TeraGo Reports Fourth Quarter and Year End 2018 Results

Toronto – February 21, 2019 – TeraGo Inc. (“**TeraGo**” or the “**Company**”) (TSX: TGO, www.terago.ca), today announced financial and operating results for the fourth quarter and year ended December 31, 2018.

“In the fourth quarter, TeraGo delivered solid Adjusted EBITDA(1) growth of 6% from the prior year period by proactively adjusting our cost structure. This provides us with greater flexibility to redirect investments into higher growth initiatives in 2019,” said Tony Ciciretto, President and CEO of TeraGo. “As we continue to push forward in our 5G technology trial and target customer trials before the end of this year, I am encouraged by the opportunities we see to surface greater value from our 24 GHz and 38 GHz spectrum assets.”

Fourth Quarter 2018 Financial Highlights

- Total revenue decreased 5.0% to $12.9 million compared to $13.5 million for the same period in 2017.

- Connectivity revenue decreased 4.8% to $8.4 million compared to $8.8 million for the same period in 2017. Connectivity revenues were impacted by a variety of factors, including churn and certain customers renewing long term contracts at lower current market rates partially offset by the positive impact of reclassifications as a result of first time adoption of IFRS 15. Excluding the impact of IFRS 15 classification of revenue from cloud and colocation to connectivity, connectivity revenue would have been $8.0 million or 9.3% decrease compared to $8.8 million for the same period in 2017.

- Cloud and colocation revenue decreased 5.3% to $4.5 million compared to $4.7 million for the same period in 2017. The decrease was attributable to churn, partially offset by the beneficial impact of non-recurring customer termination fees and provisioning. Excluding the impact of IFRS 15 classification of revenue from cloud and colocation to connectivity, cloud and colocation revenue would have been $4.9 million or 3.3% increase compared to $4.7 million for the same period in 2017.

- Net loss was $2.0 million compared to a net loss of $4.1 million for the same period in 2017. The decrease in net loss was primarily driven by a reduction in the impairment charge on certain network assets, property and equipment and intangible assets recorded compared to 2017. A lower book value of assets contributed to lower depreciation & amortization in the year which further contributed to the decrease in net loss. In addition, the Company saw a decrease in cost of sales as a result of lower revenue and a decrease in operating costs as a result of cost reduction efforts during the year.

- Adjusted EBITDA(1) increased 6.2% to $3.1 million compared to $2.9 million for the same period in 2017. The increase was primarily driven by the lower cost of sales and selling, general, and administrative costs as a result of the cost reduction efforts during the year. These efforts include a reduction in headcount to improve operational efficiencies to address the reduction in revenue and loss in customers.

5G Trial Update

- TeraGo completed the first phase of its 5G fixed wireless millimetre wave technical trial in the Greater Toronto Area. The trial of the 5G fixed wireless technology saw performance of up to 700Mbps per customer end point with an aggregate of over 2Gbps from the provider base station, and latency in the 3-4ms range, proving that fiber-like service with a variety of different package configurations is definitely possible. TeraGo is now working with its technology provider, PHAZR Inc., on enhancements to the radio and software management platform. The second phase of the technical trial will focus on optimizing back office and provisioning processes. On successful completion of the technical trials, TeraGo expects to begin customer trials before the end of 2019, targeting both enterprise and residential broadband connectivity applications.

Full Year 2018 Financial Highlights

- Total revenue decreased 2.0% to $54.3 million compared to $55.4 million for the same period in 2017.

- Cloud and colocation revenue increased 1.7% to $19.3 million compared to $19.0 million for the same period in 2017. Excluding the impact of IFRS 15 classification of revenue from cloud and colocation to connectivity, cloud and colocation revenue would have been $20.8 million or 9.7% increase compared to $19.0 million for the same period in 2017.

- Connectivity revenue decreased 3.9% to $35.0 million compared to $36.4 million for the same period in 2017. Excluding the impact of IFRS 15 classification of revenue from cloud and colocation to connectivity, connectivity revenue would have been $33.5 million or 8.1% decrease compared to $36.4 million for the same period in 2017.

- Net loss was $4.8 million compared to a net loss of $7.3 million for the same period in 2017.

- Adjusted EBITDA(1) increased to $13.0 million compared to $12.9 million for the same period in 2017.

