



Special Business & Financial Update July 2019 Q&A Transcript

Introduction

Welcome to Tucows' question and answer dialogue with Elliot Noss, President and Chief Executive Officer. We are responding to questions submitted to the Company regarding our recent news release on Ting Mobile's network service provider changes, including its new agreement with Verizon, and updated financial guidance. Thank you to all those who submitted questions. For your convenience, [this audio file](#) is also available as a written document in the investors section of our website.

We would also like to remind you that Tucows will report its second quarter 2019 financial results via news release, which will also be accompanied by management's usual prepared remarks, on Wednesday, August 7th at 5:05 p.m., Eastern time.

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

We have grouped similar questions into categories that we feel are addressing common topics. 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 crux of your questions, please let us know.

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

Remarks [Elliot Noss]

NEW VERIZON SERVICE PROVIDER AGREEMENT AND SPRINT/T-MOBILE MERGER

Hello, and thank you again to all those who submitted questions. We had several on how the new carrier relationships -- our new agreement with Verizon, and our extended agreement with Sprint, as well as the termination of our agreement with T-Mobile -- would be affected by the outcome of the Sprint/T-Mobile merger proposal. First, let me reiterate that the goal for us was to improve

our economics, our guarantee profile, and our relationships -- with a better network as an important added bonus. With respect to the merger, we believe we have put ourselves in a strong position regardless of the outcome.

For our subscribers currently on T-Mobile, we have a long runway to move them to either of our other two networks; Sprint or Verizon. Our current contract -- plus a one-year phase-out period -- allows us to continue to service those subscribers on the T-Mobile network through December, 2020. I will talk about that migration effort in greater detail in a moment.

If the merger does not go through, we have two great partners in Sprint and Verizon. We like our terms and relationships with each, and we like having multiple suppliers to mitigate risk.

If the merger does go through, there are several possible scenarios. It is possible we could have a perfectly productive relationship with the new Sprint/T-Mobile entity, and find ourselves extending our contract on the Sprint network beyond 2020. It is also possible the new Sprint/T-Mobile entity does not provide a satisfactory combination of economics, partnership, and service. With that in mind, we negotiated an eighteen month phase-out period with Sprint that protects our rates, and allows us to service subscribers on that network through March, 2022 -- beyond the current contract end date of September, 2020. We do not relish spending the next three years migrating existing customers across networks. But, we would have time, margins and the biggest and best network in the country on our side. If the merger does go through, it appears it will include concessions. Thus DISH or another provider will be in the position of fourth carrier. And we would need to look closely at the terms of the concessions and the nature of a fourth player.

The Verizon agreement, which is for five years, has us feeling more secure in an uncertain environment. The phase-out periods and lower guarantees that we have negotiated in our agreements going forward offer us more product flexibility. As we look around at struggling MVNOs, we also continue to feel really good about how carriers value our financial stability and scale. We are a great wholesale partner for the network provider.

T-MOBILE SUBSCRIBER MIGRATION

In response to several questions, I am also happy to offer more detail regarding our migration of subscribers off the T-Mobile network over the next year and a half.

Again, our T-Mobile contract runs through December, 2019, and our twelve-month phase-out period runs through December, 2020. We currently have about 165,000 subscribers on T-Mobile, and just over 110,000 on Sprint. It might be worth noting by the way, that we have already begun to skew that split back toward Sprint over the past six months or so, through our customer acquisition efforts and our conversion path, even at the expense of a bit of growth.

Of the 165,000 T-Mobile devices, over 95,000 of them are able to migrate to Verizon or Sprint with a new SIM card. Under 25,000 will need to upgrade their devices for certain. Of the remaining 45,000 plus, some will be addressable with software upgrades and other technical fixes; some are IoT devices; and some we may determine are best to upgrade in any event.

Requiring customers to take any action at all is difficult, and just about any migration comes with some cost. Moving people to a preferred network on their current phone could cost us just the price of shipping a new SIM card. Moving people from an old, 3G phone with only a few months left, to a preferred network on an affordable new LTE phone, may still cost us a small phone subsidy. Getting people to replace a high-end phone, early in its lifecycle, even if they are moving to a preferred network, could cost us even more. And of course, it is reasonable to expect that we will experience some inflated attrition along the way, and get to the end of 2020 with some holdouts on T-Mobile that we simply have to shut off. All of that was taken into consideration in our recent cash EBITDA guidance reduction.

We will start experimenting with all of this now with Sprint, and ramp up further when we add Verizon by the end of the year. The estimate of \$3 million in costs this year, and \$12 million over the following years, is a rough projection based on breakouts across the different classes of T-Mobile devices in our base, and their expected conversion rates. Our estimates will become more informed over time. It is, indeed, a steep price to pay for migration. But again, we are essentially moving customers to a new network that offers them better service -- and us better margins. We are all very happy with this move going forward, and it provides us with a decidedly more positive outlook on the Ting mobile business.

TING MOBILE PRICING

We continue to get questions about Ting Mobile revisiting its data pricing. First, I will reiterate that improved margins with these new and extended agreements give us options. More money to spend on awareness, which remains our greatest challenge. More money for incentives aimed at incoming customers. Perhaps more money to give back to all our customers in the form of revised rates. Second, I want to manage expectations around timing. Product management, engineering and marketing resources will be heavily focused on launching Verizon and migrating T-Mobile customers well into next year. So you should not expect any bold changes to the Ting product or pricing during that time.

FREEDOMPOP

Investors were also interested in updates on the FreedomPop customers we acquired on Sprint. I will say that we did begin migrating customers just this week. I will also remind you that we have significant upfront costs with migrations between engineering, support and some customer

incentives. Thus, in 2019, we do not expect FreedomPop to have any material impact on cash EBITDA. I will offer another update on that migration on our next quarterly earnings call.

And finally, to answer a couple of questions on regulation and press coverage relating to the merger. First, we have had no recent contact with regulators on the merger, and the FCC did not follow up with us on our letter of last August. Second, we have not understood some of the media coverage of our move to Verizon and its relationship to the proposed Sprint/T-Mobile merger. As an example, Businessinsider.com said, *“The main reason for this shift, according to a statement from Elliot Noss, CEO of Ting parent company Tucows, is the failure of T-Mobile and proposed partner Sprint to finalize their merger and offer the promised benefits of the combined network.”* This was not in our comments, nor did I say that to them otherwise. Nor did they contact me. The only relationship between the proposed merger and our migration is the fact that it was still outstanding meant that we did not have all the clarity on future relationships that we might have liked when sharing the information with our shareholders. Nothing more. Some of the press coverage was strange.

Thank you again for listening, and a reminder that our Q2 2019 call is on August 7th.