and I think the only reason I'm sharing that number is because it was shared publicly by the city in some of the reports and so some people have become aware of that number. So I don't think what we wanted to do as we keep reiterating about you know what we're seeing and consistent with what we hope to see and we do expect that that's not going to be too terribly long before we start getting some hard data.

Operator

And that was a last question at this time. Our turn the call back over to Elliot Noss for closing comments. And sorry we have a question that just coming from Patrick Retzer from Retzer Capital.

Q - Patrick Retzer

Looking at the fiber business, you know you've been really quiet for quite a while now, announcing new towns and I understand you're dealing with politicians that you laying out for the infrastructure internally mailing down processes and efficiencies. But I'm just wondering if we should expect to hear in the new market between now and year-end?

A - Elliot Noss

So I will say, if you made me guess whether they would be new markets announced between now and year-end, my guess would be yes. That is lots of dialogue, that is lots of action. I did want to call out very specifically in the script that sometimes these things are just subject to confidentiality and sometimes you have city processes where cities themselves to have to be very deliberate in who they talk to, when they talk to, and how they talk to them. And so I think we've always got to be respectful of cities in the processes. And as you can imagine, these things, any discussion about core infrastructure, like fiber, will be politicized and necessarily. I think just by its existence. I don't think it's a right or left, or red or blue issue, but I do think that it is very impactful at a municipal level. And so we have to be a little careful that's all. But yes, I would not be surprised with an announcement of 2 before the year and I won't be disappointed if there's not.

Q - Patrick Retzer

Okay. And some sign you stated in your comments you metrics you talked about the fact that, that you are even deeper into all of your current markets. It sounds like you are as confident as ever of the promise of that business?

A - Elliot Noss

Yes. I mean, for obvious reasons, the deeper we get into eat at this point, the better and more certain we can feel about the 20% in the first year. The 50% over 5%, again, as we have is the historical precedents to go by. There we've got to put our heads down and do our work, and as time goes along, we'll get closer and closer to that. But there is -- yes, we continue to be encouraged, which is why you see me talking about the capacity and not demand.

Q - Patrick Retzer

Okay. And towards the end of your comments, you talked about some pretty dramatic changes coming I think in mobile over the next 24 to 36 months?

A - Elliot Noss

Yes.

Q - Patrick Retzer

I mean, I would think given [indiscernible] history and being able to react to changing marketplaces, et cetera that you probably feel like you come out of that even in a better stronger larger market share place. Is that correct?

A - Elliot Noss

Yes. What I'm very confident is our ability to be a quite adaptive, quite flexible and, I almost want to use the word adventurous, and I say that, because look we spent the bulk of our professional lives in deep Internet-centric markets. Telecom tends to be a little bigger, a little slower, a little more ponderous, a little more conservative. I think there's been a be a lot of change at this next transition point and I think that serves as well. It's kind of the more variables you throw into the mix of the more sort of pivot points. I think the better served we are. Sometimes some of you heard me say, talking about competing in the hypercompetitive tiny margin domain registration world and then moving into telecom, it was like moving from altitude to sea level with richer oxygen. And I think that if and as what the speed of competition in the speed of the need for adaptation to market picks up, I think that serves us. I think it plays to our strengths and I think it plays away from some others.

Now of course, we have a real weakness there which is that we have small. The incumbents were slow and pondering have a real advantage and that they are big. But that big will also tied up not only to practices but practices in terms of business processes, but also to particular approaches to the market. We are -- because we are the bad news that will be asset light in this market. So we are not tied to anything. So we really get to deal with this change as it lands and we're pretty excited about that.

Operator

There are no further questions at this time. I will turn the call back -- we have a question from Hubert Mak from Komar securities.

Q - Hubert Mak

I actually joined late so questions were answered. But I guess, first of all the Ting Mobile, I think you're saying increased competitive environment here. Can you talk about sort of what flexibility do you have in terms of reiterating some of the adds going forward? Like whether, how much more room for pricing or what other strategy? I'm just trying to get a feel of what was a competitive environment like right now for you guys?

A - Elliot Noss

Yes. I don't think you'll see is sort of pull price lever competitively. I think that one of the things we've talked about in the past is where we could probably a little impact on prices is in data, but that's where our costs are the worst. And so there's probably not a lot we can do there. And what you'll see is doing is doing things sort of more practically all the way across. So that's at that marketing level, asset, churn level. Putting iPhones in the mix gives us a little bit more in terms of levers around equipments and things we can do there. We've added financing recently and other pretty significant portion of our customers picking that up. And so it's really like the marketing expands on top. It's a bunch of little things. So we don't think there's a silver bullet.

