Introduction [Monica Webb]

Welcome to Tucows’ third quarter 2019 management commentary. We have pre-recorded prepared remarks regarding the quarter and outlook for the Company. A transcript of these remarks is also available on the Company’s website. In lieu of a live question and answer period following the prepared remarks, shareholders, analysts and prospective investors are invited to submit their questions to Tucows’ management via email at ir@tucows.com until Tuesday, November 12th. Management will address your questions directly, or in a recorded audio response and transcript that will be posted to the Tucows website on Thursday, November 21st at approximately 4 p.m. eastern time. We have extended the timeline to respond this quarter due to the Company’s annual Board of Directors offsite meeting.

Last month we rebranded Tucows to better reflect both our legacy in the technology space, and the core philosophy that guides our business – making the Internet better. A big part of that effort is a new website, including an enhanced Investors section. We encourage you to take a look and provide feedback on ways we can continue to improve our online resources for investors.

We would also like to advise that the updated Tucows Quarterly KPI Summary, which provides key metrics for all of our businesses by quarter since Q1 2018, is now available in the Investors section of the website, along with the updated Ting Build Scorecard.

Now for management’s prepared remarks:

On Wednesday, November 6th, Tucows issued a news release reporting its financial results for the third quarter ended September 30, 2019. That news release, and the Company’s financial statements, are available on the company's website at tucows.com, under the Investors section.

Please note that the following discussion may include forward-looking statements, which, as such, are subject to 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 Forms 10-K and 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.
**Management Remarks [Elliot Noss, CEO]**

Thanks, Monica. I will begin our remarks with a review of the third quarter. Dave Singh, our Chief Financial Officer, will then review the third quarter financial results in detail. And I'll return for some concluding comments.

Now on to the quarter. The third quarter was highlighted by year-over-year growth in revenue, gross margin, and adjusted EBITDA. Total revenue increased 6% year over year to $88.1 million from $83.5 million for the third quarter last year, while gross margin dollars increased 17% when correcting for the non-cash impact of the purchase price accounting treatment for the Ascio transaction. The as reported number was up 14%.

Adjusted EBITDA increased to $14.8 million from $11.9 million for Q3 of last year. Net income was $4.2 million, compared with $5.3 million in Q3 last year.

**Domains**

Our Domains business continued to perform well in the third quarter, once again demonstrating the consistency of the business and the success of our focus on managing this business for gross margin contribution and profitability.

In our Wholesale channel, gross margin dollars were up 17% year-over-year. Within these results, both Domain Services’ and Value Added Services’ gross margins were also up 17%.

For Domain Services, approximately 40% of the increase was generated by our legacy business, with an equal contribution from the pricing alignment implemented last year; and from organic growth. The other 60% was generated by the recently-acquired Ascio resellers. And again, the Ascio contribution was dampened by the accounting treatment mentioned on previous calls.

Also worth noting -- you will recall that GDPR became law in the EU in 2016 and we were required to become compliant by May of last year, which we did. While the contribution from Domain Privacy has held steady since then we have recently started to see a gentle decline in this offering from certain of our resellers.

Total wholesale registrations for the third quarter increased 2% year-over-year to 3.9 million, primarily as a result of the Ascio acquisition. Adjusting for the transactions contributed by the Ascio acquisition, and adjusted for the second portion of the bulk transfer of names last year, total registrations were down about 4%, primarily from expected declines for Enom resellers. However, the strong growth in gross margin dollars on lower transaction volume during the quarter is indicative of the benefit of focusing on higher-quality wholesale customers. The renewal rate for the wholesale channel was again a healthy 76%.
During the quarter, we continued to see the benefit of the changes we implemented early in the second quarter related to our expiry stream process, with gross margin dollars for Value-Added Services up 17% year-over-year, and up 8% sequentially.

In the Retail Domains channel, total registrations for the third quarter were down 7% to approximately 365,000, compared with 390,000 in Q3 last year, with the decline again primarily coming from the high margin Enom retail brands. Gross margin dollars however, were up 2%.

The already very healthy renewal rate for the Retail channel ticked up in the third quarter to 82%. Renewal rates for both the Wholesale and Retail channels continue to be solidly above the industry average.