RESULTS OF OPERATIONS

Comparison of the three months and year ended December 30, 2018 and 2017
(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	
		2018	**2017(3)**		**2018**	**2017(3)**
Financial						
Cloud and Colocation Revenue	$	4,475	4,727	$	19,290	18,961
Connectivity Revenue	$	8,393	8,816	$	35,005	36,431
Total Revenue	$	12,868	13,543	$	54,295	55,392
Cost of Services(1)	$	3,473	3,543	$	13,982	14,103
Selling, General, & Admin Costs	$	7,906	10,078		31,142	32,661
Gross profit margin (1)		73.0%	73.8%		74.2%	74.5%
Adjusted EBITDA(1) (2)	$	3,119	2,937	$	12,964	12,864
Net loss	$	(1,972)	(4,061)	$	(4,820)	(7,294)
Basic loss per share	$	(0.13)	(0.28)	$	(0.32)	(0.51)
Diluted loss per share	$	(0.13)	(0.28)	$	(0.32)	(0.51)
Operating						
Backlog MRR(1)						
Connectivity	$	64,659	84,191	$	64,659	84,191
Cloud & Colocation	$	31,742	291,698	$	31,742	291,698
Churn Rate(1)						
Connectivity		1.4%	1.6%		1.5%	1.6%

Cloud & Colocation		1.3%	1.4%		1.9%	1.6%
ARPU(1)						
Connectivity	$	1,054	996	$	1,053	980
Cloud & Colocation	$	3,138	3,027	$	3,147	3,106

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

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

(3) The Company has applied IFRS 15 on January 1, 2018 using the cumulative effect method. Under this method, the comparative information is not restated. See "Accounting Pronouncements Adopted in 2018" for further information.

Operating Highlights

Backlog MRR(1)

- Cloud and colocation backlog MRR was $31,742 as at December 31, 2018 compared to $291,698 as at December 31, 2017. The decrease is driven by the provisioning of large colocation customers acquired in the prior year, partially offset by new customer backlog.

- Connectivity backlog MRR was $64,659 as at December 31, 2018, compared to $84,191 as at December 31, 2017. The change in backlog MRR is driven primarily by bookings and the timing of customer provisioning.

ARPU(1)

- For the three months ended December 31, 2018 cloud and colocation ARPU was $3,138 compared to $3,027 for the same period in 2017.

- Excluding the impact of IFRS 15 classification of revenue from cloud and colocation to connectivity, ARPU for the three months ended December 31, 2018 would have been $3,413, representing growth of 12.8% compared to the prior period. The increase was driven by the provisioning of large customers in the first half of 2018, as well as planned churn of low value cloud customers.

- For the three months ended December 31, 2018 Connectivity ARPU was $1,054 compared to $996 for the same period in 2017. The ARPU is consistent with prior year period as the Company continues to churn low value ARPU customers.

- Excluding the impact of IFRS 15 on the classification of revenue from cloud and colocation to connectivity, connectivity ARPU for the three months ended December 31, 2018 would have been $1,004, which represents an increase of 0.9% compared to the prior year period.

Churn(1)

- For the three months ended December 31, 2018, cloud and colocation churn was 1.3% compared to 1.4% for the same period in 2017. The decrease was a result of churn management efforts.

- For the three months ended December 31, 2018, connectivity churn was 1.4% compared to 1.6% for the same period in 2017. The decrease was driven by favourable impacts of the Company's investment in developing a robust customer experience framework.

ACCOUNTING PRONOUNCEMENTS ADOPTED IN 2018

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

Effective January 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers. IFRS 15 supersedes the existing standards and interpretations including IAS 18, Revenue and IFRIC 13, Customer Loyalty Programmes. IFRS 15 introduces a single model for recognizing revenue from contracts with customers with the exception of certain contracts under other IFRSs.

The Company applied IFRS 15 using the cumulative effect method, i.e. by recognizing the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings at January 1, 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 18.

The Company offers customers bundled connectivity, colocation, and cloud services. Revenue from these arrangements were previously classified on the nature of the contract. Under IFRS 15, total consideration in contracts with customers are allocated to distinct performance obligations based on their stand-alone selling prices. The Company determined the stand-alone selling price to be the list price at which the Company sells connectivity, and colocation & cloud services. As a result of the allocation of performance obligations under IFRS 15, certain amounts that would have been classified as cloud & colocation revenue are now presented as connectivity revenue.

The following table highlights some of the key impacts on our financial metrics discussed in the press release. For a full description of the accounting pronouncements adopted in 2018, please refer to the Management's Discussion & Analysis report for the three months and year ended December 31, 2018.