We do feel good about kind of doing that in the 95%, 100% over of a couple of quarter. Looking at the first time of 2017 relative to the second half of 2016, it's over 50% pop in gross adds. We feel good about that. That's outside of RingPlus. So as we start to maybe see more of those types of opportunities, we can look at those as sort of accretive on top of the growth picking up a bit. And then of course, part of that is the churn, where again, we think we are just getting smarter at the data level and we're digging in more. And so it's just work. I really, really don't think this is a silver bullet in any of them.

Q - Hubert Mak

Okay. And then on the domain business, can you just talk about integration? I just want to mention, I think on your press release you talked about moving ahead -- coming in ahead here? So if you still are targeting for the $15 million this year in terms of contribution?

A - Elliot Noss

Yes, yes. Nothing changing there. I do. It's a great opportunity to remind that the bulk of the acquisition benefit come from the retiring the platform and a lot of the data center kind of lack of density that is associated with the eNom platform. And those things don't come until right at the end of the integration work. So we're kind of where we are until we are not. But what's important is because it's a big body of work that the work is tracking well as it is.

Q - Hubert Mak

Okay. And then just last one for me. Just on the CapEx for Ting Internet. Look at your financials, didn't look on $3 million in a quarter here. So are we still targeting below the $30 million to $35 million? And what's the reason sort of the slower ramp in terms of CapEx? And then, side to that, you have a that and to the share buyback. Can you just kind of talk about sort of how you think about going forward really buy back shares sort of last couple of quarters? So how you'll you think about that again for your CapEx spend?

A - Elliot Noss

So first of all, I will do the second one first, they are independent, and as I always say we are looking at that each quarter. You know it's the training has been interesting and I think I wouldn't be giving any secrets to say that the sort of the longer chart stay flatter the more we continue to sort of do what we do, you know greater the propensity for buyback you know I think that's pretty straight forward. In terms of CapEx, the big things that really have sort of taken that number way down especially I mean thinking now at this point of having even thought 30, 35 back in that kind of October, November timeframe. You know its' really us telling the cadence that [indiscernible] workout. You know in that number we had Holly Springs starting I want to say 4, 5 months ahead of when it actually started that of course pushed back some of the customer adoption as well because you can't sell what you don't have. We also had both sentinel and Sandpoint [ph] being further along you know kind of now we would have seen both of those as been kind of in-construction over the second half of the year and it looks like we're doing good work in both places but I don't know if we are going to get a shovel in the ground this year in either place. So what I will tell you, I mean the best thing I can tell you Hubert is we're learning and we are trying to be more accurate, we will be more accurate as year goes along and we're trying to be kind of giving people pretty good visibility as we are going. So I will like to be spending more money.

Q - Hubert Mak

Okay, and then just follow-on that and are we still targeting for break-even late 2018 or has it been pushed out?

A - Elliot Noss

You know I want to hold it till I see some of the numbers, what I haven't rolled a bunch of the elements in that forward to really give you a good answer and it is a really, it's very much a multi-variant analysis.

Q - Hubert Mak

And any idea when you would actually hit the 85,000 addressable addresses in terms of network completion, like is it three years for you?

A - Elliot Noss

I think we will get to -- when we get to 85,000 addresses it will probably have addresses from some other markets in it before we finish those markets.

Q - Hubert Mak

Okay, in that context any idea like is it like two years out, three years out, any sort of timeframe?

A - Elliot Noss

In general if you want to use Holly Springs as an example, we're going to build, where we are going to build in Holly Springs, certainly within 24 months and so you're going to see that in sort of a roll from there. In Charlottesville's it's a little bit different because we bought an existing network. It didn't have the same sort of planned and staged roll out. In fact one of the things that we spent a lot of work on in the last couple of months is kind of a reauditing of the Charlottesville network to kind of refit it and make sure that it was set to accept all the growth that it could.

Operator

There are no further questions at this time. I will turn the call back over to Mr. Elliot Noss for closing remarks.

End of Q&A

Elliot Noss

Thank you very much for joining us and we look forward to having you all again next quarter.

Operator

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