I mentioned on our last call that we were likely to move on from owning our own portfolio of premium domain names by the end of this year, and we took another step in that direction during the third quarter with a $1.9 million bulk sale of names. That sale contributed to an outsized gross margin contribution of $2.2 million from our Portfolio.

Subsequent to quarter end, we completed another bulk sale from our Portfolio for $1.4 million, representing the remainder of the names we owned other than our surname portfolio.

We have owned our own portfolio for a little over a decade now, and it’s been a great tactical business, consistently generating sales in the range of $2 and $3 million annually, with relatively little ebb and flow, and with some years punctuated by a larger bulk sale or two.

Throughout this period, two things were true. We were always adding to the portfolio through the expiry stream and we were always needing to increase the transaction volume in order to maintain the same levels. At the same time, the underlying demand in this segment was declining as the increasing sophistication of SEO and related online advertising technologies reduced the returns on direct navigation domain names. We have all witnessed the maturation of online advertising technologies over this time as they evolved from a relatively blunt instrument to an amazing precision tool that now tracks every element of our life with great accuracy and provides incredibly efficient, if sometimes annoying, results. Through this maturation, the value of domain name traffic has declined to the point where we made the decision, starting a couple of years ago, to first reduce our exposure to this segment, and finally, to exit it completely. We do want to note that the value of a premium domain name, as a name for a company itself, has never waned -- it’s at least what it was when we started this exercise -- and might even be up over time. Despite the fact that premium names was the segment of the market that we focused on, the value of leads was the primary driver for the health of this segment.
I do want to highlight that the wind down and exit of our Portfolio business this year will of course impact year-over-year comparisons next year for the Company as a whole, and the Domains business, more specifically.

A little over a decade ago, we transitioned from Value-Added Services as a strategic growth driver to secondary market and owning our own portfolio as a tactical growth driver, while looking for areas to grow strategically outside of domain names -- which led to telecom and Ting. The secondary market played its part for over a decade. Going forward, our hope is that the platform work which starts to land meaningfully in 2020 allows us to turn to Value-Added Services again.

**Ting Mobile**

Now onto Ting Mobile.

Service revenue for Q3 was down 0.5% versus Q3 a year ago and up 3.5% compared to last quarter. Gross margin on service revenue was down 6.6% versus a year ago and up 3.3% sequentially. It is worth noting that we only really started to enjoy revenue from those acquired FreedomPop subscribers in September, with migrations flowing in through July and August. In fact, revenue from that cohort has ticked up a bit from September to October.

We finished Q3 with about 166,000 accounts and 294,000 subscribers. We activated about 10,500 accounts with 12,000 subscribers on the Sprint network from that FreedomPop base. Outside of that, we lost about 1,500 accounts and gained about 1,500 subscribers on our core base, with a handful of large IoT and other business accounts propping up those subscriber gains.

Those 12,000 FreedomPop subscribers, for what ended up being a price of $3.45 million, were less than we would have liked. But the revenue so far, lower than expected churn from September to October, and incremental contribution toward carrier guarantees and incentives, should all ultimately add up to an acceptable return on our investment.

Churn for Q3 was 3.36%, up from 2.79% in Q2 and 3.07% in Q3 a year ago. That Q3 number includes some very early coming and going of FreedomPop customers who just wanted to port out to other services, and is otherwise perfectly normal and acceptable for a third quarter.

The most important update I can offer on Ting Mobile is that our Verizon integration is going well and we are on track to start adding our first customers by the end of the year. We will be working out the kinks for the first quarter or so but our tech team has been pleased so far with the platform and the integration tools and I am very excited about the upgrade in partnership, network and margins in 2020.
Ting Internet

Moving to Ting Internet, the third quarter once again saw strong, steady progress across all aspects of the business, although as noted last quarter, the new customers and serviceable address adds continue to be impacted by waiting for central facilities construction.

This quarter we passed almost 5,600 new addresses but only 680 addresses became serviceable. We added 684 customers, obviously held down by that same issue. This brings us to roughly 9,500 active customers and over 34,000 serviceable addresses with an additional 10,600 now passed but unlit. We spent over $8.5 million in fiber capex in Q3 to build past those 5,600 addresses and to invest in central facilities.

We have talked repeatedly about learning and iterating as key to becoming the best fiber telecom in the world. In 2019, our two most important takeaways have been planning for weather and learning the cadence of construction.

