TeraGo

TeraGo Reports Fourth Quarter and Fiscal 2020 Financial Results

Toronto – February 17, 2021 – TeraGo Inc. ("TeraGo" or the "Company") (TSX: TGO, www.terago.ca), today reported financial and operating results for the fourth quarter and fiscal year ended December 31, 2020.

Fourth Quarter 2020 and Recent Operational Developments

- Advanced 5G fixed wireless technical trials and experienced improved through-put speeds, increasing current results to approximately 1.5 gigabits per second ("Gbps").
- Selected as the national Managed SD-WAN (Software-Defined Wide Area Networking) service provider for a large Canadian healthcare provider.
- Partnered with Mimosa by Airspan to expand and deliver reliable business-grade broadband internet connections across Canada.

Fourth Quarter 2020 Financial Highlights

- Total revenue for the fourth quarter of 2020 decreased 9.2% to $10.9 million compared to $12.0 million for the same period in 2019. The decrease in total revenue was driven by lower connectivity and cloud and colocation revenue.

- Connectivity revenue for the fourth quarter of 2020 decreased 11.0% to $6.5 million compared to $7.3 million for the same period in 2019. The decrease in connectivity revenue was primarily due to churn exceeding customer provisioning.

- Cloud and colocation revenue for the fourth quarter of 2020 decreased 6.4% to $4.4 million compared to $4.7 million for the same period in 2019. The decrease in cloud and colocation revenue was primarily driven by one-time revenue recognized for an early termination in the prior year period.

- Net loss for the fourth quarter of 2020 totaled $2.2 million compared to net loss of $2.1 million for the same period in 2019. The higher net loss was primarily driven by the decline in revenue.

- Adjusted EBITDA(1)(2) for the fourth quarter of 2020 decreased 7.5% to $3.7 million compared to $4.0 million for the same period in 2019. The decrease was primarily driven by the decrease in revenue.

Full Year 2020 Financial Highlights

- Total revenue for the full year 2020 decreased 6.2% to $45.4 million compared to $48.4 million in 2019. The decrease in total revenue was driven by lower connectivity and cloud and colocation revenue.

- Connectivity revenue for the full year 2020 decreased 7.9% to $28.0 million compared to $30.4 million in 2019. The decrease was attributable to churn exceeding customer provisioning.

- Cloud and colocation revenue for the full year 2020 decreased 3.9% to $17.4 million compared to $18.1 million in 2019. The decrease in cloud and colocation revenue was primarily driven one-time revenue recognized for an early termination in the prior year period.

- Net loss for the full year 2020 totaled $8.3 million compared to net loss of $7.0 million in 2019. The higher net loss was driven by lower revenue.

- Adjusted EBITDA(1)(2) for the full year 2020 decreased 9.1% to $15.9 million compared to $17.5 million in 2019. The decrease was driven primarily by the decrease in revenue.

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(1) Adjusted EBITDA is a Non-GAAP measure. See "Non-IFRS Measures" below.
(2) See "Adjusted EBITDA" below for a reconciliation of net loss to Adjusted EBITDA.

Management Commentary

"The fourth quarter was a solid finish to what was an eventful and challenging year," said TeraGo CFO and Interim CEO David Charron. "Even with the strain from the global pandemic, we delivered strong improvements across all our KPIs, demonstrating the resiliency of our operating model and the essential services we provide businesses to keep up with the modern world. Additionally, our focus on key operational initiatives has allowed us to stabilize churn and generate strong cash flow, as well as further increase our leading net promoter score of 62.

"As we look forward into 2021, we believe we are at the cusp of an inflection point in our business. This belief is supported by our expanding pipeline of new business, building traction with new products like our SD-WAN, as well as encouraging results of our 5G test trials throughout the Greater Toronto Area. Our 5G team has made several technical advancements and conducted testing at various distances, resulting in improved throughput speeds of approximately 1.5 Gbps. We look forward to further developing our 5G Fixed Wireless Access program, which will ultimately enable TeraGo to deliver commercial 5G fixed wireless services in Canada."

