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Tucows, Inc. (TCX)

Q4 2017 Earnings Conference Call

February 14, 2018, 08:00 ET

Executives

Elliot Noss - President, CEO & Director

Davinder Singh - CFO, EVP & Secretary

Analysts

William Cocks - BMO Capital Markets

Ralph Garcea - Echelon Wealth Partners Inc.

Patrick Retzer - Retzer Capital

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to Tucows' Fourth Quarter 2017 Conference Call. Earlier today, Tucows issued a news release reporting its financial results for the fourth quarter ended December 31, 2017. That news release, along with the company's financial statements, are available on the company's website at tucows.com under the Investors heading.

Please note that today's call is being broadcast live over the Internet and will be archived for replay, both by telephone and via the Internet, beginning approximately 1 hour following the completion of this call. Details on how to access the replays are available in today's news release.

Before we begin, let me remind you that the matters the company will be discussing include forward-looking statements and as such, are subject to risks and uncertainties that could cause the actual results to differ materially. These risk factors are described and detailed in the company's documents filed with the SEC, specifically the most recent reports on the Form 10-K and the Form 10-Q. The company urges you to read its security filings for a full description of the risk factors applicable for its business.

I would now like to turn the call over to Tucows' President and Chief Executive Officer, Mr. Elliot Noss. Please go ahead, Mr. Noss.

Elliot Noss

Thank you, operator, and thanks, everyone, for joining us today. With me is our Chief Financial Officer, Dave Singh. A couple of things before I move on to our usual format. First, as many but not all of you on the call know, I had a double hip replacement very recently and in still -- and I'm still in the early stages of recovery. In fact, this call is my only formal act in the last 4 weeks, and I'll be continuing to convalesce for at least the next couple.

Next, again, as many of you know, we were the target of a short seller attack this quarter. Of course, it took place shortly before my surgery was scheduled. We will respond to one substantive issue in that report when I discuss our Domains business shortly, but I would like to start by thanking many of you on the call and many of you not on the call. In both cases, the surgery and the short report, I was blown away by the level of support, we as a company and I as a person, received from you all. And I was reminded of something that I'd never forget but can never be reminded of too often.

This business is not built to be hot or cold. It is predictable and maybe a little boring. From domains to mobile to Internet, we acquire subscribers at relatively low costs and get our return over years of subscription revenues. We invest the cash we generate in potential growth businesses. The growth in the share price has simply reflected the growth in earnings and will continue to do so over the long term. Any imaginable customer loss or litigation can be absorbed. Likewise, there is no employee, including me, that we can't afford to lose for some time. I am very grateful to have shareholders who understand that, who believe in our judgment and who have taken the long view. I am frankly content to lose any who do not.

One more thing to note. Due to my recovery, I will not be available for -- to shareholders in the 2 weeks following the call as I would be normally. We're going to try to address this with something new. For 10 days following the call, we'll accept questions from shareholders using their regular channels or to ir@tucows.com. We will take the most salient questions and try and deliver video answers within two weeks of the call. Tucows and myself, in particular, appreciate your patience as I recover.

Now on to our usual format. I'll begin with an overview of the financial and operational highlights for the fourth quarter of 2017. Dave will then provide a detailed review of our financial results, and I'll return with some concluding comments before opening the call up to questions.

Before I get into the numbers, I would like to remind you that going forward, we will be discussing the Domains business on a consolidated basis, where relevant, we will break out any numbers from the Enom businesses, which we acquired on January 20 of last year.

The fourth quarter of 2017 saw strong growth across each of our key financial metrics and capped off the year in which we delivered record financial performance, while setting the stage for our next big growth opportunity with Ting Internet. For Q4, revenue increased 86% year-over-year to just under $91 million, and net income, with the impact of numerous tax changes, increased nearly 300% to $11.2 million or $1.06 per share. Although even without the tax benefit, net income would still have almost doubled to a new record. Adjusted EBITDA increased 108% to $15.3 million, and cash flow from operations increased 55% to $14.1 million.

These numbers contributed to record financial performance for the year. With revenue increasing 74% to $329 million, net income increasing 39% to $22 million or $2.12 a share, adjusted EBITDA increasing 37% to $41.4 million and of course, that's before the deferred revenue adjustment to take that over $50 million. And cash flow from operations increasing 42% to $31.9 million.

I will remind you that the required accounting treatment of deferred revenue for the Enom acquisition in January had a negative non-cash impact on adjusted EBITDA. For Q4, the total impact of net deferred revenue was $0.8 million, which brings the total impact for 2017 to $7.8 million, consistent with our estimate at the beginning of the year of around $8 million. That $7.8 million adjustment, along with the net deferrals in our incumbent business, brings our adjusted EBITDA for 2017 to $50.3 million, just over the guidance we provided at the outset of the year.