We have over two decades of organizational experience building Internet services, but Internet services are not subject to weather. And the scope and scale of construction of physical facilities, separate from laying fiber, is complicated. Atoms are more complicated than electrons.

In addition, earlier this year we decided to take a new approach to data centers and build our own, leveraging the work we were already doing in fiber construction. This had the impact of greatly increasing the amount of construction we needed to engage in in 2019 and 2020. Through the summer and fall we took steps to deal with this organizationally but we are now experiencing the impact of the lag between the learning, the additional work of building and operating our own data centers and creating the right organizational structures to deal with it.

I say quite regularly that we are not capital constrained or opportunity constrained but rather organizationally constrained. This is a fantastic example. The rinse-repeat of learning and reacting at an organizational level has human beings and their capacity for change as the limiting factor. I continue to be pleased and impressed with our pace of change.

Construction of fiber itself in our Colorado and North Carolina footprints is progressing very well. Of course we have worried about whether these pent-up pre-orders would suffer in conversion from the wait for serviceability and we have watched that metric very closely across all our pre-orders. I am comforted to report that even prospects that wait as long as one and even two years for their pre-orders to become serviceable have still been converting at over 80%, which
reinforces the continuing superior value people ascribe to the Ting gigabit service.

I also wanted to give an update on our partnership with SiFi in Fullerton, California. SiFi is now proceeding with construction, and they expect to allow us to start lighting the first customers in late Q1 of 2020.

In September we added the Town of Rolesville, North Carolina, to our footprint in the thriving Research Triangle region. Rolesville is a small, but rapidly growing town that abuts Wake Forest and will initially add about 1,500 serviceable addresses. For now it will be reported on the scorecard as part of the Wake Forest market, and will be operated as part of the North Carolina regional footprint. We expect to see the same continued growth in greenfield developments there, past the initial build, that we’re experiencing in Holly Springs. And I note this past quarter we added 150 serviceable addresses in Holly Springs in new homes driven by growth in the RTP region.

We’ve also just announced a new opportunity in Solana Beach, California. Ting will provide Internet service through a partnership with Netly, another private infrastructure company. Netly will build and own a network throughout the City, and we will light and provide service over leased fiber on the network - similar to Westminster, Maryland (although, in that case, on municipal fiber).

Solana Beach includes just over 7,000 serviceable addresses at scale. We’re excited about this nascent opportunity; both because of the Netly team, who have a strong history of successful telecommunications infrastructure deployment and operations management, and the market. The demographics and competitive landscape in Solana Beach are excellent for Ting and we look forward to adding this market to our California footprint.

I would like to repeat that we will break out the economic impact of non-owned markets additionally as and when it becomes material.

In addition, this past week we announced the acquisition of Cedar Holdings Group, a telecommunications provider serving numerous markets in the Western Slope of Colorado and northwestern New Mexico. We’re really excited about the potential of this acquisition. Joining Ting is a small, experienced team with a passion for fiber. They bring a high-quality enterprise customer base that makes them the provider of choice in their markets for business, wireless backhaul, and community anchor institutions.

The last several years Cedar has moved from being a reseller of Internet service to aggressively building fiber to their existing copper-based customers. Today their fiber passes nearly 6,500
addresses, which gives Ting a springboard for rapid expansion from Cedar’s existing fiber footprint to residential customers.

Cedar’s business focus has been on larger anchor tenants like schools, police stations and hospitals, with many of its customers being city and county agencies themselves. Clearly that has value when considering further buildout. In addition, Cedar has more experience than we do with enterprise customers, including wireless backhaul. Both of these areas are important for maximizing long-term returns from a fiber investment. The single family home is the most difficult part of a fiber buildout to do profitably. As we reach greater maturity in that portion of the build, we can start to turn our attention to the more lucrative elements.

We are well positioned to quickly integrate operations, which includes leveraging of some of our existing resources in the region.

Finally, I am pleased to announce that we have brought on Justin Reilly as Chief Product Officer for Ting, both mobile and Internet. Justin has worked in entrepreneurial environments and was head of Product and Customer Experience in Verizon’s Fios business, where he gained a deep understanding of the inner workings and generational opportunity of the fiber-to-the-home business. We could not have attracted Justin without that opportunity. He also arrives at a great time for Ting Mobile to help us revisit our product-market fit and reinvigorate growth. He shares our vision for the future of networks and our passion for customer experience and is as excited as we are to build a telecom company that we all wished we could be a customer of.