RESULTS OF OPERATIONS

Comparison of the three months ended December 31, 2020 and 2019

(in thousands of dollars, except with respect to gross profit margin, earnings per share, Backlog MRR, and ARPU)

		Three months ended December 31		Year ended December 31	
		2020	**2019**	**2020**	**2019**
Financial					
Cloud and Colocation Revenue	$	4,382	4,706	17,427	18,064
Connectivity Revenue	$	6,522	7,291	28,021	30,373
Total Revenue	$	10,904	11,997	45,448	48,437
Cost of Services[1]	$	2,723	2,704	9,816	9,647
Selling, General, & Administrative Costs	$	5,651	6,628	24,194	25,825
Gross profit margin[1]		75.0%	77.5%	78.4%	80.1%
Adjusted EBITDA[1, 2]	$	3,695	4,006	15,920	17,477
Net loss	$	(2,221)	(2,120)	(8,259)	(6,994)
Basic loss per share	$	(0.13)	(0.13)	(0.49)	(0.43)
Diluted loss per share	$	(0.13)	(0.13)	(0.49)	(0.43)
Operating					
Backlog MRR[1]					
Connectivity	$	129,676	92,096	129,676	92,096
Cloud & Colocation	$	56,437	18,615	56,437	18,615
Churn Rate[1]					
Connectivity		1.4%	1.4%	1.5%	1.4%
Cloud & Colocation		1.0%	0.9%	1.0%	1.3%
ARPU[1]					
Connectivity	$	1,025	1,019	1,032	1,022
Cloud & Colocation	$	3,582	3,393	3,386	3,262

(1) See "Non-IFRS Measures" below.

(2) See "Adjusted EBITDA" below for a reconciliation of net loss to Adjusted EBITDA.

Fourth Quarter and Full Year Operating Highlights

Backlog Monthly Recurring Revenue (MRR)[(1)]

- Connectivity backlog MRR was $129,676 as of December 31, 2020, compared to $92,096 as of December 31, 2019. The increase in backlog MRR is driven primarily by higher sales volume from both the direct sales team and the channel team compared to the prior year period.

- Cloud and colocation backlog MRR was $56,437 as of December 31, 2020 compared to $18,615 as of December 31, 2019. The increase in backlog MRR is driven higher sales volume compared to the prior year.

Average Revenue per User (ARPU)(1)

- For the three months ended December 31, 2020 connectivity ARPU was $1,025 compared to $1,019 for the same period in 2019. For the year ended December 31, 2020 connectivity ARPU was $1,032 compared to $1,022 for the same period in 2019. The increase in connectivity ARPU for the fourth quarter and full year of 2020 was due to the Company's focus on acquiring and retaining mid-market business customers.

- For the three months ended December 31, 2020 cloud and colocation ARPU was $3,582 compared to $3,393 for the same period in 2019. For the year ended December 31, 2020 cloud & colocation ARPU was $3,386 compared to $3,262 for the same period in 2019. The increase in cloud and colocation ARPU for the fourth quarter and full year of 2020 was due to customer upgrades and cross-selling activities as well as the churn of lower ARPU customers.

Churn(1)

- For the three months ended December 31, 2020, connectivity churn was 1.4% compared to 1.4% for the same period in 2019. The Company's customer retention initiatives have stabilized churn. For the year ended December 31, 2020 connectivity churn was 1.5% compared to 1.4% for the same period in 2019. The increase is due to elevated churn experienced in the second quarter of 2020 that was associated with the onset of the COVID-19 pandemic.

- For the three months ended December 31, 2020, cloud and colocation churn was 1.0% compared to 0.9% for the same period in 2019. Churn in the three months ended 2020 remained at a consistent level due to ongoing customer retention initiatives. For the year ended December 31, 2020 cloud and colocation churn was 1.0% compared to 1.3% for the same period in 2019. The decrease was driven by ongoing customer retention initiatives.

(1) See "Non-IFRS Measures" below.

Conference Call

Management will host a conference call on Thursday, February 18, 2021, at 9:00 a.m. Eastern Time to discuss these results.