Before reviewing the Domains business, we would like to note that as expected, since the time of the transaction, Enom's largest customer Namecheap has migrated the bulk of their registrations off the platform. They have moved 2.65 million domains, and there are another 450,000 or so that will move when agreement is reached. While there was a dispute still ongoing between us and Namecheap as to the method of them leaving, there was never any expectation that Namecheap will be part of the ongoing business that we bought. We expected they would have left much earlier, and most importantly, all expectations we set around contributions of the Enom business assumed them to be leaving expeditiously. There were absolutely no surprises here.

Q4 was another strong quarter for the Domains business. In our wholesale channel, total registrations for the combined OpenSRS and Enom businesses were approximately $4.4 million, with the total being fairly evenly split between the two. This marks 4 consecutive quarters since the Enom acquisition of total registrations at or around the $4.5 million number, highlighting the consistency in this business.

OpenSRS had another good quarter in Q4, once again underscoring the consistency of that business. Total registrations were up 4% year-over-year, and new registrations, a leading indicator, up 8%. It capped off a second straight year of strong transaction growth, following 3 years of relatively flat performance with total registrations for 2017, up 4.5% in 2016.

The renewal rates for the wholesale channel was 72%. As a reminder, this number reflects the lower renewal rate of the acquired Enom domains as OpenSRS continues at its historical level, well above the industry average. Again, this number has been consistent at or around this level throughout the year.

The retail channel also saw another quarter of strong performance as the Hover business continued year-over-year growth and the renewal rate remained remained healthy. The renewal rate for Q4 for retail was 76%. This reflects the extremely high renewal rate for Hover and the higher-margin, lower renewal rate for Enom retail. This is still above the industry average.

The overall Domains business benefited in Q4 from a $2 million bulk sale of portfolio domain names. I'm reluctant to call this a one-time event. This deal only depleted our portfolio, not including the surnames at all, by about 10%, and there will always be long --

large-scale transactions between players. But it certainly is not as dependable or predictable as the millions of small customer transactions that drive our other businesses.

In just over a year since the Enom acquisition and beginning with our Q1 2018 reporting, we will have comparable year-over-year results for the combined domain businesses. We will therefore no longer be breaking out the legacy Tucows wholesale or retail businesses. It's the way we are now viewing the business and the way we believe investors should be viewing the business on a go-forward basis.

On the integration of Enom, we continue to make steady progress, with a lot of work still to do this year and next. We do still expect to generate approximately $5 million in annualized incremental EBITDA from synergies, but we do not expect to achieve those synergies until completion of the integration in 2019.

The integration has been somewhat protracted by our near-term efforts around GDPR. These consumer protection guidelines will affect the millions of domain names that we have registered in Europe and in fact, will affect all domain names, and we and everyone else in the industry are required to comply by May 25 of this year. We are making steady progress and fully expect to be operational and compliant by that May 25 deadline.

Moving on to the Ting Mobile business, Ting Mobile finished the year at just under 172,000 accounts and 283,000 devices. This represents 21,000 net account adds and 38,000 net device adds in 2017, 14% and 16% growth, respectively, on the base. For Q4, it includes organic net adds of about 1,500 accounts and 3,000 devices and a loss of about 1,000 of those still churning RingPlus customers.

It is important to note that these modest Q4 acquisition numbers, followed -- following consecutive quarters of 4,500 organic net account adds, do not necessarily signal a flattening of our growth going forward. In fact, the first 3 quarters of 2017 saw growth in both gross and net adds versus the first 3 quarters of 2016, both with and without the inclusion of PTel in 2016 and RingPlus in 2017.

Two factors to consider on Q4. First, Q4 brings historically the highest churn of the year. Our 2.56% churn in Q4, up a bit from 2.5% in Q3 and 2.46% in Q4 2016, was within our projections and right where it needed to be to keep us below 2.5% for the year. But a seasonally driven churn rate on our largest ever base did give us our biggest quarter ever of absolute cancels. So a reasonable quarter of gross adds and a seasonably high quarter of cancels produced a sobering quarter of net adds.

