tucows

Q4 2021 Q&A Transcript

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

Welcome to Tucows' question and answer dialog for Q4 2021. 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 2021 Financial Results and updated reports. I would like to remind investors that at the time we posted our Q4 results, we also posted a video with Elliot Noss discussing our transition from reporting business segments to reporting separate businesses, which begins in the first quarter of 2022. It also provides high level context on how to best follow our results.

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 2021 financial results.

Ting Fiber

Again this quarter, most of the questions were directed to the Ting Internet business.

Not surprisingly, we had a question about a prominent issue right now, impacting many industries, including ours – which was around supply chain and labor constraints. I thought we should read the question in full.

An investor asks,

"Can you comment on supply and labor pressures? I'd love to hear any general thoughts about conditions and how TCX is managing through the various headwinds. The specific reason I'm asking about this is because I have a contact at a contracting firm who described the current situation as extremely challenging, well beyond anything else I have heard or read. He actually implied he thought we could be in for a "bust" - his words - for many smaller private ISPs within the next year, and to be clear I'm referencing ISPs much smaller than Ting."

There is no question that labor markets are tightening. We need to view this on a relative, not absolute basis, as we compete for labor in specific skill sets and in some cases, in particular geographies. While this question was specifically about the ISP business, it would apply to employees in all three of our businesses. We view our goal as to be able to be much more desirable than our competitors.

To date, we are quite pleased with how we are doing. We continue to attract top talent from competitors in most areas. And we are losing less people – the "great resignation" or probably more accurately "the great reshuffling" – seems to be the case for others. Our employees stay longer, and are happier.

We believe that culture is the single largest reason, by far, for this outcome. Now to deal with the part of the question specific to large versus small ISPs – a simple way to think of our goal around company culture is to view our efforts as trying to offer the culture of the best small businesses, but at scale. To be clear, culture mirrors management. Good management will correlate with good culture. And of course bad management will correlate with bad culture. But the larger one gets, the harder culture is to maintain.

Sum this all up, and in my view big telecoms have MUCH more to worry about than ISPs of our size, and we have a greater challenge in this regard than very small ISPs. Like customer service, the diseconomies of scale in culture are generally poorly understood.

We also had questions about our recent announcement of becoming the first anchor tenant on a network being built by Colorado Springs Utilities, and more generally, on our position on both utilizing another provider's infrastructure, and on open access networks.

Our preference is to own the networks where we provide service. However, given desirable economics, riding on a partner's infrastructure allows us to accelerate our penetration and reach, and focus on the most strategic part of our business: operating an ISP. I will emphasize however, that we are going to continue to be highly selective with our participation in these types of projects.

The Colorado Springs Utilities' network will pass over 200,000 serviceable addresses by the time it's built, which is a significant opportunity. Additionally, Ting will build and own the drop connections to the customers, which provides us with an important advantage over potential future tenants that may want to ride the network and compete with us.

There are a number of parties who are trying to crack the challenge of open access networks. Most of those efforts to date have mirrored the approach that myself and Robert Wack created in Westminster, Maryland, in 2015, rather than following some of the European precedents.

We have been clear with potential partners for a while now, really since I have been flagging this in my remarks in investor calls, that we did not think these models worked for us. In addition, these models require a productive working relationship with your partners, which is not always present in our current relationships. As an ISP, choosing which open access partners to work with is very important. As with all things in life, your mileage may vary.

Wavelo

Turning to Wavelo. You may have seen the announcement earlier this week that Wavelo is now partnering with Amazon Web Services to provide communication services providers (CSPs) with a modern alternative to billing and provisioning. Both Amazon and Wavelo understand that if telecoms want to provide a great customer experience, then they need modern technology approaches like cloud and SaaS. Amazon recognizes the great customer experience we have been able to deliver using our software – and we have a shared vision for what the future could be.

We were also asked about the impact of costs to build out the Wavelo business on its profitability. Although Wavelo begins with an eight-figure revenue stream, it is very much a new business. We are building out the platform, we are building out the team, and we are engaging in business development work to drive future growth. And we are doing that now.

We will see further significant investment in 2022 – both to support our first customers; DISH, and our own Ting Internet – as each one grows their own businesses, as well as to cultivate our next customers. A good way to think about this glass as half full, is to view it as looking like a company that would most usually be traditionally VC funded, but without the cash burn that usually implies.

Guidance

Before I respond to questions on guidance, I'd like to remind investors about the video I recorded. It is available on the investor site, and talks about how our reporting will be changing from 2022 forward. It provides context for guidance. We also have a transcript of the video available if you prefer, and if you have any specific questions that were not covered, please reach out to us at ir@tucows.com directly.

We had a couple of questions asking for further detail on our EBITDA Guidance year over year being $15 to $20 million less than actual 2021 EBITDA.

First, and probably least visibly, over half of that decline is likely to come from various pieces of what was the Mobile segment in 2021. We have the general decline of the earn out of $3 to $4 million or so, as well as a little over $1 million generated from TSA services provided to DISH from a short-term contract that has been concluded. The decline in the tail is as it was expected to be – and we are certainly not in the TSA business. But there is another element. We still carry our Verizon contract, which was pivotal in our ability to not be crushed by T-Mobile, and which DISH did not take over from us. Instead, DISH did larger deals with both T-Mobile, including the Boost customer base, and AT&T which has a number of strategic elements to it for DISH. We have retained the Verizon customers, but the commitment we made back in 2019 now exceeds their usage. We are conservatively expecting to lose as much as $5 million on this contract in 2022. I note two things: first, we have had discussions with other MVNOs about possibly buying these customers. As always with these things, it may or may not happen. Second, in the long term, we expect to be back in the mobile business, offering mobile service to our ISP customers, as with most ISPs these days. Absent this contract, we would likely do that as DISH was available to provide wholesale services. With this contract we may simply get a head start on things.

As for the remainder, each of the three operating businesses will likely net a couple million dollars negative in 2022. In both Wavelo and Ting Internet, that will be the result of significant revenue increases with even more significant opex ramps. These are both fast growing businesses in great segments! With domains the story is more about changes in the net deferred accounts on the balance sheet, and a strengthening Canadian dollar.

As part of our Q1 results, we will be presenting comparative periods for 2021, so you will be able to compare the results in an apples-to-apples fashion.

Fiber Internet Capex Guidance

In addition, we expect to nearly double our Fiber capex investments from 2021 to 2022, to roughly $130 million. However, as we continue to learn, with each successive year in this business, construction is difficult. This guidance is predicated on a view of the city pipeline, as well as the myriad other issues which can affect construction. This number is certainly our goal.

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.

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