Tucows (TCX)

Q3 2017 Earnings Conference Call

November 9, 2017 17:00 ET

Executives

Elliot Noss - President and Chief Executive Officer

Dave Singh - Chief Financial Officer

Analysts

Hubert Mak - Cormark Securities

Patrick Retzer - Retzer Capital Management

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to the Tucows Third Quarter 2017 Conference Call. Earlier today, Tucows issued a news release reporting its financial results for the third quarter ended September 30, 2017 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 in 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 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. With me is our Chief Financial Officer, Dave Singh. Today's call will follow our usual format. I will begin with an overview of the financial and operational highlights for the third quarter of 2017; Dave will then provide a detailed review of our financial results; and I will return with some concluding comments before opening the call to questions.

I would like to begin by reminding you that the numbers we will present today reflect the consolidated domains business, including the contribution of the Enom businesses we acquired on January 20 of this year. I will however continue to breakout any numbers that I think will be helpful. The third quarter of 2017 saw the continuation of strong performance across all areas of the business, which combined with the contribution of the Enom acquisition, drove 73% growth in revenue to a record $85 million. Net income for the quarter was $3.4 million or $0.33 a share and adjusted EBITDA was $9.4 million.

As I have discussed on prior calls, the required accounting treatment of deferred revenue for the Enom acquisition in January will have a negative non-cash impact on adjusted EBITDA of about $8 million, the vast majority of which will be realized in 2017. As a reminder, that impact was $3.8 million in Q1 and $1.6 million in Q2. For Q3, it was $1.5 million bringing the total for the year to $7 million. I should also mention that the year-over-year comparison suffers from a quarter of outsized Ting Mobile margin in Q3 2016. As we reported at the time, we received price breaks from our carrier partners early in that quarter before passing on that price break to our customers by the end of that quarter. That price break has reduced churn while maintaining strength in gross ads. That's the inflated, but it briefly inflated profit margin in Q3 2016 and did crop up EBITDA. Q3 last year also benefited from the reversal of overachievement bonus accrual that was not repeated this year. Together, these added nearly $1 million to EBITDA last year. The business continues to generate strong cash flows with cash generated by operating activities for the third quarter of $7.3 million.

Turning to our domains business, we continue to make progress on the integration of the Enom business and the team in Seattle. At a high level, the integration of OpenSRS and Enom is intended to deliver a greater experience to our resellers and synergies to our shareholders, with the plan to deliver these benefits by 2019. On our last call, we identified the caveat that the European Union General Data Protection Regulations, or GDPR, could impact our timing and then I would provide an update today. I will describe this in more detail in a moment.

In terms of key metrics, Q3 was another strong quarter for the domains business. In our wholesale channel, total registrations for the combined OpenSRS and Enom businesses were approximately $4.4 million. OpenSRS had another solid quarter representing approximately half of that total and was up year-over-year both for the quarter and year-to-date. We continue to be pleased with its performance given the size of the business and the mature nature of the industry. The combined renewal rate for the OpenSRS and Enom wholesale channels ticks up in Q3 to approximately 73%. Again, this number now reflects the lower renewal rate of the Enom domains, while OpenSRS continues at its historic levels that are well in excess of the industry average.

The combined retail channel also saw another quarter of strong performance anchored by continued year-over-year growth in the incumbent Hover business. The combined retail businesses processed about 400,000 transactions and the renewal rate remained steady at a very healthy 84%. As I have discussed on prior calls, the Enom retail businesses we acquired in January are mature businesses with high gross margins and lower growth, which will dampen most of our growth metrics in 2018.

The General Data Protection Regulation, or GDPR is a piece of legislation passed by the European Union to enforce tougher more consistent guidelines on organizations that operate across the region and particularly, global Internet companies and deals with customer data and product deployments. These guidelines impact the millions of domain names that we have registered to European end-users. So, we need to comply along with everyone else by May 25, 2018. This will require a significant investment in engineering. However, its work that needs to be done by everyone across our industry and across many industries and it plays to our engineering strengths. Also, other governments are starting to the EU's lead and pass their own legislation. So, while the work will cause some pain in the short-term if we do it well better and faster than others, it could create some opportunities in the future.

