Q4 2019 Q&A Transcript

Introduction [Monica Webb]
Welcome to Tucows' Q4 2019 post-quarter question and answer dialogue with Elliot Noss, President and Chief Executive Officer. Thank you once again to all those who submitted questions over the period subsequent to the call. For your convenience, this audio file is also available as a written document in the investors section of our website, along with our Q4 2019 Financial Results. We've also added lifetime fiber capex to our KPI Summary, which you will likewise find in the investors section.

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 Form 10-Q and Form 10-K. The company urges you to read its securities filings for a full description of the risk factors applicable for its business.

Our current approach is pre-recorded management remarks followed by solicitation of follow-up questions. 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 answers and/or any direct email you may receive, do not address the meat of your questions, please let us know.

Go ahead Mr. Noss.

Opening Remarks [President and Chief Executive Officer, Elliot Noss]

Thank you, Monica. And welcome to our Q4 2019 Q&A call.

Domains

We were asked about our vision for domains for 2030. Here, the story is not as ambitious or grand. We expect domain names to have a similar role in the Internet ecosystem to what they have today. We expect volumes to grow, but with the growth of the Internet, which has slowed down. With our domains business, the growth needs to come from new service innovation. Expect nothing, hope for more!

We had a question about the expected Verisign price increase, and about Verisign potentially competing in selling directly to end users. As with any price increase from a registry, we charge our customers on a registry fees plus basis so there should not be an impact other than to shift some consumption away from .com at the margins. We note that in our view, neither the Department of Commerce, nor ICANN, should have allowed Verisign to increase prices. And we have made that very clear to both.

In terms of competition, we would be extremely surprised to see Verisign operate in any way competitive to registrars. It is simply much more work and much lower margin. They've done a great job narrowing their operations, cutting costs, and buying back stock. We cannot imagine their shareholders would want to see them change that recipe.

Ting Mobile

We had some more questions about the MVNE, or third-party, relationship we have discussed that keeps us on the T-Mobile network. On this, I suppose I should be even clearer, that in essence, we have simply managed to extend our T-Mobile offering at the same cost of goods and much lower commitments. Nothing changes about how we integrate directly with T-Mobile on the technical side to provision, bill and manage subscribers. Nothing changes about what our customers experience. We can continue to service our existing customers and activate new ones. We have a three year agreement. We very likely will start to see a shift in our base from T-Mobile to Verizon in particular, as we like the coverage for our customers, and the financials for ourselves on that end.

However, it is worth clarifying that this negotiation was concluded just days before our deal with T-Mobile was set to expire. Accordingly, until the moment we had a signed deal, we needed to behave as if there wouldn't be one. This had a number of impacts, both operational and financial, the largest of which was essentially pausing our retail efforts. Through 2018 and into 2019, the one area of customer acquisition that had really grown for us was the retail channel. By the middle of 2019, it was an important contributor to gross adds. Overwhelmingly, the retail channel was stocked with GSM SIMs since that one SIM offers compatibility with a majority of devices. In Q3 we had to start pulling sims out of the channel. Now that we have both the Verizon integration live, and the T-Mobile situation resolved, we have started to re-initiate our retail placement. However, it has impacted our gross adds starting in Q3, and will continue to through certainly Q2 of 2020. We hope to be back to full strength in retail by Q3 2020.

Ting Internet

I was asked to elaborate on my statement that, "the smart money and the data supports that fiber will dominate broadband."

With respect to smart money, we have seen Brookfield and another bidder -- who we expect is also an infrastructure fund -- in a bidding war for Cincinnati Bell. We have seen private equity backing a sophisticated operator, buying fiber assets from Frontier. We have seen a massive Canadian pension fund buy the largest German fiber asset from KKR. There, we see a long-term deployer of capital replaced by an even longer-term holder. A KKR fund is time-limited. We have seen Goldman Sachs buy the controlling stake in CityFiber in the UK. I could go on and on.

Bandwidth usage around the world has been escalating dramatically over the last decade, with residential broadband usage growing over 20% annually, in terms of both total monthly downloads and of desired customer speeds. Commercial and residential bandwidth consumption has already eclipsed the capacity of copper, and we will continue to see it outpace the capacity of wireless and coax upgrades. Fiber is the only infrastructure specifically designed for transmission of large data volumes, and it continues to be the one that requires only upgrades to the electronics on either end to increase throughput. Light over glass. We are betting on physics.

We were also asked if it's becoming more difficult to find new Ting towns, given the increased attention from private equity and infrastructure funds buying and building fiber assets. Given our attractiveness as an ISP partner for municipalities and infrastructure funds building their own networks, we often see these other types of fiber network initiatives as a strategic way to grow our serviceable address list -- and do so in a way that leverages the most quickly scalable parts of our businesses. We are experiencing no shortage of opportunities.

We are seeing more competition for buying existing fiber assets. That impact is clear.

We do think we understand how to run this business better than most, and we are rigorous in our due diligence and our valuations. We also think we are at our near the top of the general economic cycle. Accordingly we have to be careful not to overpay, even if others are willing to do so.

Concluding Remarks

And finally, we also received a request to elaborate on our telecom software stack, and how it's a competitive advantage for us. Here I'm referring to our our own software platforms, that automate and integrate tasks like billing and provisioning customers, supporting an end-to-end customer experience from the front door of the website, through to supporting customer service interactions, to providing data to support business decisions and workforce management. We don't have to pay for, or adapt to third-party vendor solutions, or rely on inefficient manual processes. This allows us to design services that focus on the human element of the customer experience where our customers want and need it most. This, combined with culture, makes the secret sauce of our customer experience, and also provides us with an operating expense advantage.

Again, thank you for listening in on our Q4 2019 Q&A, and a reminder that if you feel that the recorded answers and/or any direct email you may receive do not address your question, please follow up with us at ir@tucows.com.
