



Introduction [Monica Webb, Senior Director of Investor Relations]

Welcome to Tucows' question and answer dialogue for Q3 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 [Q3 2022 Financial Results](#) and [updated reports](#). I would also like to remind investors that if you would like to receive our quarterly reports and Q&A via email, please make the request to our ir@tucows.com email.

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 questions 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 third quarter 2022 financial results.

Tucows Domains

We had a couple of questions that came in on Domains. The Domains' price increases we referred to in the Q3 management remarks are specifically for our resellers buying domains in euros, where the devalued euro in relation to our U.S. dollar-based purchase costs for those domains was impacting our margin. Increases were implemented September 1st of this year, and another will take effect on December 1st of this year. To remind everyone, these transactions are paid up front, but booked as deferred revenues and recognized over time.

And I will note that the decline in the euro has been particularly sharp and fast. It has been difficult to catch-up with price increases.

We were also asked about incremental costs for domains, between the Gross Profit line and Adjusted EBITDA. Those costs include things like network expenses, technical operations, SG&A, and acquisition and transition costs. Last quarter, most of those were in line with the previous year, with the exception of SG&A, which have increased primarily from our [acquisition of UNR's registry platform](#), and inflation-related impacts, including increased wages. There was also a one-time true-up expense item that will be lower on a quarterly basis going forward.

I do want to reiterate what we said in the initial management remarks: We've been in the Domains business over 20 years, and we recognize growth will be incremental, and operational efficiency is key. We have delivered consistent EBITDA from the Domains business by being competitive and tightly managing the business. In the current economic environment, that becomes more of a challenge, and we are vigilantly reviewing all expenses and plan to streamline as much as is prudent to ensure that we continue to deliver consistent cash generation while still developing new revenue opportunities for our domains business.

Wavelo

The first question on Wavelo was again asking if we were working with DISH beyond their Boost customer base. Wavelo is working with DISH Wireless, which houses a number of brands, including their largest customer base brand, Boost, in addition to Ting and Republic Wireless. Wavelo supports customers of DISH's MNO on their 5G network, as well as MVNO customers on the AT&T and T-Mobile networks. In fact, Wavelo's platform supported DISH's first round of 5G launches, known as Project Genesis, earlier this year. We will continue to support DISH's expansion into the mobile space as their network grows and their brands evolve.

The second question on Wavelo was whether the economics are the same for us if a mobile customer is postpaid or prepaid. Wavelo would treat those subscribers the same, in terms of workflow, and we are paid the same for both. I will note that churn is higher on prepaid than postpaid, which by extension would make postpaid better customers for Wavelo, as well as for DISH. However, from a product perspective, both are important offerings for DISH to have in the market, and both are valuable to Wavelo's growth.

Ting

With Ting, I'll start with a question we had on take rates—specifically, if we had an update to the [Ting Fiber Market Study in Holly Springs](#) done in February 2021. You may recall from that market study that to balance out the different ages of neighborhoods, we generate an average age to map to the take rate. Interestingly, in Holly Springs, due to the ongoing greenfield development there, we're still constructing in brand-new neighborhoods. Today, the average

age is 3.8 years in Holly Springs, and the overall take rate is just over 45%. So we continue to see the take rate exceed the trajectory we've set, of 50% after five years. We see similar results across our markets, with the only exceptions coming in some of the partner markets due to various elements of partner performance.

We again had questions on Ting's cost per passed address and whether our previously stated assumption of roughly \$1,500 per home was still accurate. First, yes, it's still accurate. I note that this question has come up again and again over the years. I know our investors are both good at math and do their homework. They are not lazy. Thus, while I will summarize our answer again, we will also provide a deeper dive in a video before our next quarterly report. Hopefully that will provide both operational and mathematical detail that will help. The summary response is, again, that much of the capex is front loaded. Huge portions of the build need take place before an address is serviceable, making any sort of "capex in period divided by new addresses in period" calculation misleading while the build pace is growing. Again, we will go into much more detail in the coming video.

And we reiterate that while we have seen some growth in costs due primarily to increases in labor rates, we are generally still seeing cost per pass in the \$1,500 range.

Corporate

With TCX, we had a request to provide some context on the differences between the \$23.7 million fiber capex; the \$36 million in Tucows capex increase on the balance sheet; and the \$47 million in capital expenditures presented in the statement of cash flows. First, the difference between \$23.7 million and \$36 million is mainly capital inventory, such as spools of fiber, underground vaults, and network electronics that we're acquiring ahead of fiber network construction. We don't count that as consumed fiber capex until placed into the ground or used in the network. In 2022, we have been building up that capital inventory balance given the ongoing supply chain uncertainty and to ensure we have sufficient raw materials for continuous network construction. Also in the \$36 million is capitalized internal and external software-related labor in both Wavelo and Domains, and to a lesser extent, servers and networking equipment in our data centers. The capitalized labor in Wavelo is roughly \$5 million per quarter.

The difference between the \$36 million and \$47 million is a cash difference. U.S. GAAP requires in the statement of cash flows to present actual cash paid for capital assets in a quarter, as opposed to showing it on an accrual basis. In late Q2, we deferred some capital-related vendor payments into Q3, and that, added to our regular Q3 payments makes up the \$47 million on the Q3 cash flow statement. The \$36 million is the increase in the gross book value of all capital assets of the company based on an accrual basis. So the cash catch up was approximately \$11 million. Thus, this should not repeat in any way.

We also received a couple of questions on one of the covenants in our 2021 credit agreement. Specifically, the questions asked how we would ensure our debt-to-EBITDA ratio would stay above the minimum requirement on a rolling 12-month basis. First, I want to ensure that investors know that I am deeply aware of this. I also well understand that this is something that investors will worry about until it is addressed. I know you all understand that efforts to address it can not be discussed until they are complete. All I can do is share that our new business structure provides additional flexibility to pursue a range of solutions. I am comfortable this will be resolved. I do not intend to be cavalier with a business that has taken a quarter century to build. And I also expect, and appreciate, that shareholders will have concern until it is addressed.

Closing Remarks

We have work in front of us in terms of capital structure on both the Ting and non-Ting, or ex-Ting, sides of the business. We have never had more opportunities in front of us across all three businesses. And our current stock price provides us with a significant additional opportunity.

This economic correction is different. What is different is that unlike all the others that I have lived through—1987, 2000, 2008—this one comes with lots of opportunity for growth. In those periods, all the trends went in one direction. This time, it is more complicated. We approach 2023 clear eyed and with a lot of excitement. And with a lot of work to do.

As a reminder, you can find my initial discussions on guidance for this year in the [Q4 2021 management remarks](#) and the [Q4 2021 Q&A](#). I will be providing guidance for 2023 in next quarter's management remarks. Thank you.