Second, and more importantly, we conducted an unusual marketing experiment in Q4. We stopped portions of our marketing to better understand its indirect impact. As we have discussed, we go to great pains to assign as much attribution as we can to every Ting customer that comes to the front door. Still, a large portion of our adds, about 60% of them, cannot be attributed to any particular campaign, medium, partnership or promotion. I would venture that it's far lower than most businesses, even Internet businesses. However, as we scrutinize every lever we have on this business and every penny we spend to optimize as well as we possibly can, we wanted to be even better sensed of just what our marketing dollars were doing for us. The strongest way to measure the short-term value of marketing is simply to shut it off. Given that we had met our growth goals for the year, we felt there would never be a better time.

While we sacrificed some short-term adds in Q4 and into Q1 as we ramp up again, in terms of our goals, the effort was a success. We generated powerful data for the long term on how marketing spend correlates to those customer adds that are not directionally attributable. There's new calculation of true cost per acquisition allows us to pursue opportunities we might not have before. Efficient, scalable marketing opportunities in this competitive space are not easy to find, but I trust our team to continue to test, optimize and grow them in a responsible and scientific manner. I like the spend that our margins and customer lifetime value justify, and we now have an even better sense that the core assumptions, upon which this business are built, are provable and attractive.

On the subject of margins and customer lifetime value, I should also point out that the Q4 numbers will show a noticeable uptick in margin -- in gross margin as a percentage of revenue. This is the result of some improved cost that we managed to negotiate with one of our carrier partners. We continue to model in the 55% to 60% range for contribution margin.

One last thought on mobile. You might notice our active devices or subscriptions, as we call them internally, have been rising faster than our active accounts. In fact, our ratio of subscriptions to accounts has grown from 1.55 to 1.6, a number that we have cited often to 1.65 by the end of 2017. The percentage of Ting accounts with more than one device has grown to an all-time high of nearly 39%.

As I've said, Ting saves people the most money, and they pool usage for multiple devices. Fittingly, accounts with multiple devices churn at much lower rates. For those reasons, we continue to position ourselves as a family plan to hammer our existing accounts to bring more subscriptions and to watch that total subscription number as carefully as we watch accounts.

I will now move to the Ting Internet business. Last quarter, I shared that we had passed 13,100 residential and business addresses or serviceable addresses and had 3,900 customers across our 3 active markets. Through Q4, we have now passed 16,000 serviceable addresses in those same 3 markets and have about 4,500 customers.

This quarter, I would like to share 2 more pieces of information that make our progress easier to follow. First, on the Tucows Investor website, we've published a build scorecard that allows investors to see exactly how much of each market we have built so far. Right now, the plan is to provide this annually in order to easily track both progress and potential. We note that this level of transparency and granularity is unmatched in telecom today.

Second, with 2017 in Holly Springs marking our first full year in a market that we built from scratch, we have now started to look internally more cleanly at market level profitability. As a reminder, in when thinking about net margins in this business, there are operating costs at three levels, city level, centralized Internet and corporate costs.

Both the centralized Internet costs and the corporate costs are extremely leveraged. City level costs are most direct and scaled with the number and type of city operation. Importantly, we will be around breakeven at a city level in Holly Springs in 2018. In our first build from scratch, we are starting to contribute cash towards the end of the second full year and transitioning to positive some time in the middle portions of that second year. This is a very important hurdle for the model.

Now some quick status on each of the towns. In Charlottesville, we continue to upgrade the legacy network to be able to accommodate greater adoption levels. That work is still being done. Meanwhile, we're entering new neighborhoods with brand new fiber footprints, and since these neighborhoods have been hearing about Ting for over two years, enjoying some of our highest preorder numbers to date, our unaided brand awareness in Charlottesville is remarkable, even to us.

As noted above, Holly Springs is absolutely humming. We are only limited by how quickly we can install homes and expand the network. Adoption in Westminster continues to be strong, but we will not see significant growth in serviceable addresses for the first half of this year as the city did the hard work of funding, planning and implementing its next waves of construction. Perhaps most exciting, both Centennial and Sandpoint, long talked about, are in construction now, at least when we are not buried in snow. And both remain on track to light up their first customers by the end of Q2.

By the end of 2018, we expect to grow from our current 16,000 serviceable addresses to over 40,000 across these 5 towns and surrounding areas. We continue to measure ourselves against the same core metrics at the town, neighborhood and block level, $2,500 per home at 55% adoption, with the return of contribution of $1,000 in recurring margin a year. And we'll continue to let you know how we're tracking against those metrics. So far so good. Of course, that includes the 20% initial take rate and that 50% eventual take rate.

I'd now like to turn the call over to Dave to review our financial results for the quarter in greater detail. Dave?

