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Tucows Reports Financial Results for Second Quarter 2023

TORONTO, August 3, 2023 – Tucows Inc. (NASDAQ:TCX, TSX:TC), a global internet services leader, today reported its financial results for the second quarter ended June 30, 2023. All figures are in U.S. dollars.

“Our second quarter results continue to show the potential of the Tucows growth businesses, said Elliot Noss, Tucows President and CEO. Our Ting and Wavelo businesses saw 21% and 20% increases in revenue respectively, year over year. But Wavelo was our standout business this quarter. The business completed the migration of 8 million-plus subscribers and had increases of 47% in revenue, 60% in gross profit, and 923% in Adjusted EBITDA in Q2 compared to Q1. Our Tucows Domains business has seen domains under management and transactions stabilize post-pandemic, and we expect revenues and margin to similarly return to incremental growth as we realize the benefits of foreign exchange related price increases from the second half of 2022. And we’ve again used cash flow from Wavelo and Tucows Domains to reduce our syndicated debt this quarter.”

Financial Results

Consolidated net revenue for the second quarter of 2023 increased 2.3% to \$85.0 million from \$83.1 million for the second quarter of 2022. The growth in Ting and Wavelo revenues was offset by decreases in revenues in Tucows Domains and Tucows Corporate. Although domains under management and transactions have stabilized post pandemic, there was a lower contribution from Expiry aftermarket sales in our Domains business.

Gross profit for the second quarter of 2023 decreased 18.2% to \$18 million from \$22.1 million for the second quarter of 2022. The decrease in Gross profit was driven primarily by increased network depreciation and network expenses, as the Ting network footprint expands. There were also impacts from lower year over year margin from our Domains business related to lower Expiry aftermarket sales. The decrease in Gross profit was partially offset by growth in gross margin for both Ting and Wavelo.

Net loss for the second quarter of 2023 was \$31.0 million, or a loss of \$2.86 per share, compared with net loss of \$3.0 million, or \$0.29 per share, for the second quarter of 2022, with the loss being primarily the result of a one-time cost of \$14.7 million associated with the early redemption of a portion of the Ting preferred shares, in addition to costs from the continued investment in the Ting Fiber network expansion, network depreciation, higher stock based compensation, and higher interest expenses resulting from the new Ting asset-backed security (ABS) facility.

Adjusted EBITDA¹ for the second quarter of 2023 decreased 54% to \$5.4 million from \$11.7 million for the second quarter of 2022. The decrease in adjusted EBITDA¹ was primarily related to expected and

reduced contribution from Ting, which has been making strong investments into the expansion of its fiber network. To a lesser extent the adjusted EBITDA decrease is also related to lower contribution from Expiry aftermarket sales in our Domains business, and the impact of the contract asset unwinding in the Wavelo business.

Cash, cash equivalents, restricted cash and restricted cash equivalents at the end of the second quarter of 2023 were \$159.6 million compared with \$11.8 million at the end of the first quarter of 2023 and \$6.5 million at the end of the second quarter of 2022.

Summary Financial Results
(In Thousands of US Dollars, Except Per Share Data)

	3 Months ended June 30			6 Months ended June 30		
	2023 (unaudited)	2022 (unaudited)	% Change	2023 (unaudited)	2022 (unaudited)	% Change
Net Revenues	84,978	83,084	2.0%	165,408	164,183	0.7%
Gross Profit	18,032	22,053	(18.2)%	32,093	43,251	(26)%
Income Earned on Sale of Transferred Assets, net	4,289	4,520	(5.1)%	8,659	9,272	(6.6)%
Net Income (Loss)	(30,968)	(3,125)	(891)%	(50,051)	(6,145)	714%
Basic earnings (Loss) per common share	(2.86)	(0.29)	(886)%	(4.63)	(0.57)	712%
Adjusted EBITDA¹	5,395	11,700	(54)%	8,425	23,011	(63)%
Net cash by (used in) operating activities	(1,587)	12,576	(113)%	(6,838)	17,983	(138)%