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

**Financial Results [Dave Singh, CFO]**

Thanks Elliot,

Total revenue for the third quarter of 2019 was $88.1 million, an increase of 6% from $83.5 million for the third quarter of 2018. The increase was primarily driven by growth in the Wholesale Domains channel, the large bulk sale of domain names from our Portfolio that Elliot discussed earlier, and the incremental contribution of the Ting Internet business. These were partially offset by lower revenue from Ting Mobile.

Cost of revenues before network costs increased 1% to $55.8 million from $55.1 million for the same period last year, with the slight increase due primarily to the higher year-over-year revenue. As a percentage of revenue, however, cost of revenues before network costs decreased by 300 basis points to 63% from 66%.

Gross margin before network costs for Q3 increased 14% to $32.4 million from $28.4 million, or,
as a percentage of revenue, increased to 37% from 34% for the same period last year.

I’ll now review gross margin for each of the Domain Services and Network Access businesses.

Starting with Domain Services, gross margin for the third quarter increased 23% to $19.9 million from $16.1 million for Q3 of last year. As a percentage of revenue, gross margin for Domain Services for Q3 of this year increased to 31% from 27% for Q3 last year.

As a reminder, as a result of the purchase price accounting on the Ascio acquisition completed on March 18th of this year, overall Domain Services gross margin was negatively impacted by the amortization into revenue of the deferred revenue that was recorded at fair value at closing of the transaction. That had the impact of lowering overall Q3 gross margin for the Domains business by approximately $0.9 million, which brings the cumulative impact for the year to $1.9 million of the total estimated impact of about $2.6 million, the majority of the impact will be reflected in our 2019 results.

Within the Domain Services business, gross margin for the Wholesale Channel increased 17% to $13.3 million from $11.4 million for the third quarter of last year. As a percentage of revenue, gross margin for Wholesale increased to 25% from 23%. The increase, on both an absolute dollar and margin basis, was primarily the result of the Ascio acquisition and to a lesser extent the pricing alignment implemented in the first half of last year.

Gross margin for Retail Domain Services increased 2% to $4.4 million from $4.3 million in Q3 of last year and, as a percentage of revenue ticked up to 50% from 49%.

Gross margin for Portfolio Services was $2.2 million compared with $0.5 million in Q3 of last year, and as Elliot discussed, included the $1.9 million contribution of a bulk sale of names. As a percentage of revenue, gross margin was 92% compared with 75%, with the increase reflecting the very high margin on bulk domain sales.

Moving on to Network Access, gross margin for the third quarter of this year increased 2% to $12.5 million from $12.3 million in Q3 of last year. A $0.6 million, or 5%, decrease in gross margin from Ting Mobile was more than offset by a $0.8 million, or 68%, increase in gross margin from Other Services, driven primarily by growth in the Ting Internet subscriber base. As a percentage of revenue, gross margin for Network Access ticked up slightly to just over 51% from 50% in Q3 of last year, with Ting Mobile flat at 49% and Other Services up 11% to 68%.

Turning now to costs, network expenses for the third quarter of 2019 increased 16% to $4.8 million from $4.2 million in Q3 of last year. The increase is primarily due to higher amortization
resulting from our buildout of the Ting Internet network.

Total operating expenses for the third quarter of this year increased 14% to $19.0 million from $16.6 million for the third quarter of last year. The increase is due primarily to the following:

- Excluding the impact from the acquisition of Ascio on March 18th, workforce and third-party workforce-related expenses, increased by $0.4 million driven primarily by the growth in Internet subscribers and the Ting Internet footprint;
- Ascio related expenses added $0.9 million to the quarter, of which $0.6 million were workforce related and $0.3 million were related to facilities, transitional services, and technology;
- Amortization of intangible assets increased by $0.7 million, which related primarily to the set-up of intangible assets related to the Ascio brand, customer relationships, and technology totalling $14.6 million. Note that these assets will be amortized over 7 years.
- and lastly, there was a $0.4 million net increase in expenses related to foreign exchange impacts. Specifically, we had a slight loss in Q3 2019 related to mark-to-market remeasurements for our currency forward contracts that do not qualify for hedge accounting, compared a slight gain in Q3 of last year, resulting in a year over year expense increase of just under $0.1 million. In addition, we experienced a foreign exchange loss on the revaluation of foreign denominated monetary assets and liabilities, which had the impact of increasing our expenses just slightly less than $0.4 million on a year-over-year basis.

