



Introduction [Monica Webb, Senior Director, Investor Relations]

Welcome to Tucows' question and answer dialog for Q1 2022. 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 [Q1 2022 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 first quarter 2022 financial results. This quarter, we had three buckets of questions on Ting Internet and none on the other businesses. This makes sense as Tucows Domains is well understood by investors and continues to perform like a Swiss watch, and Wavelo is really focused on migrations and DISH's network efforts, as well as subscriber loading, for the next year or two.

Ting Internet

With Ting Internet, we had questions that collectively fall into the category of financing and capital allocation. Most importantly, while we have nothing to announce right now, we are hard at work putting in place a capital structure for Ting Internet that is intended to allow us to build profitably at whatever pace we can sustain. So while I still will not be sharing details, I thought it useful to reiterate our previously stated intentions and add a little color.

We expect the financing we put in place to be covenant-lite where the recourse is only to the Ting Internet assets, not to the rest of the Tucows assets. This is important in two respects. First, it allows funding to behave more like project financing than traditional leverage-ratio debt. The constraints on capital borrowed will relate more to serviceable addresses, the performance of the construction company, and customers added, the performance of the ISP. These approaches have been used in Europe for years to fund these types of infrastructure builds. They provide borrowers with the ability to scale their businesses more efficiently while allowing lenders to take plenty of security while still generating nice returns.

Second, it allows the rest of the TCX business to be run in the more traditional way that we have historically run Tucows. And yes, this is partially an oblique reference to buying back shares, among other things. While we never disclose specific plans in this regard, I am comfortable sharing that we think our stock is cheap. Corrections provide opportunities. But that is a very short-term thought as corrections usually last 12-24 months. In the long term this structure allows us to operate each business in a way that best suits its age and stage.

Finally, while we are very aware that the current environment is not what it was 90 or even 30 days ago, we are lucky enough to be seeking funding in a space that creates the one thing that is desirable in all markets: cash-generating assets. In fact one could argue that these assets are even more desirable in choppy waters as they do not have to compete with the latest trends to nearly the same degree.

You can be sure that we are working diligently on this, and as soon as we have something to share, we will do so.

We also had a question noting that we hadn't reiterated our assumptions on take rates in a couple quarters. We are continuing to experience take rates consistent with our stated targets of 20% in the first year, and 50% in the fifth year.

There have been a number of changes in the macro market since we first established those targets. Most important in the current analysis, more participation on the low end from fixed wireless and more expected overbuilding due to so many new entrants, and the copper

incumbents finally realizing that building fiber themselves was the only way forward. I note that we are not experiencing either of these impacts directly in our current footprint, but are incorporating them into our planning.

We expect fixed wireless to create more competition for cable on the low-end or in the “not fiber” market. We expect the market to move on from the current view that a gig is a gig and to recognize that a symmetrical, unshared low-latency fiber connection is superior to anything provided over coax. This will have an impact on take rates as it will create more competition at the margin. We expect overbuilding to also have an impact and are expecting to have to compete with a second fiber competitor in some small percentage of our footprint. Take rates here will be based upon who has the best customer experience as an ISP. We expect to win more than our fair share of battles here as we have always focused on this being the basis of competition in this space. Remember, you build and finance a network for a couple of years – and then operate it for a hundred.

The good news is that nearly eight years into our fiber journey our current performance has met, and in some senses exceeded our lofty expectations and we have so much room for improvement! You can see very simple things already like ting.com no longer being shared with the ting mobile business being run by DISH. Think of it, we have done what we have done without having a clean website experience! This is only one example.

We also had a smart suggestion from a shareholder that while the new disclosure around mature and growth markets was helpful, it did not provide for a way to look at “same store” performance. We have taken that on and hope to have a bit more on it next quarter but for now a tidbit. Some of you may recall the [Ting Fiber Market Study video](#) on Holly Springs that we released in Q1 2021. We used that market because it’s the most mature full market build. A year ago, we reported the average address age of 2.7 years, and a blended take rate of 38%. Today, that’s up to a 43.3% take rate and an average address age of 3.4 years. In some senses Holly Springs is a bad example, as it is such a juicy suburban market. But in another sense, it was also our first build and like all learning machines we are improving in all respects over time.

Finally, we had a couple of questions about our participation on the Colorado Springs Utilities network. The first was with respect to potential financial risk under the agreement. What’s important to highlight here, is that all of the money we’re obligated to pay is success based, and dependent on addresses being built and delivered to us by the Utility. And the obligation we negotiated is based on our historical performance acquiring subscribers – with a comfortable buffer built in. For us, the risk is that if we do significantly worse on customer acquisition than we’ve done historically, we pay more in port fees, and our Cost of Goods Sold goes up. But because we’re not building the network, and have no capital

obligation, we have no capital at risk. Rates in partner markets are based upon how much risk the builder chooses to take. If the rate is based upon addresses delivered, it will be less risky to the builder, and lower. If the rate is based upon customers added, it will usually come with a floor – but is more risky to the builder, and the rate will be higher. Most importantly, with Colorado Springs, there is way less risk to us than building the network, despite the lofty headline number.

We have also had some questions about other providers who've said they intend to build parts of Colorado Springs. We know what Colorado Springs Utilities has committed to, which is building infrastructure past every address in the municipality, to the customer base they already serve as the utility provider. We don't know the intentions of other ISPs, including the extent of their planned builds within the City. These questions are more properly directed to those companies – and if any of you get answers, I am looking forward to you sharing them with me. Colorado Springs Utilities is doing what forward-thinking utilities should be doing – building fiber to connect their own facilities, and to function as the nervous system for all of their utilities. Adding the capacity to accommodate internet service is estimated to add about 20 to 30% to the cost of the network build. That is what they look to recoup from a tenant like us. Utilities should also want to serve their populations and what better way than facilitating better Internet. I mentioned above that overbuilding is an increasingly interesting element of the coax-to-fiber transition. We would look forward to the opportunity to compete with an overbuilder where we did not have any capital risk and they did.

New Reporting

We had a question on details to assist with modeling under the new reporting structure. I'd like to again remind investors about the video I recorded in Q4, that's available on the investor site, that talks about how to view Tucows, the parent company, vs. our three operating businesses, with respect to services provided, financial metrics, guidance and reporting. I'd also like to point investors to the Q4 2021 Q&A that provided details on EBITDA guidance.

Finally, I would like to note for investors, for the first time in the history of TCX, we're adding a dedicated investor relations resource. I'd like to congratulate Monica Webb on being named Senior Director of Investor Relations to fill this role. With our new business structure, we appreciate that following the TCX business has become even more challenging. So we felt it appropriate to provide investors – who we view as important stakeholders – with as much assistance as possible.

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@tu cows.com.