1. This Non-GAAP financial measure is described below and reconciled to GAAP net income in the accompanying table.

Summary of Revenues, Gross Profit and Adjusted EBITDA
(In Thousands of US Dollars)

	Revenue		Gross Margin		Adj. EBITDA ¹	
	3 Months ended June 30		3 Months ended June 30		3 Months ended June 30	
	2023 (unaudited)	2022 (unaudited)	2023 (unaudited)	2022 (unaudited)	2023 (unaudited)	2022 (unaudited)
Ting Internet Services:						
Fiber Internet Services	12,408	10,221	7,051	5,804	(10,336)	(6,185)
Wavelo Platform Services:						
Platform Services	10,342	7,970	10,012	7,768		
Other Professional Services	409	1,000	40	144		
Total Wavelo Platform Services	10,751	8,970	10,052	7,912	3,427	3,872
Tucows Domain Services:						
Wholesale						
Domain Services	46,782	46,979	9,492	10,041		
Value Added Services	4,745	5,597	4,162	4,954		
Total Wholesale	51,527	52,576	13,654	14,995		
Retail	8,429	8,487	4,275	4,968		
Total Tucows Domain Services	59,956	61,063	17,929	19,963	10,578	12,107
Corporate:						
Mobile Services and Eliminations	1,863	2,830	(797)	105	1,726	1,906
Network Expenses:						
Network, other costs	n/a	n/a	(6,993)	(4,764)	n/a	n/a
Network, depreciation of property and equipment	n/a	n/a	(8,757)	(6,589)	n/a	n/a
Network, amortization of intangible assets	n/a	n/a	(379)	(378)	n/a	n/a
Network, impairment	n/a	n/a	(74)	-	n/a	n/a
Total Network Expenses	n/a	n/a	(16,203)	(11,731)	n/a	n/a
Total	84,978	83,084	18,032	22,053	5,395	11,700

1. This Non-GAAP financial measure is described below and reconciled to GAAP net income in the accompanying table.

Notes:

1. Adjusted EBITDA

Tucows reports all financial information required in accordance with United States generally accepted accounting principles (GAAP). Along with this information, to assist financial statement users in an assessment of our historical performance, the Company typically discloses and discusses a non-GAAP financial measure, adjusted EBITDA, in press releases and on investor conference calls and related events that exclude certain non-cash and other charges as the Company believes that the non-GAAP information enhances investors' overall understanding of our financial performance.

The Company believes that the provision of this supplemental non-GAAP measure allows investors to evaluate the operational and financial performance of the Company's core business using similar evaluation measures to those used by management. The Company uses adjusted EBITDA to measure its performance and prepare its budgets. Since adjusted EBITDA is a non-GAAP financial performance measure, the Company's calculation of adjusted EBITDA may not be comparable to other similarly titled measures of other companies; and should not be considered in isolation, as a substitute for, or superior to measures of financial performance prepared in accordance with GAAP. Because adjusted EBITDA is calculated before certain recurring cash charges, including interest expense and taxes, and is not adjusted for capital expenditures or other recurring cash requirements of the business, it should not be considered as a liquidity measure. Non-GAAP financial measures do not reflect a comprehensive system of accounting and may differ from non-GAAP financial measures with the same or similar captions that are used by other companies and/or analysts and may differ from period to period. The Company endeavors to compensate for these limitations by providing the relevant disclosure of the items excluded in the calculation of adjusted EBITDA to net income based on U.S. GAAP, which should be considered when evaluating the Company's results. Tucows strongly encourages investors to review its financial information in its entirety and not to rely on a single financial measure.

The Company's adjusted EBITDA definition excludes depreciation, impairment and loss on disposition of property and equipment, amortization of intangible assets, income tax provision, interest expense (net), accretion of contingent consideration, stock-based compensation, asset impairment, gains and losses from unrealized foreign currency transactions, loss on debt extinguishment and costs that are not indicative of on-going performance (profitability), including acquisition and transition costs. Gains and losses from unrealized foreign currency transactions removes the unrealized effect of the change in the mark-to-market values on outstanding unhedged foreign currency contracts, as well as the unrealized effect from the translation of monetary accounts denominated in non-U.S. dollars to U.S. dollars.

