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Tucows Reports Financial Results for Third Quarter 2023

TORONTO, November 2, 2023 – Tucows Inc. (NASDAQ:TCX, TSX:TC), a global internet services leader, today reported its financial results for the third quarter ended September 30, 2023. All figures are in U.S. dollars.

“On a year over year basis, our third quarter results show continued strong growth of Wavelo and Ting, and a return to steady state for Tucows Domains. Completing a full quarter with the migrated Boost subscriber base gave Wavelo a significant boost year over year, including increases in revenue of 174%; gross margin of 176%; and adjusted EBITDA of 566%. Ting also showed strong year over year growth with an increase of 17% for revenue and 20% for gross margin,” said Elliot Noss, Tucows President and CEO. “The important story is about capital allocation. We are making growth investments and directing cash flow to set up the Company for a long runway of growth while also managing our debt. We recently [signed a new banking credit agreement](#) for the Tucows syndicated debt that gave us improved terms and provides further stability and capital for growth, and we continued to pay down the balance on the syndicated debt this quarter using cash flow from Wavelo and Tucows Domains.”

Financial Results

Consolidated net revenue for the third quarter of 2023 increased 11.4% to \$87.0 million from \$78.1 million for the third quarter of 2022. The growth in Ting and Wavelo revenues was offset by a decrease in revenue in Tucows Corporate. Domains revenues were up slightly, as the business returned to a post-pandemic normalized trajectory.

Gross profit for the third quarter of 2023 decreased 6.7% to \$16.8 million from \$18.0 million from the third quarter of 2022. The decrease in Gross profit was driven primarily by expected increased network depreciation and network expenses as the Ting network footprint expands, as well as the impairment of certain Ting network assets totalling \$2.7 million. The decrease in Gross profit was partially offset by strong growth in gross margin for Wavelo, as well as for Ting.

Net loss for the third quarter of 2023 was \$23.5 million, or a loss of \$2.16 per share, compared with net loss of \$8.0 million, or \$0.74 per share, for the third quarter of 2022. The increased loss is primarily the result of costs from the continued investment in the Ting Fiber network expansion, network depreciation, impairment of certain Ting network assets, higher interest expenses resulting from the new Ting asset-backed security (ABS) facility and overall higher interest rates, and higher stock based compensation.

Adjusted EBITDA¹ for the third quarter of 2023 decreased 43.2% to \$4.5 million from \$7.9 million for the third quarter of 2022. The decrease in adjusted EBITDA¹ was primarily related to planned investments

in Ting's operating capacity and growing customer base. Cash equivalents, restricted cash and restricted cash equivalents at the end of the third quarter of 2023 were \$122.4 million compared with \$159.6 million at the end of the second quarter of 2023 and \$30.5 million at the end of the third quarter of 2022.

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

	3 Months ended September 30			9 Months ended September 30		
	2023 (unaudited)	2022 (unaudited)	% Change	2023 (unaudited)	2022 (unaudited)	% Change
Net Revenues	86,971	78,050	11.0%	252,379	242,233	4.2%
Gross Profit	16,753	17,987	(6.9)%	48,846	61,238	(20)%
Income Earned on Sale of Transferred Assets, net	4,312	4,737	(9.0)%	12,971	14,009	(7.4)%
Net Income (Loss)	(22,772)	(7,981)	(185)%	(72,823)	(14,126)	416%
Basic earnings (Loss) per common share	(2.09)	(0.74)	(182)%	(6.71)	(1.31)	412%
Adjusted EBITDA¹	4,472	7,879	(43)%	12,897	30,890	(58)%
Net cash by (used in) operating activities	(6,933)	(1,008)	(588)%	(13,771)	17,983	(177)%

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 September 30		3 Months ended September 30		3 Months ended September 30	
	2023 (unaudited)	2022 (unaudited)	2023 (unaudited)	2022 (unaudited)	2023 (unaudited)	2022 (unaudited)
Ting Internet Services:						
Fiber Internet Services	12,855	10,946	7,986	6,656	(12,176)	(5,040)
Wavelo Platform Services:						
Platform Services	10,697	4,048	10,355	3,813		
Other Professional Services	377	0	149	0		
Total Wavelo Platform Services	11,074	4,048	10,504	3,813	4,207	(902)
Tucows Domain Services:						
Wholesale						
Domain Services	47,657	46,985	9,597	9,592		
Value Added Services	4,252	4,883	3,715	4,270		
Total Wholesale	51,909	51,868	13,312	13,862		
Retail	9,179	8,413	5,063	4,308		
Total Tucows Domain Services	61,088	60,281	18,375	18,170	10,913	10,385
Corporate:						
Mobile Services and Eliminations	1,954	2,775	(611)	1,109	1,528	3,436
Network Expenses:						
Network, other costs	n/a	n/a	(7,322)	(4,244)	n/a	n/a
Network, depreciation of property and equipment	n/a	n/a	(9,138)	(7,136)	n/a	n/a
Network, amortization of intangible assets	n/a	n/a	(378)	(378)	n/a	n/a
Network, impairment	n/a	n/a	(2,663)	(3)	n/a	n/a
Total Network Expenses	n/a	n/a	(19,501)	(11,761)	n/a	n/a
Total	86,971	78,050	16,753	17,987	4,472	7,879

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 September 30		9 Months ended September 30	
	2023 (unaudited)	2022 (unaudited)	2023 (unaudited)	2022 (unaudited)
Net income (Loss) for the period	(22,772)	(7,981)	(72,823)	(14,126)
Less:				
Provision (recovery) for income taxes	(822)	(1,027)	(5,557)	790
Depreciation of property and equipment	9,275	7,285	26,770	20,063
Impairment of property and equipment	2,663	(16)	4,679	491
Amortization of intangible assets	2,620	2,842	8,101	8,528
Interest expense, net	10,739	4,337	29,120	8,555
Loss on debt extinguishment	-	-	14,680	-
Accretion of contingent consideration	-	50	-	198
Stock-based compensation	2,308	1,569	6,606	4,396
Unrealized loss (gain) on foreign exchange revaluation of foreign denominated monetary assets and liabilities	340	348	254	446
Acquisition and transition costs*	121	472	1,067	1,549
Adjusted EBITDA	4,472	7,879	12,897	30,890

* 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, November 2, 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, November 9, 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, November 21, 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 25 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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