tucows

Q4 2020 Q&A Transcript

Introduction [Monica Webb, Head of Market Development and Strategic Partnerships]

Welcome to Tucows' combined question and answer dialog for Q4 2020. Elliot Noss, President and Chief Executive Officer, will be responding to your questions. For your convenience, this audio file is also available as a transcript in the investors section of our website, along with our Q4 2020 Financial Results and updated reports.

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

Today's commentary includes responses to questions submitted to us following the pre-recorded management remarks regarding the quarter and outlook for the Company. We are grouping similar questions into categories that we feel are addressing common queries. If your questions reach a certain threshold or volume we may ask you to schedule a call instead, to ensure we can address the full body of your questions. And if you feel that the recorded answers and/or any direct email you may receive, do not address the meat of your questions, please let us know.

Go ahead Elliot.

Opening Remarks [Elliot Noss, President and Chief Executive Officer]

Thank you, Monica. And welcome to our Q&A for our fourth quarter 2020 financial results.

Domains

We received a couple of questions on growth in the domains business. We're not going to talk about specific opportunities -- you all know I much prefer to point to things as we do them, as opposed to things we intend to do. What I will say is that you want to think about the technical improvements we've been making on transactional infrastructure, billing, and provisioning. That's what we do in domain names, that's what we do in mobile, and it's what we do in fiber. If you think about our domains business, we've talked about two distinct customer segments: fast growing, modern SaaS platform-based companies like Shopify and Wix; and more mature, even declining, traditional hosting companies. We are starting to turn our minds to whether we can help some segment of those long-lived traditional hosting companies start to turn to growth again.

Ting Internet

We had multiple questions about the EBITDA in our fiber business -- specifically, why the EBITDA spend increases so much as the business ages and scales. The reasons fall into two broad buckets. A little less than half of the additional burn results from the start-up costs for new Ting Internet towns. I'll refer investors back to the Holly Springs Market Study video we posted last week, and specifically the Operating Flow slide as an example of the level of investment required as we launch new Ting towns on an operating level. Increased capex spend means increasing the number of footprints we have to make that investment in, commensurately.

The remainder is additional headcount, primarily in product and engineering. As we have brought in new leadership in those areas we have also allowed them to determine the proper long-term levels for those functions. The added headcount is an investment in the platform we are building, and it's all with an eye towards a SaaS platform for the Ting Internet business that is a sister to the Mobile MSE business platform.
We had questions generally around the flow of funds in Holly Springs. Those of you who have watched the Holly Springs video -- and if you haven't, I certainly encourage you to do so -- will have seen that while the IRRs are fantastic, the payback period for Holly Springs was quite long. We note two things here. First, we do expect that payback periods in general will be shorter in subsequent towns as we improve our performance in everything, from construction costs and speed, to sales and marketing efficiency, and more. Second, these will still be fairly long payback periods. We had one investor draw a parallel to real estate investments. We think on some level this comparison is apt, in that there are relatively long payback periods. However, we want to note a sharp distinction between real estate and fiber; real estate is an asset class in which the returns have been so fine-tuned that yields are incredibly low. The payback comes on the eventual sale of the asset. This is not the case with fiber. Fiber assets are still relatively less well understood. We do believe that these are incredibly valuable as revenue-producing assets. The net operating margins on these businesses are fantastic, and we believe that in a yield-starved world, cash contribution is the most important variable in how the financial asset performs.

Another investor identified that for the last couple of years, our overall capex and free cash flow have mirrored each other. I wish to be clear, this is a coincidence, not an intention. Our loan facility has a lot of room, and as I've stated many times, our greatest constraint on growth in the fiber business is our organization's construction capacity. We were not limiting what we build to match free cash flow in any way -- build has only been limited by our capacity, and we've been increasing that capacity in the last year. We have plenty of room in the existing credit facility to fund significant growth in 2021. And if we're able to maintain our lofty expectations for growth for 2022 and beyond, well in advance of 2021 levels, we will of course be securing additional capital. It's too early for me to talk about anything specifically there, but I will say, as I've said before, capital is extremely plentiful, particularly for high-performing, secure assets like fiber networks.

Closing Remarks

And in closing, now that we've presented the business in these three segments, investors will naturally think about the sum of the parts of the business, which isn't our intention. We just want to help you see the differing trajectories of these three businesses more accurately. We understand those of you with an inclination to do your own sum-of-the-parts analysis. We don't think like that.

Again, thank you for listening in on our Q&A, and a reminder that if you feel that the recorded answers and/or any direct email you may receive do not address your question, please follow up with us at ir@tucows.com.