Moving on the Ting Mobile business, as we have done the last couple of quarters, we will provide total active accounts and devices and then unpacked the core or organic ads and RingPlus departures that are combining to produce those total numbers. Again, in Q1, we acquired a base of about 22,000 customers from RingPlus, another MVNO that was shutting its doors. We expected significant churn with any involuntary migration and this base was significantly more churney than most. I had said back in Q1 that I would hope to hang on to 5,000 to 7,000 of them and that is in fact exactly where we are now.

Ting Mobile finished the quarter at 171,500 accounts and 281,000 devices. This is a return to overall growth from the 170,000 accounts and 278,000 devices that we reported last quarter. Diving deeper, those 1,500 net adds actually come from a healthy 4,500 organic net adds and a loss of another 3,000 RingPlus customers. Q3 was in fact one of our best quarters ever for organic gross adds. Gross adds don't pay the bills and rising absolute churn is a factor in any growing subscription business, but we do look to gross adds as an indication of how competitive we remain in an increasingly competitive industry, our growing awareness and steady conversion from awareness to activation and our ability to find efficient new channels to reach relevant new prospects. Our strong gross adds through three quarters of 2017 continue to give us confidence that this is still very much a growth business, of course, inside a flat industry.

Ting Mobile had another outstanding quarter of retention, with monthly churn not including RingPlus customers at 2.49%, down from 2.8% in Q3 2016. As we have said, churn is quite seasonal. Q1 and Q2 are typically lower and Q3 and Q4 higher. This 2.49% in Q3, along with the 2.27% and 2.19% we reported for the first two quarters respectively puts us in a great position to beat the 2.5% monthly churn that we had set as our benchmark for 2017. As for the RingPlus churn, it is declining each month in both absolute numbers and percentages. We saw 1,500 cancels in July, 900 in August and 600 in September, the remaining base of around 6,000 does not yet match our typical Ting customers of that 2.5% churn, but it is inching closer.

Finally, we announced in September that we had acquired Roam Mobility, yet another MVNO that is being spun off, so that its parent company, Otono, can focus on its core eSIM technology. If you will forgive the sports analogy, this is a deal that brings both an immediate contributor and a couple of draft picks. The Roam brand, our immediate contributor, offers affordable prepaid plans to people visiting the United States for just a few days, weeks or months. With a model like that, accounts will constantly toggle between active and inactive and would not resemble Ting accounts at all in lifetime value. For this reason, we will not be reporting active accounts on Roam and will instead just report this as monthly revenue within our mobile services. We are pleased with the revenue for the price and this business will benefit further from our cost structure, but we do not expect it to have a material impact on overall company performance.

Now, the draft picks, one of the businesses we acquired puts us on a very short menu of carrier partners that I have had users can choose from right on their iPad to get network data on their device. At the very least, it will offer tremendous exposure for the Ting brand. At the most, it could become a gateway for new customers to join Ting on the iPad plan and then bring their smartphones. This iPad placement also comes with new carrier relationships as we will be appearing on this menu and offering this data service all over the world. To be clear, I am not here announcing the launch in Ting Europe or Ting Asia, but any supplier agreement is a nice bonus that could have some option values some day.

Finally, this deal gives us access to the Otono eSIM platform. eSIM allows mobile users to choose and switch between networks without needing to insert and activate traditional SIM cards. In coming quarters, eSIM should allow Ting to support high-profile smartwatches and other exciting new connected devices. In coming years, eSIM should allow Ting customers to move seamlessly between networks on almost any device imaginable.

To summarize, Ting Mobile had another strong quarter of customer acquisition and retention. Meanwhile, we are investing in growth and product innovation to keep the momentum going. On Ting Internet, the story is simple and positive. Demand is meeting our expectations. Costs are in line with our model. We are operating well. The focus is on building and a bit of buying. In Charlottesville in Q3, it was actually a bit more rebuilding than building. We determined that some legacy portions on the network we acquired were not quite capable of the penetration we expect. So, we have been auditing and properly documenting new equipment there and upgrading is needed. This has briefly suppressed new customers as we have shifted resources away from expanding the network and installing new customers, but we are making good progress and in the new year we will quickly expand at a neighborhood, where significant preorders await. This exercise has really served to remind us how much we have learned in a very short time, both in operating and retrofitting a fiber network built in a relatively ad-hoc fashion and in building and operating a network from the ground-up. The learning is invaluable.