Davinder Singh

Thanks, Elliot. Total revenue for the fourth quarter of 2017 grew 86% to a record $90.6 million from $48.8 million for the same period in 2016. The increase was mainly due to the acquisition of Enom in January 2017 and to a lesser extent, the contribution of the larger Ting Mobile subscriber base and growth in our incumbent Domains business.

To frame the impact of Enom across our numbers, our total revenues for the year were $329 million, of which $111 million related to Enom since the day of acquisition. Cost of revenues before network costs increased 99% to $61.2 million from $30.7 million for the fourth quarter of 2016, with the increase driven by our growth in revenue as I just discussed.

Gross profit before network costs increased 63% to $29.5 million from $18.1 million. As I've discussed on prior calls this year, our gross margin in 2017 was negatively impacted by the acquisition of the Enom business, the accounting of which required amortizing into revenue deferred revenue that was recorded at fair value at the acquisition. The impact of this accounting, which can be calculated by referencing our 8-K filing from April 3 lowered our overall gross profit as well as our disclosed adjusted EBITDA by roughly $0.8 million in the fourth quarter and a total of $7.8 million for all of 2017. And again, the fourth quarter included a one-off portfolio sale, which as Elliot discussed we'd make from time to time and which have a very high margin.

As a percentage of revenue, gross margin before network costs for the fourth quarter was 33% compared with 37% for Q4 2016.

I'll now review gross margin for each of our Domain Services and Network Access businesses. For Domain Services, gross margin for the fourth quarter increased 103% to $18 million from $8.9 million for Q4 2016. As a percentage of revenue, gross margin for Domain services decreased slightly to 28% from 29%, an improvement from the year-to-date trend as Q4 2017 benefited from the portfolio domain sale I discussed a moment ago.

Looking at the various components of Domain Services individually, gross margin for the wholesale channel increased 69% to $10.5 million from $6.2 million for Q4 of the prior year, with the increase due mainly to the incremental contribution of the Enom acquisition and to a lesser extent, the portfolio sale. As a percentage of revenue, gross margin for wholesale decreased to 20% from 24%.

Gross margin for retail services domain channel increased 99% to $4.1 million from $2.1 million for Q4 2016. As a percentage of revenue, gross margin for retail services decreased to 48% from 54%. And then gross margin for portfolio services was $3.4 million, up 500% from just over $0.5 million in Q4 2016, primarily due to the large portfolio sale. Portfolio gross margin increased to 87% compared with 80% in the same quarter last year.

Moving to our Network Access business, gross margin for Q4 2017 grew 25% to $11.5 million from $9.2 million in the same quarter in the prior year. The fourth quarter benefited from a carrier cost reduction as referenced by Elliot, offset by our continued investment in Ting Internet ahead of revenues. As a percentage of revenues, gross margin for Network Access decreased to 46% from 49%.

Turning now to costs, network expenses for the fourth quarter of 2017 increased 130% to $3.8 million from $1.6 million for the same period of 2016. The increase was due to the additional network expenses associated with the addition of Enom operation as well as increased amortization and depreciation associated with the acquired Enom technology assets.

Total operating expenses for the fourth quarter 2017 increased 34% to $14.8 million from $11 million for Q4 2016. The majority of the increase was due to the addition of Enom operational expenses. However, I would note the following additional highlights not resulting from the Enom acquisition, workforce and third-party workforce related expenses increased by $1.1 million, primarily the result of the continued growth in our Ting Mobile and Internet customer base; impairment of domain names not renewed was $0.1 million; while depreciation and amortization, excluding Enom, was flat year-over-year.

These increases were offset by the following, marketing expenses were down $0.5 million due to the reduction in Ting marketing, referenced by Elliot earlier, as well as a one-time investment in the Ting infomercial in Q4 2016.

From a foreign exchange perspective, we were relatively flat year-over-year on the impact of our currency forward contracts. However, we had a $0.2 million decrease in expense from realized foreign exchange impacts. As a percentage of revenue, total operating expenses decreased to 16% from 22% for the same period in the prior year.

Adjusted EBITDA for the fourth quarter increased 108% to $15.3 million from $7.3 million for Q4 2016. The increase was mainly the result of the contribution of Enom and to a lesser extent, the outsized portfolio sale noted earlier and growth in Ting Mobile. As I mentioned at the outset, adjusted EBITDA for Q4 reflects the $0.8 million negative impact stemming from the purchase price accounting adjustments related to the Enom acquisition.That's brings the impact of the adjustments for all of 2017 to $7.8 million.

Adding this back to our reported adjusted EBITDA of $41.4 million for 2017, along with our normal course net deferrals for incumbent Domains business, along with the net deferral impact resulting from the acquisition of the raw mobility consumer related assets, adjusted EBITDA exceeded $50 million for 2017.

