tucows

Q2 2023 Q&A Transcript

Introduction [Monica Webb, Vice President, Investor Relations]

Welcome to Tucows' question and answer dialogue for Q2 2023. 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 Q2 2023 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 ir@tucows.com.

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 full meat of your questions, please let us know.

Go ahead, Elliot.

Remarks [Elliot Noss, President and Chief Executive Officer]

Thank you, Monica. And welcome to our Q&A for our second quarter 2023 financial results.

Before dealing with questions, we are hoping to soon be welcoming two new Board members to Tucows: Lee Matheson and Gigi Sohn, subject to the results of our September AGM. Lee is a Partner at Edgepoint Wealth Management, Tucows' largest shareholder. I was engaged with Edgepoint for years before they became shareholders. They are a great thought partner and supporter of the businesses they work with. We generally view value–both how to create it and how to realize it–the same way. Gigi is a long-time professional acquaintance whose credibility, and legal and policy knowledge in telecom will be of immense value to the Board at this juncture in the growth of our telecom-related businesses, particularly Ting Fiber. Among other things, she is currently the Executive Director of the American Association for Public Broadband, and has as clear a view of the importance of fiber infrastructure and the Internet it brings, as anyone in the field today. We will be lucky to have both of them.

Brad Burnham, co-founder of Union Square Ventures, has decided not to seek reelection to the Board. We are immensely grateful for Brad's contributions during his tenure. Brad has been a valued collaborator for the Board and for me personally over the last eight years. We wish him the best and I want to personally thank him for his efforts, and Union Square Ventures for allowing him to work with us in a business that was, and is, not at all typical for them.

We had a question about Tucows Domains and growth. There are tactical headwinds this year; the echo from Covid and the softness in the aftermarket for domains being the two biggest. With that being said, the core business remains as solid as ever and we continue to make progress with a couple of very interesting growth initiatives, both of which have the potential to change the arc of the business.

We had questions this quarter on whether the revenue levels in Wavelo will continue to ramp. There are two factors here, DISH's retail growth and the Wavelo pipeline. As anyone reading the news can see, DISH has a lot on their plate. We do not expect them to meaningfully ramp retail in the near term. Of course we could be pleasantly surprised as they do have the best unlimited offering in the country. The run rate revenue will also be a function of the pipeline. I do not expect this to have much impact over the coming couple quarters. Going forward the ramp is driven by the pipeline and DISH's retail growth, but the timing of each is unclear.

There were multiple questions on my brief comment on the process we engaged in with Bank Street and Goldman Sachs. In that process we were looking to sell a minority equity stake in the Ting business. We believe that we could have sold a majority stake and we certainly could have received another pref. Neither of those were of interest. We have plenty of capital in the ABS and room left in our Generate pref, and in this process we were looking to be conservative with capital and take more than we need–and to add an additional thought partner to be with us through what we expect will be a dynamic few years in the US ISP space.

Instead we will turn our minds to executing, which is what we do best, as we grind from where we are at an operating level to first operating break even, and then cash flow break even, and on to profitability. We expect to set some expectations around the first of those in presenting the 2024 plan with our Q4 results.

There were, unsurprisingly, questions about the stock price and lots of reading of tea leaves as to why the price is where it is and what that means. And I put "means" in quotes as I am more of a mind than ever that public markets are irrational in the short run.

I am now well into my 22nd year running this public company and I am not sure there has ever been a time where I felt the value of the business was so disconnected from the stock price. The stock is 78% off its high at the end of 2021. The three businesses are all much stronger than they were then.

This is not a TCX problem, rather a broader phenomenon. One of the undercurrents in our Bank Street / Goldman process was seeing the range of infrastructure-focused PE funds that now have a greater appreciation for how hard the ISP business is. They are smart investors. They always understood the importance of fiber networks. They now seem to have a greater appreciation for the difficulty in running an ISP. We have also seen transactions in the space all be structured. We have heard of down rounds as well.

This phenomenon is not limited to infrastructure private equity. In fact it is even more pronounced in the VC and broader PE spaces. And even worse again in commercial real estate. The biggest pools of capital in the world have to worry about a huge portion of their assets being re-priced. They will have to be playing defense. This will have significant implications.

Whether the stock price reflects it or whether the world at large believes it, we have three healthy businesses with fantastic cash flow characteristics. We have a demonstrated history of creativity in being able to deal with value creation. We are in a strange liminal state in the macro economy–one that may exist for the foreseeable future–and we like both the cards in our hand and the game in general.

Thank you for listening to our Q&A, and a reminder that if you feel that the recorded answers 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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