In Westminster, the network now passes almost 3,000 serviceable addresses, nearly half of the 6,200 that the city plans to pass. In Holly Springs, we have built almost half of all existing serviceable addresses that we intend to reach, with the last of those being lit now and we continue to expand quickly. Meanwhile, the towns keep growing with new residential and commercial developments and we look forward to growing with it. Across all three towns, adoption on the network and preorders beyond the network continue to meet our expectations. In Sandpoint, we are currently staffing our team and expect construction to begin shortly, but winter conditions will limit how much we are able to accomplish between now and spring.

In Centennial, we are completing network design and vendor selection to begin building to our first neighborhoods. We expect both of these markets to start lighting up customers around Q2 2018. We also note that with Sandpoint and Centennial we have learned the flow of a project with greater precision. In both cases, we were early about roughly half the year of the estimates we made at this time last year. That mistiming cost us both in terms of the OpEx investment in fiber in 2017 and in holding the CapEx number down fairly considerably.

Many of you have probably been following our efforts to purchase Burlington Telecom, the publicly owned fiber Internet and television provider in Burlington, Vermont. Burlington Telecom operates a fiber-to-the-home network that already passes about 85% of all possible serviceable addresses there and has adoption over 40%. There is about 16,000 serviceable addresses and 6,600 active customers. Burlington is a great example of the difficulty in predicting the flow of any potential transaction. There is always uncertainty. It is just in this case much of it happens publicly and the big decisions are shown live streams on YouTube. We have no update other than what was public in the City Council Meeting last Monday and we will see what happens next in the City Council Meeting this Monday. We remind that this is all available live streamed on the internet.

I would 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 third quarter grew 73% to $85 million from $49.1 million for the same period last year. Growth was primarily driven by the acquisition of Enom and to a lesser extent by the contribution of the larger Ting Mobile subscriber base and growth in our legacy domains business. Cost of revenues before network cost increased 98% to $61.1 million from the $30.8 million from the third quarter of last year, with the increase driven by our growth in revenue. Gross margin before network cost increased 31% to $22.9 million from $18.2 million and I will take this opportunity to remind you that our overall gross margin throughout this year will be negatively impacted by the acquisition of Enom business, the accounting of which required amortizing into revenue, deferred revenue that was reported at fair value at the acquisition date. The impact of this accounting which can be calculated by referencing our 8-K filing from April 3 will lower our overall gross margin as well as our disclosed adjusted EBITDA as Elliot mentioned earlier by roughly $8 million, the majority of which will be reflected in our 2017 results. As a result, gross margin for network cost for Q3 of this year contracted to 28% from 37% for the same period last year.

I will now review gross margin for each domain services and network access businesses. For our domain services, gross margin for the third quarter increased 67% to $14.3 million from $8.6 million for the same period last year. As a percentage of revenue, gross margin for domain services decreased to 22% from 29% for the reason I just mentioned and a slightly lower gross margin profile on the Enom business. Looking at the various components of domain services individually, gross margin or the wholesale channel increased 59% to $9.2 million from $5.8 million for Q3 of last year, with the increase due mainly to the incremental contribution of the Enom acquisition. As a percentage of revenue, gross margin for wholesale decreased to 18% from 23%. Gross margin for retail services domain channel increased 110% to $4.3 million from just under $2 million for the third quarter of last year. As a percentage of revenue, gross margin for retail services decreased to 48% from 54%. Gross margin for portfolio services remain relatively flat to $0.8 million and as a percentage of revenue, gross margin declined to 82% from 86%.

Moving to our network access business, gross margin from third quarter of 2017 remained relatively flat at $9.7 million compared to the same period last year. Margin growth for Q3 was dampened for a few reasons as Elliot noted. First, our gross margin for Q3 of last year benefited from a decrease in data fees charged by our network suppliers in advance of passing those of decrease on to our customers. Second, we continue to ramp in Ting Internet revenue internet investments ahead of revenues. And as a percentage of revenue, gross margin from network access decreased to 42% from 50%.

Turning now to cost, network expenses for the third quarter of 2017 increased 139% to $2.8 million from $1.6 million for the same period last year. The increase was due to the additional network expenses associated with the addition of Enom operations as well as increased amortization and depreciation associated with the Enom technology assets. Now total operating expenses for the third quarter of 2017 increased 51% to $14.2 million from $9.4 million from Q3 of last year. The majority of the increase is due to the addition of Enom operational expenses. However, I would highlight the following additional changes not resulting from Enom acquisition.

