

This article by MOI Global instructor John Lewis is excerpted from a letter of [Osmium Partners](#), based in Greenbrae, California.

*Tucows<sup>[1]</sup>, an ICANN accredited registrar, provides domain name and email services through a global distribution network. The company also operates a rapidly growing MVNO (wireless service) called Ting, which features innovative pricing and category-leading customer service. The company also derives revenue from the sale of fixed high-speed internet access via fiber (Ting Internet) in select towns. TCX generated \$252 million in sales for the LTM ending June 30, 2017 and has a current market capitalization of approximately \$583 million. (TCX is a holding across all funds.)*

- TCX is set to launch Ting TV (a 75 cable channel package) which should accelerate revenue growth of Fiber as a homeowner will be able to fully replace their Cable provider with Ting TV + Ting Fiber in one package.
- TCX increased Fiber spend +200% yr/yr to \$7.2 million for the quarter
- TCX Fiber only operates in small towns w/o much competition whereby Ting can reach 20% of the households in year 1 and 50% by year 5
- Ting Fiber is \$89 a month or \$1068 a year (which is largely profit), the cost to engineer and lay the fiber in the ground is between \$2500-3000 per home. The annual retention rate for Fiber is about 95-98%. EBITDA margins should be in the 67-70% range.
- TCX current ROE is about 40%
- TCX EBITDA-Maintenance CAPEX is about \$5.00 per share or \$54 million cash EBITDA, w/o startup costs of Ting Fiber would be \$59 million (growth CAPEX Fiber is about \$2.50-3.00 per share per year)
- TCX maintenance CAPEX for Domains/Mobile is sub 1% or \$2-3 million per year
- Ting Mobile will re-launch new features to the platform in late 2018 or early 2019, they are testing unlimited data plans.
- Tucows' Domain business is about \$4.00 a share in EBITDA-CAPEX.
- We think TCX can hit \$10 a share in EBITDA over the next 4-5 years (possibly sooner with the CEO's long history of exceptional reinvestment bets)
- We think TCX is a 20% IRR target over the next 4-5 years
- Ting: We believe Fiber/Mobile/TV is worth \$30 per share, Domains: \$40 per share, with about \$6-7 a share net in hidden assets.
- With 40% ROE and even higher returns on capital on Ting Fiber combined with

reinvesting \$50 million a year in high return on capital buckets should drive material cash flow growth per share on just 10 million shares and starting off a base of nearly \$5.00 per share.

“First, and probably most importantly, all of our business lines are significantly recession proof. Relatively speaking, low price items, whether they are domain names or mobile phone service or home Internet, they are core needs, things that people cannot do without. They are not luxuries. They are, in the context of today’s world, necessities. And so we believe our business to be relatively recession-proof.” -TCX CEO August 21, 2018

This is not surprising given the price/value relationships: Mobile Voice/Text/Data average bill is \$23 a month, and 1GBPS Fiber is \$89 in small towns, and Wholesale Internet Domains are \$6-9 a year.

“When looking at the Ting Internet pipeline, there are a few things that I want to reiterate up front. First, we are not cash constrained. We are not opportunity constrained. We are resource constrained. There is plenty of opportunity out there.” - TCX CEO August 21, 2018

This is for 1GBPS high speed fiber. As we understand it, the unit economics are north of a +50% cash on cash return business.

<sup>u</sup> Market price as of the date of dissemination of the letter

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