The following table reconciles income before provision for income taxes to Adjusted EBITDA (dollars in thousands):

	3 Months ended June 30		6 Months ended June 30	
	2023 (unaudited)	2022 (unaudited)	2023 (unaudited)	2022 (unaudited)
Net income (Loss) for the period	(30,968)	(3,125)	(50,051)	(6,145)
Less:				
Provision for income taxes	(3,025)	738	(4,735)	1,817
Depreciation of property and equipment	8,907	6,735	17,495	12,778
Impairment of property and equipment	74	95	2,016	507
Amortization of intangible assets	2,609	2,843	5,481	5,686
Interest expense, net	10,501	2,422	18,381	4,217
Loss on debt extinguishment	14,680	-	14,680	-
Accretion of contingent consideration	-	50	-	148
Stock-based compensation	2,052	1,436	4,298	2,828
Unrealized loss (gain) on foreign exchange revaluation of foreign denominated monetary assets and liabilities	(126)	46	(84)	100
Acquisition and transition costs*	691	460	944	1,076
Adjusted EBITDA	5,395	11,700	8,425	23,012

* Acquisition and other costs represent transaction-related expenses, transitional expenses, such as redundant post-acquisition expenses, primarily related to our acquisitions, including Simply Bits in November 2021. Expenses include severance or transitional costs associated with department, operational or overall company restructuring efforts, including geographic alignments.

Management Commentary

Concurrent with the dissemination of its quarterly financial results news release at 5:05 p.m. ET on Thursday, August 3, 2023, management's pre-recorded audio commentary (and transcript), discussing the quarter and outlook for the Company will be posted to the Tucows website at <http://www.tucows.com/investors/financials>.

Following management's prepared commentary, for the subsequent seven days, until Thursday, August 10, 2023, shareholders, analysts and prospective investors can submit questions to Tucows' management at ir@tucows.com. Management will post responses to questions in an audio recording and transcript to the Company's website at <http://www.tucows.com/investors/financials>, on Tuesday, August 22, 2023, at approximately 4 p.m. ET. All questions will receive a response, however, questions of a more specific nature may be responded to directly.

About Tucows

Tucows helps connect more people to the benefit of internet access through communications service technology, domain services, and fiber-optic internet infrastructure. Ting (<https://ting.com>) delivers fixed fiber Internet access with outstanding customer support. Wavelo (<https://wavelo.com>) is a telecommunications software suite for service providers that simplifies the management of mobile and internet network access; provisioning, billing and subscription; developer tools; and more. Tucows Domains (<https://tucowsdomains.com>) manages approximately 24 million domain names and millions of value-added services through a global reseller network of over 35,000 web hosts and ISPs. Hover (<https://hover.com>) makes it easy for individuals and small businesses to manage their domain names and email addresses. More information can be found on Tucows' corporate website (<https://tucows.com>).

Tucows, Ting, Wavelo, and Hover are registered trademarks of Tucows Inc. or its subsidiaries.

This release includes forward-looking statements as that term is defined in the U.S. Private Securities Litigation Reform Act of 1995, including statements regarding our expectations regarding our future financial results and, including, without limitation, our expectations regarding our ability to realize synergies from the Enom acquisition and our expectation for growth of Ting Internet. These statements are based on management's current expectations and are subject to a number of uncertainties and risks that could cause actual results to differ materially from those described in the forward-looking statements. Information about other potential factors that could affect Tucows' business, results of operations and financial condition is included in the Risk Factors sections of Tucows' filings with the Securities and Exchange Commission. All forward-looking statements should be evaluated with the understanding of their inherent uncertainty. All forward-looking statements are based on information available to Tucows as of the date they are made. Tucows assumes no obligation to update any forward-looking statements, except as may be required by law.

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