Workforce and third-party workforce-related expenses increased by $1 million primarily as a result of continued growth in our Ting Mobile and the internet customer base as well as in the third quarter of 2016 we have reversed an overachievement bonus accrual of $0.3 million, which was now repeated in the third quarter of 2017. Credit card processing fees, facility costs, travel, and other expenses primarily to support the growth of Ting Mobile and Ting Internet increased by $0.5 million. These increases were offset by the following. From a foreign exchange perspective, we had a $54,000 gain in Q3 2017 on currency forward contracts as compared to a slight loss for $22,000 in the same quarter last year, which represents a year-over-year reduction of $0.1 million in expenses. In addition, we had a $0.4 million decrease in expense from realized foreign exchange impacts as we experienced a $0.4 million gain realized in Q3 of 2017 as compared to a slight loss of $32,000 in the same quarter of 2016. And finally, depreciation and amortization, excluding Enom, remained relatively flat year-over-year. As a percentage of revenue, total operating expenses decreased to 17% from 19% for the same period last year.

Turning to net income, net income for the third quarter of 2017 was $3.4 million or $0.33 per share compared to $4.7 million or $0.45 per share for the same period last year. The decline was primarily driven by increased amortization expense related to intangible assets associated with Enom acquisition. Adjusted EBITDA for the third quarter increased 9% to $9.4 million from $8.6 million for the corresponding period last year. The increase was driven primarily by the contribution of Enom as well as growth in our incumbent domain business. As mentioned earlier, our year-over-year growth was dampened by the supplier cost reductions and the bonds reversal in the third quarter of 2016. And I will also note that the EBITDA reflects a $1.5 million negative impact related to the acquisition of Enom for the purchase price accounting adjustments. That brings the impact of those adjustments year-to-date to $7 million.

Turning now to our balance sheet and cash flows, cash and cash equivalents at the end of the third quarter were $12.5 million, down from $15.1 million at the end of the second quarter, but up from $10.5 million at the end of the third quarter of last year. We continued to generate strong cash flows from operations, which was $7.3 million for the third quarter. This was offset by the use of $4.6 million for the repayment of our loan, the investment of an additional $2.9 million in property and equipment primarily for the continued build of our

Ting Internet footprint and the use of $2.2 million for the acquisition of the Roam Mobility consumer-related assets. Deferred revenue at the end of the third quarter of 2017 was $162 million, up significantly from $78 million at the end of the third quarter last year reflecting the contribution from Enom and down slightly from $165 million at the end of Q2 of this year.

That concludes my remarks. And I will now turn the call back to Elliot. Elliot?

Elliot Noss

Thanks, Dave. We have now been actively working on the fiber-to-the-home business for nearly 3 years and the time has come till we have framework for investors to follow our progress in more detail. We currently pass 13,100 homes and have roughly 3,900 customers across our existing three markets. Each quarter we will be providing the total number of homes passed and the total number of customers. In addition to sharing any modifications to our previously provided metrics dealing with take rate, build cost and CapEx spend. We think investors should be following the business as a whole. So, while we will always be providing information about individual markets and their progress, we will not be providing passes and customers for individual markets.

There are number of things that I would like investors to note about those metrics. First, timing, when we go into a market, there will be some amount of CapEx that proceeds of adding any homes passed. This covers things like network design and designing and building a core facility. Next, our take rate goals of 20% in 1 year and 50% in 5 years are end of the year goals. In other words, a 20% take rate for serviceable addresses that have been available for 12 months. Particularly, in the early years, the bulk of the addresses that we have available will not have been available for that length of time. This will even out over time, but in this case, over time will be 3 to 5 years from now.

I will note that the numbers that I reported above have been held down by the re-audit that we talked about in Charlottesville. So, that's the serviceable addresses that have been held down showing how individual events can impact these numbers. Because of the flow of addresses becoming available, taking the penetration in any given quarter will not be an effective way for investors to judge whether we are hitting our goals of 20% in the first year and 50% in 5 years. This is akin to what we see with devices per account in the mobile business, where the headline number stays relatively flat over time, but goes up significantly inside of each cohort. In fact, you could see the headline number fall in quarters where we have a particularly strong build performance. Because of this, the right thing for investors to watch for and the way that we track the business at the highest level is to look for the absolute growth in customers and serviceable addresses. Again, this will sometimes be choppy due to the uneven nature of construction and the spurts that happened due to preorders, but on an annual basis, these numbers will provide a clear guide on progress. And in terms of where we are currently, we saw 2017 go way slower than expected as we learned the flow and cadence of a fiber build and we improved our staffing and structure. In 2018, we hope to hit our stride in terms of sustaining multiple concurrent bills and applying the lessons of 2017. And in 2019, we expect to have something that feels more like a steady state flow. We are starting to see the other side.