Net income for the fourth quarter 2017 grew nearly threefold to $11.2 million or $1.06 per share compared with $2.8 million or $0.27 per share for Q4 2016. As Elliot mentioned, net income for Q4 includes a $5.8 million or $0.55 per share positive impact from implementation of the recent U.S. Tax Cuts and Jobs Act.

There are a couple of components that make up the $5.8 million impact. First, the reduction in the federal corporate tax rate from 35% to 21%, resulted in our recognizing, based on the rates of which they are expected to reverse in the future, a $10 million benefit for the remeasurement of our deferred tax assets and liabilities. This benefit was offset by our inability to fully utilize foreign tax credits, both carried forward from 2016 and generated in 2017.

Based on our jurisdictional income mix and the tax rate being higher than 21% in the jurisdiction where these foreign tax credits were generated, we have the determined that these tax credits are not more than likely to be used. The net negative impact of the unused foreign tax credits was $4.2 million or an overall net positive benefit of $5.8 million. We will be providing more comprehensive details on the tax impacts in our upcoming 10-K filing.

Outside of the tax benefit, the increase in net income, which still nearly doubled year-over-year, was driven by the strong growth in adjusted EBITDA.

Turning quickly to the balance sheet and cash flows. Cash and cash equivalents at the end of the fourth quarter 2017 increased to $18 million, up from $12.5 million at the end of the third quarter 2017 and $15.1 million at the end of the fourth quarter of 2016.

The increase was the result of the generation of cash flow from operations in Q4 2017 of $14.1 million, up from $9.1 million in Q4 2016. This was partially offset by the use of $4.5 million for the repayment of our loan and the investment of an additional $3.5 million in property and equipment, primarily for the continued build-out of the Ting Internet footprint. Note, for 2017, our full year investment in property and equipment was $12.9 million, the majority of which was Ting Internet-related.

Deferred revenue at the end of the fourth quarter 2017 was $161 million, up significant from $78 million at the end of Q4 2016, mainly the result of the addition of the Enom domains and down slightly from $163 million at the end of Q3 2017.

That concludes my remarks, and I'll now turn the call back over to Elliot. Elliot?

Elliot Noss

Thank you, Dave. Recovering from a double hip replacement naturally has me thinking more long term than I might otherwise, and that is probably just right for this year. For 2018, we are providing guidance of $54 million in cash EBITDA and CapEx in the $30 million range. This number compares to the $50 million for 2017, representing 8% EBITDA growth.

There are a few comments I would like to make to help frame that estimate. First, this caps off a 6-year period since the launch of Ting Mobile that has seen adjusted EBITDA grow more than fivefold. That's a compounded annual growth rate of more than 40%.

As we look to the year ahead, 2018 will be a bridge from the considerable gains in the last 5 years to the next phase of significant growth. 2018 will likely be the last full year that we will be investing in Ting Internet on an operating basis. That investment will shrink a bit, from around $5 million in 2017 to roughly $3.5 million in 2018. The inflection point for that number now looks to be some time in Q1 or Q2 of 2019.

Those of you who have been listening for a while might note that, that's maybe 90, 120 days later than we had talked about for a while. That delay is completely attributable to the delay in launching construction in Centennial and Sandpoint. It is also worth noting that the range of tax changes will positively impact pre-CapEx free cash flow and make an already efficient cash model even more so.

Next, as noted last quarter, Tucows is now deep in a period of making what I referred to as generational investments. These are primarily engineering work that need to be redone in 10 to 20-year increments, much of which we are working on currently. This includes, but is not limited to, the Domains platform, a new financial system and all the integration work that this necessitates and data center work that is driven by both changes in internal needs, such as fiber footprint and headends, and changes in the macro tech landscape, which make new architectures now available.

I well appreciate that investors do not really care much about work like this nor should they. These are certainly for us to worry about, not you. I do want you all to be aware that we are making a conscious effort to invest in areas that we know will have significant long-term benefits and in the type of investments that can make the difference between good and great.

Those who have been following Tucows for any length of time know of our views about returning capital to shareholders, which we've done consistently over the past decade or so, for both Dutch auction tenders, 8 from 2009 to 2015 and open market repurchase programs each year, running right through until now February -- running right through the last one announced in February of 2017.

This morning, we announced a new open market buyback program that will commence immediately. The new program will allow us to repurchase up to $40 million worth of our shares over the course of the next 12 months. As I have discussed on past calls, whether we're active with this program in any given quarter is a purely tactical decision based on the prevailing share price relative to the threshold set by the board at the beginning of the period.