To access the conference call, please dial 647-427-2311 or 866-521-4909. Please call the conference telephone number 15 minutes prior to the start time so that you are in the queue for an operator to assist in registering and patching you through. The Financial Statements and Management's Discussion & Analysis for the quarter and fiscal year ended December 31, 2020, along with a presentation in connection with the conference call will be made available on the Company's website at https://terago.ca/company/investor-relations/.

An archived recording of the conference call will be available until February 25, 2021. To listen to the recording, call 416-621-4642 or 800-585-8367 and enter passcode 9046047.

(1) Non-IFRS Measures

This press release contains references to "Cost of Services", "Gross Profit Margin", "Adjusted EBITDA", "Backlog MRR", "ARPU", and "churn" which are not measures prescribed by International Financial Reporting Standards (IFRS).

Cost of Services consists of expenses related to delivering service to customers and servicing the operations of our networks. These expenses include costs for the lease of intercity facilities to connect our cities, internet transit and peering costs paid to other carriers, network real estate lease expense, spectrum lease expenses and lease and utility expenses for the data centres and salaries and related costs of staff directly associated with the cost of services.

Gross Profit Margin % consists of gross profit margin divided by revenue where gross profit margin is revenue less cost of services.

Adjusted EBITDA - The Company believes that Adjusted EBITDA is useful additional information to management, the Board and investors as it provides an indication of the operational results generated by its business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration asset depreciation and amortization and it excludes items that could affect the comparability of our operational results and could potentially alter the trends analysis in business performance. Excluding these items does not necessarily imply they are non-recurring, infrequent or unusual. Adjusted EBITDA is also used by some investors and analysts for the purpose of valuing a company. The Company calculates Adjusted EBITDA as earnings before deducting interest, taxes, depreciation and amortization, foreign exchange gain or loss, finance costs, finance income, gain or loss on disposal of network assets, property and equipment, impairment of property, plant, & equipment and intangible assets, stock-based compensation and restructuring, acquisition-related and integration costs. Investors are cautioned that Adjusted EBITDA should not be construed as an alternative to operating earnings (losses) or net earnings (losses) determined in accordance with IFRS as an indicator of our financial performance or as a measure of our liquidity and cash flows. Adjusted EBITDA does not take into account the impact of working capital changes, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed in the consolidated statements of cash flows.

A reconciliation of net loss to Adjusted EBITDA is found below and in the MD&A for the three and twelve months ended December 31, 2020. Adjusted EBITDA does not have any standardized meaning under IFRS/GAAP. TeraGo's method of calculating Adjusted EBITDA may differ from other issuers and, accordingly, Adjusted EBITDA may not be comparable to similar measures presented by other issuers.

The table below reconciles net loss to Adjusted EBITDA for the three months ended December 31, 2020 and 2019.

(in thousands of dollars)		Three months ended December 31			Year ended December 31	
		2020	**2019**		**2020**	**2019**
Net earnings (loss) for the period	$	(2,221)	(2,120)	$	(8,259)	(6,994)
Foreign exchange loss (gain)		2	28		210	69
Finance costs		1,115	1,090		4,777	4,769
Finance income		(9)	(82)		(99)	(166)
Earnings (loss) from operations		(1,113)	(1,084)		(3,371)	(2,322)
Add:						
Depreciation of network assets, property and equipment and amortization of intangible assets		3,643	3,748		14,809	15,287
Loss on disposal of network assets		77	93		198	296
Impairment of Assets and Related Charges		654	625		1,139	808
Stock-based Compensation Expense (Recovery)		276	341		1,515	1,984
Restructuring, acquisition-related, integration costs and other		158	283		1,630	1,424
Adjusted EBITDA	$	3,695	4,006	$	15,920	17,477

Backlog MRR - The term "Backlog MRR" is a measure of contracted monthly recurring revenue (MRR) from customers that have not yet been provisioned. The Company believes backlog MRR is useful additional information as it provides an indication of future revenue. Backlog MRR is not a recognized measure under IFRS and may not translate into future revenue, and accordingly, investors are cautioned in using it. The Company calculates backlog MRR by summing the MRR of new customer contracts and upgrades that are signed but not yet provisioned, as at the end of the period. TeraGo's method of calculating backlog MRR may differ from other issuers and, accordingly, backlog MRR may not be comparable to similar measures presented by other issuers.