		Three months ended December 31				Year ended December 31		
		2018 (As reported)	2018 (Without adoption of IFRS 15)	% Change		2018 (As reported)	2018 (Without adoption of IFRS 15)	% Change
Financial								
Cloud and Colocation Revenue	$	4,475	4,881	-8.3%	$	19,290	20,802	-7.3%
Connectivity Revenue	$	8,393	8,000	4.9%	$	35,005	33,495	4.5%
Total Revenue	$	12,868	12,881	-	$	54,295	54,297	-
Adjusted EBITDA(1) (2)	$	3,119	3,249	-4.0%	$	12,964	12,912	0.4%
Net Income (Loss)	$	(1,972)	(1,842)	7.1%	$	(4,820)	(4,872)	-1.1%
Operating								
Backlog MRR(1)								
Connectivity	$	64,659	63,624	1.6%	$	64,659	63,624	1.6%
Cloud & Colocation	$	31,742	32,777	-3.2%	$	31,742	32,777	-3.2%
ARPU(1)								
Connectivity	$	1,054	1,004	5.0%	$	1,053	1,010	4.3%
Cloud & Colocation	$	3,138	3,413	-8.1%	$	3,147	3,411	-7.7%

(1) See "Non-IFRS Measures" below

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

(1)Non-IFRS Measures

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

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 months and year ended December 31, 2018. 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(2) for the three months and year ended December 31, 2018 and 2017.

(in thousands of dollars)		Three months ended December 31			Year ended December 31	
		2018	**2017(2)**		**2018**	**2017(2)**
Net earnings (loss) for the period	$	(1,972)	(4,061)	$	(4,820)	(7,294)
Foreign exchange loss (gain)		20	(15)		2	(50)
Finance costs		766	523		2,315	1,698
Finance income		(53)	(17)		(81)	(50)
Earnings (loss) from operations		(1,239)	(3,570)		(2,584)	(5,696)
Add:						
Depreciation of network assets, property and equipment and amortization of intangible assets		2,728	3,492		11,755	14,324
Loss on disposal of network assets		397	15		757	109
Impairment of Assets and Related Charges		333	2,851		764	2,851
Stock-based Compensation Expense (Recovery)		279	156		963	201
Restructuring, acquisition-related, integration costs and other		621	(7)		1,309	1,075
Adjusted EBITDA(1)	$	3,119	2,937	$	12,964	12,864

(1) See "Non-IFRS Measures"

(2) The Company has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated.

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. 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 divided 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 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. Churn represents the number of customer cancellations per month as a percentage of total number of customers during the month. 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. 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 any churn, expressed as an average monthly rate in the period. 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.

Conference Call

Management will host a conference call tomorrow, Friday, February 22, 2019, at 8:30 am ET to discuss these results.

To access the conference call, please dial 647-427-2311 or 1-866-521-4909. The audited financial statements for the three months and year ended December 31, 2018 and Management’s Discussion & Analysis for the same period have been filed on SEDAR at www.sedar.com. Alternatively, these documents along with a presentation in connection with the conference call can be accessed online at https://terago.ca/company/investor-relations.

An archived recording of the conference call will be available until March 8, 2019. To listen to the recording, call 416-621-4642 or 1-800-585-8367 and enter passcode 4729009.

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.

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Forward-Looking Statements

This press 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 relating to TeraGo’s growth strategy, pipeline of sizable sales opportunities in both cloud and colocation and connectivity segments, investments into higher growth initiatives in 2019, targeting customer trials using 5G equipment before the end of this year, opportunities for surfacing greater value from TeraGo’s 24 GHz and 38 GHz spectrum assets leveraging fixed wireless spectrum assets to support 5G services, potential enhanced competitiveness and new market opportunities from 5G. All such statements are made pursuant to the ‘safe harbour’ provisions of, and are intended to be forward-looking statements under, applicable Canadian securities laws. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. The forward-looking statements reflect the Company's views with respect to future events and is subject to risks, uncertainties and assumptions, including the risk that TeraGo's growth strategy, strategic plan, and investments will not generate the result or sustainable growth intended by management, current growth trends in the Company's cloud and data centre business and in the industry may not continue as expected or significant growth opportunities may not be available, ISED decisions in the various Consultations that TeraGo has participated in being unfavourable to the Company, the continued technical 5G trial the Company is currently conducting may not generate the results intended or experiences delays, new market opportunities for 5G may not exist or require additional capital that may not be available to the Company, and those risks set forth in the "Risk Factors" section in the annual MD&A of the Company for the year ended December 31, 2018 available on www.sedar.com. Accordingly, readers should not place undue reliance on forward-looking statements as a number of 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.