In closing, 2017 was a fantastic year for Tucows. We achieved a place of dominance in a market that we have led in for nearly 20 years. We successfully grew and evolved our telecom businesses, while digging deep into the hard work of setting the platform for the next era of significant growth. Telecom is one of the very few areas of business that has not yet been seriously disrupted by the Internet, which, of course, is ironic because these are the businesses that are actually delivering the Internet. We feel deeply that telecom will be disrupted in the coming years, and we feel we're in a fantastic position to be a part of that disruption.

And with that, I'll turn it over to the operator for questions. Operator?

Question-and-Answer Session

Operator

[Operator Instructions]. And our first question comes from the line of Thanos Moschopoulos with BMO.

William Cocks

This is Bill stepping in for Thanos. A quick question here, could you tell us a little more about the increase in portfolio revenues for the quarter?

Elliot Noss

Sure. So anybody and certainly, Thanos has been on the book for a long, long time, we'll know that we would often have larger one-off portfolio sales that would probably -- I want to say there wasn't another one in '17, I don't think there was one in '16, but it's not an irregular event, and in this case, it was part of a few different moving pieces in the portfolio business. We connected this to some of our Expiry Stream relationships, and it's something that depending on price, we may do again next year, we may not. What would I call it? It's irregular regular.

William Cocks

Okay, sounds good. What about roam revenues for the quarter? I'm not sure if I missed that or if you broke it out.

Elliot Noss

No, we didn't break it out. And the primary reason is -- first of all, it's a relatively small number. And second of all, we're going to take that kind of historical brand, and we're going to do some interesting things, we think, in prepay. So until we've kind of decided how we're going to present that first of all, to the world as a business offering and then second of all, to investors in terms of presenting the financials, we didn't think it made a lot of sense to break that out.

William Cocks

Got it. Okay, makes sense. What about -- there has been some talk about some of the major carriers in the U.S. potentially raising prices for unlimited plans. Is that going to affect Ting Mobile in any way that you can see?

Elliot Noss

I think that, that at the inverse of when they are aggressively lowering them that it will affect us. We think all of that does affect us around the margins, and we live in the margins. We live in the details, so we love to hear about potential price increases. I will note that we do expect some of the -- we expect probably some of that from the Big 4, but we don't -- we aren't necessarily counting on much of that. And I say that because we think that there will be increased competition from the MSOs this year, although it'll probably be at discounts to the big carriers as opposed to anything extremely aggressive. But importantly, the big carriers do continue to use their flanker brands quite aggressively. And so that kind of mitigates some of those potential increases.

William Cocks

Got you. All right. And one last one, just any thoughts on the effective tax rate going forward?

Elliot Noss

Yes, we're going to -- there's a lot of moving parts there, and like a lot of companies, we have global operations. And so that's going to settle down. I'd say, I think there's a lot of long-term planning. What feels comfortable is when you combine what's going on with the new tax rates, with our increasing CapEx, you're going to see that effective tax rate come down. Dave will probably kick me, but longer term, we expect that to get sub-20%, I'd say.

Operator

[Operator Instructions]. Our next question comes from the line of Ralph Garcea with Echelon.

Ralph Garcea

Elliot, all the best for a speedy recovery. I wouldn't wish that on my worst enemies.

Elliot Noss

Well, it beats the chronic pain that precedes it, so it's you know.

Ralph Garcea

That's true. Just a few questions if I may. On the GDPR, I mean what sort of expenses have you incurred to date to get set up for that? And then do they sort of tail off through the second half of the year? Or do you have to sort of maintain a certain development or moderating level from an expense side on making sure you comply to all the new regulations?

Elliot Noss

Sure. So I would -- first of all, it's more one-time than continuing. You kind of roll the changes into the platform, and then you operate them. Second, we've tried as much as possible to dovetail the work we're doing with the new platform work. So think of an example of that, for instance, you now have to come up with a new means of developing and managing a customer profile. Well, we were going to do some of that work for the new platform anyway, so we're trying to leverage as much of this GDPR work as much as possible. Third, I have a deep allergy to allocation, so I'm not having people track their time. We're not kind of being granular in measurement here. Where it really impacts us is in slowing down some of the other work we might be doing. So if I have to swag it, it's probably somewhere between a couple of $100,000 and certainly, sub-$400,000 or $500,000 in total cost to do this. Maybe it is more if I counted all the grain of sand on the beach, but at the end of the day, I think the real impact will be an extra 60 days before we can do some of the platform migrations around Enom that we would have otherwise liked or taking away from introducing some other feature or element that might have saved this something, so it's that kind of impact.

