



TeraGo Reports Third Quarter 2021 Financial Results

Toronto – November 10, 2021 – TeraGo Inc. (“TeraGo” or the “Company”) (TSX: TGO, www.terago.ca), today reported financial and operating results for the third quarter ended September 30, 2021.

Third Quarter 2021 and Recent Operational Developments

- [Partnered](#) with McMaster University to jointly build and deploy the first university-based 5G millimeter wave private network for research
- [Confirmed](#) TeraGo is on track to complete planned 5G core network expansion projects for 2021, preparing for deployment of 5G wireless access services to existing customer base and 5G private networking applications
- [Expanded](#) Microsoft product portfolio with the addition of Microsoft 365, Managed Microsoft Azure, and Managed Disaster Recovery
- [Appointed](#) Andy Ramsey as VP of Finance and Interim Chief Financial Officer

Third Quarter 2021 Financial Highlights

- Total revenue for the third quarter remained consistent at \$10.9 million compared to \$10.9 million in the previous quarter and decreased 3.5% from \$11.3 million for the same period in 2020. The year-over-year decrease in total revenue was driven by lower connectivity revenue.
- Connectivity revenue for the third quarter of 2021 slightly decreased to \$6.5 million from \$6.6 million in the prior quarter and decreased from \$7.1 million for the same period in 2020. The decrease in both periods was attributable to churn exceeding customer provisioning.
- Cloud and colocation revenue for the third quarter of 2021 increased to \$4.4 million compared to \$4.3 million in the prior quarter and increased from \$4.2 million for the same period in 2020. The growth in both periods was driven by new customer acquisition and upgrades from existing customers.
- Net loss for the third quarter of 2021 increased to \$2.3 million from \$1.8 million in the prior quarter but decreased from \$3.2 million for the same period in 2020. The year-over-year decrease in net loss was driven by lower salaries and related costs and other operating expenses.
- Adjusted EBITDA⁽¹⁾⁽²⁾ for the third quarter of 2021 decreased to \$3.1 million from \$3.4 million in the prior quarter, and decreased from \$3.8 million in the same period in 2020. The decrease in both periods was driven primarily by the decrease in revenue and higher cost of services due to the mix of services sold.

Management Commentary

“Overall, our operating results in the third quarter were in line with expectations, as we continued to make significant progress towards launching our mmWave based 5G private networks,” said TeraGo CEO Matthew Gerber. “Our 5G readiness efforts included completing the majority of our core network enhancement projects that were planned for this year, achieving the required in-field connection speeds using the new mmWave 5G equipment we have been testing, and securing pilot sites that will allow us to further test, develop and deploy the new capabilities that mmWave 5G private networks bring to customers.”

⁽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.

RESULTS OF OPERATIONS

Comparison of the three- and nine-months September 30, 2021 and 2020

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

	Three months ended September		Nine months ended September 30	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Financial				
Cloud and Colocation Revenue *	\$ 4,369	4,167 *	12,796	12,488 *
Connectivity Revenue *	\$ <u>6,507</u>	<u>7,112</u> *	<u>19,812</u>	<u>22,056</u> *
Total Revenue	\$ 10,876	11,279	32,608	34,544
Cost of Services ¹	\$ 2,841	2,506	8,038	7,093
Selling, General, & Administrative Costs	\$ 5,714	7,151	16,995	18,543
Gross profit margin ¹	73.9%	77.8%	75.3%	79.5%
Adjusted EBITDA ^{1, 2}	\$ 3,116	3,775	9,718	12,225
Net loss	\$ (2,255)	(3,179)	(6,217)	(6,038)
Basic loss per share	\$ (0.11)	(0.19)	(0.34)	(0.36)
Diluted loss per share	\$ (0.11)	(0.19)	(0.34)	(0.36)
Operating				
<u>Backlog MRR¹</u>				
Connectivity	\$ 102,911	113,231	102,911	113,231
Cloud & Colocation	\$ 38,665	31,935	38,665	31,935
<u>Churn Rate¹</u>				
Connectivity	0.9%	1.4%	1.2%	1.5%
Cloud & Colocation	1.1%	0.9%	1.3%	1.0%
<u>ARPU^{1*}</u>				
Connectivity	\$ 1,026	1,056 *	1,032	1,062 *
Cloud & Colocation	\$ 3,785	3,323 *	3,656	3,178 *

*The three and nine months 2020 comparative numbers for Cloud and Colocation Revenue, Connectivity Revenue, and ARPU have changed to conform with the presentation of revenue stream allocations for Q3 2021.