ARPU - The term "ARPU" refers to the Company's average revenue per customer per month in the period. The Company believes that ARPU is useful supplemental information as it provides an indication of our revenue from an individual customer on a per month basis. ARPU is not a recognized measure under IFRS and, accordingly, investors are cautioned that ARPU should not be construed as an alternative to revenue determined in accordance with IFRS as an indicator of our financial performance. The Company calculates ARPU by dividing our total revenue before revenue from early terminations by the number of customers in service during the period and we express ARPU as a rate per month. TeraGo's method of calculating ARPU has changed from the Company's past disclosures to exclude revenue from early termination fees, where ARPU was previously calculated as revenue divided by the number of customers in service during the period. TeraGo's method may differ from other issuers, and accordingly, ARPU may not be comparable to similar measures presented by other issuers.

Churn - The term "churn" or "churn rate" is a measure, expressed as a percentage, of customer cancellations in a particular month. The Company calculates churn by dividing the number of customer cancellations during a month by the total number of customers at the end of the month before cancellations. The information is presented as the average monthly churn rate during the period. The Company believes that the churn rate is useful supplemental information as it provides an indication of future revenue decline and is a measure of how well the business is able to renew and keep existing customers on their existing service offerings. Churn and churn rate are not recognized measures under IFRS and, accordingly, investors are cautioned in using it. TeraGo's method of calculating churn and churn rate may differ from other issuers and, accordingly, churn may not be comparable to similar measures presented by other issuers.

About TeraGo

TeraGo owns a national spectrum portfolio of exclusive 24 GHz and 38 GHz wide-area spectrum licenses including 2,120 MHz of spectrum across Canada's 6 largest cities. TeraGo provides businesses across Canada with cloud, colocation and connectivity services. TeraGo manages over 3,000 cloud workloads, operates five data centres in the Greater Toronto Area, the Greater Vancouver Area, and Kelowna, and owns and manages its own IP network. The Company serves business customers in major markets across Canada including Toronto, Montreal, Calgary, Edmonton, Vancouver, Ottawa and Winnipeg. For more information about TeraGo, please visit www.terago.ca.

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Forward-Looking Statements

This news release includes certain forward-looking statements that are made as of the date hereof. Such forward-looking statements may include but are not limited to statements regarding further developing our 5G Fixed Wireless Access program, enablement for TeraGo to deliver commercial 5G fixed wireless services in Canada, building traction with SD-WAN, executing against the backlog in Q4, increasing the net promoter score, the 5G fixed wireless trials being conducted by the Company and TeraGo's ability to mitigate the risks and negative impacts of the current COVID-19 pandemic. All such statements constitute "forward-looking information" as defined under, applicable Canadian securities laws. Any statements contained herein that are not statements of historical facts constitute forward-looking information. The forward-looking statements reflect the Company's views with respect to future events and is subject to risks, uncertainties and assumptions, including those risks set forth in the "Risk Factors" section in the annual MD&A of the Company for the year ended December 31, 2020 available on www.sedar.com under the Company's corporate profile. Factors that could cause actual results or events to differ materially include the inability to complete successful 5G technical trials, the impacts and restrictions caused by the COVID-19 pandemic are prolonged which may further delay customer trials and/or cause a negative impact on future financial results of the Company, TeraGo's Pandemic Response Plan may not mitigate all impacts of COVID-19, the results of the 5G trials not being satisfactory to TeraGo or any of its technology partners, regulatory requirements may delay or inhibit the trial, the economic viability of any potential services that may result from the trial, the ability for TeraGo to finance and support any new market opportunities that may present itself, and industry competitors who may have superior technology or are quicker to take advantage of 5G technology. Accordingly, readers should not place undue reliance on forward-looking statements as several factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed with the forward-looking statements. Except as may be required by applicable Canadian securities laws, TeraGo does not intend, and disclaims any obligation, to update or revise any forward-looking statements whether in words, oral or written as a result of new information, future events or otherwise.