Ralph Garcea

Okay. And then on the marketing spend that you sort of shut off in Q4, that $500,000 or so, are you going to gradually roll it out in programs through the rest of the year? Or how should we look at that from a marketing spend through 2018?

Elliot Noss

Sure. So two things there. First of all, a big chunk of that $500,000 was not the shut off but the experiments with the infomercial from the previous year, when we were doing year-over-year period comparison. We've already ramped it back up, and we were very careful to identify what level of experimentation would be statistically significant, and we did no more than that level of experimentation. So we've already ramped it back up, and you'll start to see things go to probably more historical level. You might even see us take it up a bit because I'll refer back to my remarks more explicitly, we did see that there are -- there is a little more benefit than we were attributing. And that gives Michael and his team the ability to maybe get more aggressive around a couple of opportunities. So we might take that up a bit, but I'm certainly not putting a number against that.

Ralph Garcea

And I know you don't like giving guidance on subscribers, but on the mobile side, can you get to 200,000 subscribers over the next 3 to 5 years organically? Or just continue to steal sort of these guys that are moving to the family plans and some of the...

Elliot Noss

Yes, I'm comfortable saying -- I mean, I'll be disappointed if we don't get to 200,000 in 3 to 5 years. I think it's just -- it continues to be tough work. I think we continue to get a little bit better at it all the time. And you keep pounding into the line, and then you're going to break something. And so I continue to be positive there.

Ralph Garcea

Okay. And then just trying to understand the irregularly regular business. When you set up these portfolios, I mean, are you actively shopping or there's someone that comes to you and says, "I want XYZ.com or whatever this basket of portfolios"?

Elliot Noss

Right, right. So when it's portfolios as opposed to individual names, then it does tend to be people looking to deploy capital. Domains are an asset class. They are an extremely obscure class with a small pool of investors, but it's an asset class that performs like any other. You have people who sort of pay attention to different elements of the asset class and who deploy capital for different reasons. In our case, we're very plugged in the industry. It's known where we are when somebody wants to deploy capital or somebody wants something else from us. There may be some portfolio transactions that go along with that. So I think that -- what would I describe it as, you close the seven-figure deals irregularly, but you discuss them constantly.

Ralph Garcea

Okay. And then on seasonality, you're through sort of the year anniversary on Enom. How should we look at sort of Q1 over Q4 now as you sort of -- as an apples-to-apples comparison year-over-year on the quarter?

Elliot Noss

Yes, Q1, it's always been the case and it's just historically because we launched in Q1. If you go back and look over 10 years, 15 years, you'll see pretty consistently, Q1 ticks up, and then you kind of take a little bit of a step down in 2, 3, 4, and they tend to be relatively even. We could probably talk offline, and I can give you some good historical benchmarks for that.

Ralph Garcea

Okay. And lastly, just on CapEx. You mentioned $30 million or so for this year. My guess is that's just on the rollout of your current basket of city, the 5 cities. If you look to 2019, I mean, should that -- should we expect that to stay $30 million, you're going to be adding 2 or 3 cities? You haven't really mentioned any new rollouts.

Elliot Noss

Yes. So I think there's two things -- well, first, let me deal with the CapEx question in particular. Yes, that is CapEx for fiber, that's really the only CapEx we're talking about. We have very low maintenance CapEx in the rest of the business, so I've never historically discussed it. And I think you'll remember I started last year talking about $30 million, learned hard lessons, and we spent under $11 million on fiber. I think this year's $30 million is going to be a lot more accurate than last year's $30 million, that I'm comfortable to say. The second point I want to make is we're learning about our ability to handle scope and scale. So moving as we've done currently from building in two markets, Charlottesville and Holly Springs, to now building actively in four markets, that is a pretty big pick-up. The pipeline is as full as ever.

There are a lot of interesting opportunities. We're also starting to see the evolution of contiguous opportunity. So that might be a 200-home greenfield build outside the city limits of Charlottesville, where if you're a builder in Charlottesville, you're now actively courting us to make sure that we're wiring up your new homes for Ting service, and you'll see things like that. And of course, you start to get interest in some of the contiguous areas of other places that we are, so we're starting to see some of those opportunities and there continues to be lots in the pipeline. I know we haven't announced anything new, but what I'm very comfortable saying is we have no shortage of opportunity.

Operator

And our next question comes from the line of Patrick Retzer with Retzer Capital.

Patrick Retzer

Elliot, best wishes on your continued recovery.

Elliot Noss

Thanks, Pat.