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

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

Third Quarter 2021 Operating Highlights

Backlog Monthly Recurring Revenue (MRR)⁽¹⁾

- Connectivity backlog MRR was \$102,911 as of September 30, 2021, compared to \$113,231 as of September 30, 2020. The decrease in backlog MRR was driven primarily by lower sales volume compared to the prior year period.
- Cloud and colocation backlog MRR was \$38,665 as of September 30, 2021 compared to \$31,935 as of September 30, 2020. The increase in backlog MRR was driven by the timing of sales bookings and provisioning activities.

Average Revenue per User (ARPU)⁽¹⁾

- For the three months ended September 30, 2021 connectivity ARPU was \$1,026 compared to \$1,056 for the same period in 2020. ARPU decreased slightly due to customer contract renewals at lower rates. For the nine months ended September 30, 2021 connectivity ARPU was \$1,032 compared to \$1,062 for the same period in 2020. The decrease was driven by the factors described above.
- For the three months ended September 30, 2021 cloud and colocation ARPU was \$3,785 compared to \$3,323 for the same period in 2020. The increase was due to customer upgrades and cross-selling activities as well as the churn of lower ARPU customers. For the nine months ended September 30, 2021 cloud & colocation ARPU was \$3,656 compared to \$3,178 for the same period in 2020. The increase was driven by the factors described above.

Churn⁽¹⁾

- For the three months ended September 30, 2021, connectivity churn was 0.9% compared to 1.4% for the same period in 2020. The decrease in churn was driven by a focused efforts on customer retention through upgrades. For the nine months ended September 30, 2021 connectivity churn was 1.2% compared to 1.5% for the same period in 2020. The decrease was driven by the factors described above.
- For the three months ended September 30, 2021, cloud and colocation churn was 1.1% compared to 0.9% for the same period in 2020. The slight increase was due to the timing of customer renewals. For the nine months ended September 30, 2021 cloud and colocation churn was 1.3% compared to 1.0% for the same period in 2020. The increase in churn was due to a higher churn rate of low ARPU small business customers in the first quarter of 2021, which subsequently stabilized over the second and third quarter of 2021.

See "Non-IFRS Measures" below.

Conference Call

Management will host a conference call on Thursday, November 11, 2021, at 9:00 a.m. Eastern Time to discuss these results.

To access the conference call, please dial 866-521-4909 or 647-427-2311, and use conference ID 5763217 if applicable. 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 ended September 30, 2021, 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 November 18, 2021. To listen to the recording, call 800-585-8367 or 416-621-4642 and enter passcode 5763217.

⁽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 nine months ended September 30, 2021. 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 and nine months ended September 30, 2021, and 2020.

<i>(in thousands of dollars)</i>	Three months ended		Nine months ended	
	September 30		September 30	
	2021	2020	2021	2020
Net earnings (loss) for the period	\$ (2,255)	(3,179)	\$ (6,217)	(6,038)
Foreign exchange loss (gain)	19	54	(21)	208
Finance costs	929	1,053	2,981	3,662
Finance income	(13)	(7)	(37)	(90)
Earnings (loss) from operations	(1,320)	(2,079)	(3,294)	(2,258)
Add:				
Depreciation of network assets, property and equipment and amortization of intangible assets	3,641	3,701	10,869	11,166
Loss on disposal of network assets	46	46	169	121
Impairment of assets and related charges	81	309	308	485
Stock-based compensation expense (recovery)	155	475	634	1,239
Restructuring, acquisition-related, integration costs and other	513	1,323	1,032	1,472
Adjusted EBITDA¹	\$ 3,116	3,775	\$ 9,718	12,225

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 licences 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.

For further information, please contact:

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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, consistently executing across all fronts of the business, success in providing Canadian enterprises with managed services and the 5G fixed wireless trials being conducted by the Company. 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” sections in the annual MD&A of the Company for the year ended December 31, 2020 and the MD&A of the Company for the three and nine months ended September 30, 2021, each 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 consistently achieve sales growth across all lines of TeraGo's business including managed services, 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 further 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.