



## Q4 2022 Q&A Transcript

### Introduction [Monica Webb, Senior Director of Investor Relations]

Welcome to Tucows' question and answer dialogue for Q4 2022. Elliot Noss, President and Chief Executive Officer, will be responding to your questions. For your convenience, this audio file is also available as a transcript in the Investors section of our website, along with our [Q4 2022 Financial Results](#) and [updated reports](#). We've also just released a video, referenced in the original Q4 management remarks, on details of the process and capex spend of building Ting networks. It's available in the [video section](#) of the Tucows' Investors site at [www.tucows.com/investors](http://www.tucows.com/investors). I would also like to remind investors that if you would like to receive our quarterly reports and Q&A via email, please make the request to our [ir@tucows.com](mailto:ir@tucows.com) email.

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

Today's commentary includes responses to questions submitted to us following the [prerecorded management remarks](#) regarding the quarter and outlook for the Company. 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 questions and/or any direct email you may receive do not address the full meat of your questions, please let us know.

Go ahead, Elliot.

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

Thank you Monica, and welcome to our Q&A for our fourth quarter 2022 financial results. I'll be sharing a little on our financing. We want to update some of the guidance on Wavelo, and then you will hear my comments on capex.

On financing, things continue to proceed positively, and we continue to expect to be sharing information prior to the next time we report and prior to our Investor Day in Toronto.

On Wavelo, even since we reported, we have continued to make strides. I wanted to update guidance for Wavelo to \$2-\$4 million in EBITDA and, importantly, positive cash flow. We felt it important to call this out in the current context—a context that sees questions about our financing and an extremely low stock price. We have heard a number of comments along the lines of, “You can't be investing in two growth businesses at the same time.” We agree. We note that we did not expect our investment in Wavelo to continue as long as it did into 2022, and we absolutely agree with that sentiment expressed by our investors. The ex-Ting side of the business will simply generate cash.

The remarks I make in this Q&A on capex will simply be the audio portion for part of the capex video. Please do make sure that you do not read these remarks in isolation, but rather with the whole video. There is a lot of additional disclosure in detail in this video, but I do note that we will be digging even deeper on our Investor Day, now set for May 9th live in Toronto.

Jason did a great job of describing the categories of a capex build. I would like to put these categories into a financial context. For me, the easiest way to do that is to express them as a percentage of the cost of a typical home. For these numbers—and for all numbers presented—with the exception of specific financial results from specific periods, these are broad estimates. Design and engineering will be roughly 3% of a typical address; materials and equipment 20%-25%; primary infrastructure buildout roughly 10%-15%; and access network construction—the biggest category—at 60%-65%. An address is not serviceable until the last of the access network is complete. Over the last couple of years, we've been asked a lot about inflation and whether rising costs were having an impact on the cost per pass. Here, I will note that we have seen this most clearly in materials and equipment, which over time has drifted up from 15%-20% to the 20%-25% noted above.

Now we have had a lot of questions over the years about the difference between a passed and serviceable address and how investors should think about this difference. Well, I have explained one technical distinction. A serviceable address has the electronics working on top of the physical network. Jason identified an even larger distinction: right of entry. Historically, right of entry was not a big part of the Ting build story. In the suburbs of Raleigh or the suburbs of Denver, there are simply not a lot of apartment buildings or commercial properties. Moving forward, particularly with Alexandria, this will change. This creates disclosure challenges that I intend to set up here but not resolve. First, we are the only one of the mid-market fiber builders who is public. ALLO was public for a brief period, but likely partly because of the difficulty of building this business in the public eye, their owner took their ownership below 50% and now avoid detailed disclosure. Of course, both AT&T and Frontier are public, but while that does provide a little useful comparison information, it also creates some challenges. Typically, public companies report passed addresses. This inflates the address count and will report addresses that may never be relevant for the business, like an apartment building or an

HOA, each containing potentially hundreds of homes with no right of entry. Historically, the large public companies had an incentive to report as many addresses as possible. We have all heard about the challenges with the FCC maps and overreporting. In addition, their fiber builds were a small enough part of their total businesses that this did not create issues for them. We would prefer to talk about serviceable addresses, as this is the economic unit that actually creates revenue in cash flow. The challenge is: reporting one way makes it different from the way others report, and reporting the other way makes understanding the business more difficult. For now, we will maintain the status quo, but I wanted investors to understand this point as we hone down on more disclosure.

With those two general comments out of the way, I want to start to apply the frameworks we are providing to help investors dig deeper. We will look at 2022 in more detail. Then we will compare '22 to '21 to try and highlight where we are. Rather than me saying “roughly” before every number, please just note that all of these numbers are round.

Let's start with the cash spent on capital expenses in the statement of cash flows. This is the place an investor would typically start. For 2022, that is \$137 million. Now, that is for the whole business, so the first adjustment is for non-Ting capex. In 2022, that was \$16 million in capitalized labor for Wavelo and a couple million dollars for servers and other hardware for the rest of the business. We're now down to \$119 million. That \$119 million includes additions to inventory. In 2022, while we were worried about supply chain issues, and given the land rush going on in the coax-to-fiber transition in the U.S., we placed more value on time than money. We ran up our inventories significantly, adding \$25 million of physical fiber and conduit and \$7 million in electronics. We were probably too conservative in hindsight but would also likely make the same decisions again in context. That \$32 million takes us from \$119 million to \$86 million. The \$86 million includes \$14 million for installs and \$2 million for fleet additions, taking us to \$70 million in build capex. There is a little bit of this spent on partner markets, but that number is low enough for me to ignore here. So that \$70 million is what we spent to both complete addresses that had been materially built prior to 2022 as well as to build for addresses that would become serviceable in the future.

The last piece of information that I thought would be helpful here is to look at 2021 a bit. Doing the same analysis as I did above for 2021, one would get to \$45 million. Now comparing the \$45 million in 2021 to the \$70 million to 2022, our savvy investors would next point out that we delivered roughly 30,000 addresses in each year. Now I note that I'm rounding up slightly in '21, and that we no longer report passed addresses in '22, but that we did call out that there were a large number of addresses that would move from passed to serviceable in Culver City early in 2023. Did we suddenly become much less efficient? In fact, when looking at the difference in spend across categories, we see that we spent \$4 million more in 2022 on primary infrastructure build and \$16 million more in building access networks. Now, spend in each category is not something we currently disclose, nor something we intend to disclose.

We do think it will be important from time to time to share key data points, particularly things like some of the detail we have added above, in order to help investors understand better. We've shared a lot of information, and I hope that it helps you to track the business better. We expect this disclosure to continue to evolve.

Thank you, and we look forward to seeing many of you in Toronto on May 9th.

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