Patrick Retzer

You guys have done a wonderful job of continuing to grow that mobile business in a relatively flat mature market. What about your strategy or philosophy do you attribute that to?

Elliot Noss

I think that what we've -- I'm going to put it best like this, we're decidedly simple. Our pricing is clear. There is no confusion. There is an excellent customer experience, and I think that, that is understood, appreciated and wins with an important segment of the market. Somebody told me a great story the other day, somebody who knows us and would be predisposed to using Ting, but they were tempted by the amazing unlimited offer of a competitor that looked like it was going to be just a little bit more than we charged but was unlimited, so they didn't have to worry about it. And then they described to me the experience of getting on the phone and -- with this large carrier, getting on the phone with us. And in the first case, they kept going through additional charge after additional -- is that going to be it? Is that all I'm going to see on my bill? Well, there's this, what's that, how will this be, and it's just thing after thing after thing. And they described beautifully the experience, the emotional experience of getting off of those two phone calls. And I think, Pat, that's why we have, by far, the highest level of customer satisfaction, and therefore, incredibly high kind of word-of-mouth referral.

I do wish we were as good at communicating that message as we are at delivering that at a service level. It's tough. I think we all live in a world today, where we see form meeting substance more than it used to. We're substance, and so that's just hard work.

Patrick Retzer

Okay. So on the fiber side, you're actively building in 4 markets, which is a new high level of activity, and it sounds like in 2018, we shouldn't be surprised if maybe you'll announce 1 or 2 or 3 new markets as well as build out from current markets into surrounding communities?

Elliot Noss

I think that's right. I think you're seeing -- the way that I'm really encouraging people to think about this is not through the lens of number of cities but through the lens of serviceable addresses. So you heard me take that number from 16,000 to 40,000. If we go from 16,000 to 40,000 this year, we've done our job. We add 24,000, then next year, we add a larger number than that. The next year, we add a larger number than that. And we keep hitting our take rate goals, the rest takes care of itself. It's a beautiful machine once you get it rolling.

Patrick Retzer

Okay. And you reiterated the take rates you expect, the cost per serviceable address and the gross profit per customer, right?

Elliot Noss

That's right. And we'll constantly be updating on all of those. I really want to stress that we feel that we're -- we know about the 20% now, and we're learning about the 50%, and we continue to kind of have that be our view.

Patrick Retzer

Okay. And then the new tax law, other than lower corporate rates, are there any other substantial benefits to Tucows? Can you maybe write off your fiber installation costs or anything like that?

Elliot Noss

Yes. So just think about it as the fiber CapEx more generally because sort of what becomes CapEx and what becomes OpEx are complicated in fiber. But we now are able to write off 100% of our fiber CapEx and obviously, for us who is taking that number up, that's pretty attractive. So in fact, sort of longer term, that CapEx issue may have as much or more of an impact than the rates.

Patrick Retzer

Right. And then you talked about an inflection point you're going to hit in about a year, and I haven't finished my first cup of coffee yet. So I'm wondering if you'd mind going over that once more?

Elliot Noss

Sure, much like those of us -- and I know this is true for you, Pat, who have been in this story for a long time, who have been investors for a long time, will remember there was an inflection point with Ting Mobile, when we went from investing in that business to that business contributing. And when that happens, it's just the rest of the business moves from headwind to tailwind, and that starts to happen for the Internet business, kind of through the end of '18 and into '19. We've talked about that for a while, and it's one of those things -- look, I've been doing this a long time, people really do look at what is the number you delivered as opposed to what are they expecting going forward, but it's much more of a recognition when they actually see that number than when you talk about this coming. But that inflection point is important because once the Internet business starts to contribute, then it contributes and just ramps from there.

Patrick Retzer

So in about a year, you think the fiber business will be net cash flow positive over and above CapEx?

Elliot Noss

It's not over and above all expenses, that's now at a city level. So remember, I talked about those different levels of expense, but that business is then -- it's starting to contribute at that point. And again, I did -- I've talked about that for a while as being kind of toward it will be Q4 '18, Q1 '19. That's probably moved 90 days or so because of the Centennial and Sandpoint delays in construction that we talked about through '17. And remember, those were really just delays in getting started, not construction delays. We're very happy once we put shovel in dirt, stuff rolls. So that's really where we kind of see that and what it means.

Operator

There are no further questions at this time. I'll turn the call back over to you.

Elliot Noss

Thank you, operator, and we look forward to hearing from you all again -- speaking with you all again next quarter. And again, I do appreciate your indulgence around questions over the next couple of weeks. Thank you.

Operator

This concludes today's conference call. You may now disconnect.