From a cash flow perspective, Charlottesville turned positive this year. Holly Springs and Westminster turned positive late in 2018. Things are happening as they should. And I should note that I am talking about positive at a city level. Finally, do remember that acquisitions will make all of these numbers more choppy, as has been very publicly clear with Burlington Telecom, these opportunities are quite unpredictable. A lot of people want to view the fiber build-out of the next 20 years through the lens of the coax cable build out that took place from the late 60s through the early 80s that may or may not be an apt comparison. But to the extent it is, we are probably somewhere in the 1969 to 1971 timeframe. And for those of you who follow that story, you will know that, that puts us many years before any real rollup started. There was no HBO until 1975.

As is our practice, the above is intended to help investors follow our progress on the same basis as we are tracking it ourselves. Clearly, there is a lot going on in all segments of the business, integrating a large acquisition, building a new platform and dealing with the GDPR have the domain business working flat out and excited with new opportunities. Ting Mobile is heading into a year where we start to see the new future of mobile services come into sharper relief and the Ting Internet business will have its first year looking something like it will look in adulthood. There is a lot of work and even more opportunity. We reiterate our $50 million EBITDA number for 2017 and look forward to the huge body of work in front of us in 2018 setting up for real momentum into 2019.

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

Question-and-Answer Session

Operator

[Operator Instructions] Your first question is from Hubert Mak from Cormark Securities.

Hubert Mak

Hi, guys. I guess first question I have is on the domain business. Can you guys talk about the margins in terms of – it looks like it's sequentially down in terms of a percentage margin? So, can you just kind of give us some color and the reason for that?

Elliot Noss

Yes, there is nothing that stands out there. You are just going to see a little bit of the flow, particularly with new gTLD promotions and things like that. So, we are not seeing anything systemic. We have continued to see kind of a slight uptick in gross margin in that business over time. There is going to be a little bit of an ebb and flow as the Enom business gets adopted, but there is nothing particularly sort of jumping out that's systemic.

Hubert Mak

So, when I take the Q3 as the potential run-rate or at least the margin that you guys are comfortable with or would this – do you expect this to move backup heading into '18 here?

Elliot Noss

Look I think it's always best to be conservative and you can model at these levels and then we are all happy as it goes out.

Hubert Mak

Okay. And then similarly on the mobile large, the Ting Mobile as well, is there any commentary around the margins, it looks like it's also down as well, sequentially at least?

Elliot Noss

Yes, again, there was – Dave, is there something you wanted to add there?

Dave Singh

No.

Elliot Noss

No. I think, you are just seeing a little bit of a flow. There could be a little bit of the RingPlus stuff coming in and you are also starting to see particularly if you are looking just at the reported margins, Hubert, you are going to see the step up in device sales particularly Apple sales. And as you know, those are essentially zero margin transactions. So, my guess is we will both get to step away a little bit and check the MD&A and we should be able to strip that stuff out for you and I think you will see it's pretty consistent.

Hubert Mak

Okay. And then on the mobile side, can you just give us an update in terms of the competitive environment whether that's continuing to become more competitive for you guys or has that stabilized. Can just maybe talk to that?

Elliot Noss

It's very interesting on the competitive environment side, because I don't know if you happen to see apparently Marcelo Claure, Sprint's CEO, said at a conference yesterday was sort of reported today that they were going to be raising prices shortly. I don't know what that signals. It will be interesting to see. So, that's kind of it looks all the sort of the merger fell back and maybe that is just Sprints in particular getting rid of some of the aggressive promotions they had during the merger discussions. So, we don't know, but that could signal also potentially a bit of a trough in terms of pricing. I think that most of the incumbents are really sort of dealing with their kind of down market stuff through their flanker brands now and it's a zero growth market. It's all about people taking share from each other and I think that the incumbents are playing around with tactics. I think for us though on the price competition side, we still believe that we have got loads of value in there. And so I think there is nothing worsening certainly.