As a percentage of revenue, total operating expenses increased to 22% from 20%.

Net income for the third quarter of 2019 was $4.2 million, or $0.40 cents per share, compared with $5.3 million, or $0.50 per share, for the same period last year. The decrease was primarily the result of higher depreciation due to the buildout of the Ting Internet network, higher provision for income taxes and higher amortization of intangible assets associated with the Ascio acquisition.

Adjusted EBITDA increased by 25% to $14.8 million from $11.9 million for the third quarter last year. As I mentioned earlier, the impact of the fair value adjustments on deferred revenue related to the Ascio acquisition was about $0.9 million this quarter.

Turning to our balance sheet and cash flows, cash and cash equivalents at the end of the third quarter of 2019 was $12 million, unchanged from $12 million at the end of the second quarter of 2019, and up from $10.8 million at the end of the third quarter of last year. During the quarter, we generated $11.2 million in cash from operations and advanced $5.0 million on our loan facility, which were essentially offset by our investment in an additional $10.3 million in property and equipment, primarily for the Ting Internet build out, the use of $5.0 million for the
repurchase of shares during the quarter through our open market buyback program, and the use of $1.0 million for the second of two payments for the acquisition of the FreedomPop subscribers.

Related to the $5M repurchase of shares, that represented a repurchase of 101,816 shares at $48.95 per share.

Deferred revenue at the end of the third quarter was $154 million, down from $157 million at the end of the second quarter of this year, and up from $148 million at the end of the third quarter of last year. The year-over-year increase is due primarily to the acquisition of Ascio in March of this year.

That concludes my remarks and I’ll now turn the call back to Elliot.

**Closing Remarks [Elliot Noss, CEO]**

Thanks Dave.

It’s been a while since I have reported any share repurchases. As a reminder, especially for any newer investors, we view share buybacks as an important tactical element of capital allocation. In February of this year, we once again renewed our open market buyback program, which has been in place for the last number of years, with the ability to purchase up to $40 million of our stock until February of 2020. As Dave just mentioned in his remarks, we repurchased roughly 102,000 shares with a total spend of just under $5 million and an average price of $48.95 per share. We were quite pleased to be able to acquire shares at these levels.

I would also like to reiterate our previously provided guidance of $52 million in cash EBITDA for 2019.

We are now deep into our planning for 2020. This is always a time for reviewing the year that was and preparing for the year that will be. This cycle I am particularly struck by the amount of long-term work that we are engaged in.

This work touches every corner of the business. We have talked about the domains platform and the two decades of technical debt we have been digging out of, which was not made easier by throwing an additional acquisition on the pile. 2017 was about digesting. 2018 was about planning and getting started. In 2019 we built the foundational pieces and in 2020 we start to operationalize those pieces.

We are also finishing up the building of the data center in Colorado, which has fundamentally changed our whole data center strategy. And, importantly, we have taken the work we are doing on the domains platform and generalized large pieces of it to allow us to modernize billing and
provisioning for both mobile and Internet.

And we are doing all of this while growing the investment in fiber operating expenses necessary to build an organization that can take advantage of the massive, long-term opportunity in fiber-to-the-home in the United States.

It has always been the case that our shareholders have appreciated our focus on long-term cash flows, not GAAP accounting and quarterly profits. They have appreciated our willingness to be bold when pursuing long-term opportunities. They have appreciated our attention to lean operations. And they have appreciated our approach to capital allocation.

So why am I sharing this? Because our shareholders have also appreciated knowing what we were thinking about, and what was important to us, and in this planning cycle, where we are in the later stages of a big body of generational work, this is what is consuming us. We consider ourselves quite fortunate to be able to continue to generate solid returns while still making these investments and look forward to sharing in the benefits together with our shareholders.

And with that, I look forward to your written questions and exploring areas that interest you in greater detail. Again, please send your questions to ir@tucows.com.

Thank you.