Hubert Mak

Okay. And then I just want to clarify something, you didn't iterate your $50 million operating EBITDA. So, I just want to make sure my math is correct. So, am I correct to take that as currently your adjusted EBITDA was about $26 million and you recognized or at least you had an impact of $7 million in terms of accounting adjustments. So – and I think that total is about 33, so am I taking that in the quarter, Q4, you are looking for a difference between the 50 and then 33. So I guess ‘16 is that sort of how I think about that?

Elliot Noss

Yes.

Hubert Mak

Okay. Okay, great. Thanks.

Operator

[Operator Instructions] The next question is from Patrick Retzer with Retzer Capital Management.

Patrick Retzer

Good afternoon, gentlemen. Congratulations on another good quarter.

Elliot Noss

Thank you.

Patrick Retzer

So, I wanted to talk about the fiber a bit, Elliot you mentioned the Burlington situation a couple of times, I mean just to clarify, if I have agonized over watching some of the hearings if in fact that gets to the point where it’s not worth pursuing there is plenty of opportunities out there for Ting Fiber, right?

Elliot Noss

Yes. The pipeline is as nice as it’s ever been. And remember, Pat, we are now kind of active in 5 markets, not 3 anymore. So, there is lots of work. I think that Burlington is a unique situation in so many ways. So, my inbox has been full with people who find themselves frustrated sometimes watching those hearings. We have been on the ground there a bunch of times and I get that if you are watching those hearings and I will tell you it’s a great city with an incredibly active community. So, I think that for me to provide any specifics would be spoilers for Monday’s episode and I think that will be wrong, but I would say that we continue to be hopeful and I understand your frustration and appreciate it.

Patrick Retzer

Okay. I see Madison, Wisconsin put out an RFP just a day or two ago, how many opportunities are you currently looking at?

Elliot Noss

There is always – boy, there is never a time when there is not sort of 10 or 12 under consideration, 3 or 4 under quite active consideration. And I would also add we are very aware of the situation of Madison. We like the way they are going about it and obviously we like that market.

Patrick Retzer

Okay. Well, thanks for the updates on Charlottesville, Holly Springs and Westminster. I mean, clearly you have made a lot of progress there and keep up the good work.

Elliot Noss

Thank you, Pat.

Operator

[Operator Instructions] And we have another question from Hubert Mak from Cormark Securities. Your line is open.

Hubert Mak

Hey, I just want to also talk about that fixed as well. So, I want to make sure I am clear in terms of the operating cash flow that you are targeting here. So, I think I heard I guess or at least for this overall, it sounded like you guys are expecting to be on target in terms of generating positive cash flow I guess late 2018 as a sort of at a high level. Is that correct?

Elliot Noss

That's looking give or take a couple of few months on either side that's looking when it's about to turn. We are seeing enough visibility in particularly those markets that I mentioned. And then it's really going to be a question of how fast we are ramping up elsewhere. So, for instance, if we are actively spinning up in a couple of markets on top of what we see now, that's going to push that period out. If we are lucky enough to be successful with Burlington Telecom, obviously it's going to bring that period in, right. So, you have got a lot of puts and takes. What I am trying to do is keep people with visibility to the total picture and make sure that you can track the progress the same way we are. So, when you have a market like Holly Springs, where we kind of started the pre-work late in '16 we were building and are building through '17 we will probably complete the build in '18 and then that starts to contribute to cash later in '18 right out of city level. So, what I mean there is we have a set of expenses that are in the city and then we have gross margin that the city is generating. Right, it's now contributing, then we have a small centralized operation back in Toronto and it's a question of when that gets covered off to, but we are seeing all the right indications.

Hubert Mak

And just related to that now depending obviously at the success of the Burlington Telecom, if successful you would be utilizing some of your cash here. So, would you continue to push through in terms of other cities or would you slow the organic initiatives or how do I think about timing of that resuscitated?

Elliot Noss

Yes. I don’t think that will have to do as much with cash as with operational breadth. And I will note that great Burlington Telecom has an amazing staff and a great leader today. So, we really have to see what work on the ground we have to engage in, but that’s really going to be again I don’t want to get out, actually I don’t want to get out ahead of that one at all, because it is completely speculative at this point.

Hubert Mak

Okay, understand. Thank you.

Elliot Noss

Thank you.

Operator

And I will now turn the call back over to Mr. Noss for closing comments.

Elliot Noss

Thank you very much and we look forward to speaking with you all again next quarter and between then a Merry Christmas and a Happy New Year. Thank you.

Operator

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