



## TeraGo Reports Second Quarter 2021 Financial Results

Toronto – August 10, 2021 – TeraGo Inc. (“TeraGo” or the “Company”) (TSX: TGO, [www.terago.ca](http://www.terago.ca)), today reported financial and operating results for the second quarter ended June 30, 2021.

### Second Quarter 2021 and Recent Operational Developments

- [Selected](#) by Compusense to provide private cloud, security, back-up, and data migration services within TeraGo's data centres.
- [Chosen](#) by Ducks Unlimited Canada to provide National Managed SD-WAN services for its operating locations.
- [Selected](#) by Pure Storage as its first Canadian Elite managed service provider partner.
- [Expanded](#) Microsoft product portfolio with the addition of Microsoft 365, Managed Microsoft Azure, and Managed Disaster Recovery.
- [Announced](#) election of Directors at the 2021 Annual and Special Meeting of Shareholders.
- [Extended](#) credit agreement with Royal Bank of Canada and The Toronto-Dominion Bank.
- [Closed](#) a \$14.7 million private placement in support of the Company's proposed launch of 5G fixed wireless services in Canada.

### Second Quarter 2021 Financial Highlights

- Total revenue for the second quarter increased 1% to \$10.9 million compared to \$10.8 million in the previous quarter and decreased 6% from \$11.6 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 second quarter of 2021 decreased to \$6.6 million from \$6.7 million in the prior quarter and decreased from \$7.4 million for the same period in 2020. The declines in both periods were attributable to churn exceeding customer provisions.
- Cloud and colocation revenue for the second quarter of 2021 increased to \$4.3 million compared to \$4.1 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 second quarter of 2021 decreased to \$1.8 million from \$2.2 million in the prior quarter but increased from \$0.7 million for the same period in 2020. The year-over-year increase in net loss was driven by lower revenues, higher cost of services due to the mix of services sold, as well as lower government grants received due to COVID-19.
- Adjusted EBITDA<sup>(1)(2)</sup> for the second quarter of 2021 totaled \$3.4 million which was an improvement from \$3.2 million in the prior quarter but decreased from \$4.8 million in the same period in 2020. The decrease was driven primarily by the decrease in revenue, higher cost of services due to the mix of services sold, and lower government grants received due to COVID-19.

### Management Commentary

“Based on our success this past quarter with increased sales and a reduction in churn, we saw an uptick in quarterly revenues,” said TeraGo CEO Matthew Gerber. “Thanks to our team’s ability to consistently execute across all fronts of the business, not only did we see an uptick in recurring revenues, but we were once again able to achieve an industry leading Net Promoter Score of 79, which is significantly better than the scores of competitors and is evidence that we deliver on our promise of ‘exceptional customer service.’ The results are also indicative of our success in providing Canadian enterprises with managed services alongside our wireless connectivity, cloud and colocation services.”

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<sup>(1)</sup> Adjusted EBITDA is a Non-GAAP measure. See “Non-IFRS Measures” below.

<sup>(2)</sup> See “Adjusted EBITDA” below for a reconciliation of net loss to Adjusted EBITDA.

## RESULTS OF OPERATIONS

### Comparison of the three- and six-months June 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<br>June    |               | Six months ended<br>June 30 |                |
|------------------------------------------|-------------------------------|---------------|-----------------------------|----------------|
|                                          | <u>2021</u>                   | <u>2020</u>   | <u>2021</u>                 | <u>2020</u>    |
| <b>Financial</b>                         |                               |               |                             |                |
| Cloud and Colocation Revenue *           | \$ 4,324                      | 4,203*        | 8,427                       | 8,321*         |
| Connectivity Revenue *                   | \$ <u>6,579</u>               | <u>7,445*</u> | <u>13,305</u>               | <u>14,944*</u> |
| Total Revenue                            | \$ 10,903                     | 11,648        | 21,732                      | 23,265         |
| Cost of Services <sup>1</sup>            | \$ 2,683                      | 2,328         | 5,197                       | 4,587          |
| Selling, General, & Administrative Costs | \$ 5,377                      | 5,205         | 11,281                      | 11,392         |
| Gross profit margin                      | 75.4%                         | 80.0%         | 76.1%                       | 80.3%          |
| Adjusted EBITDA <sup>2</sup>             | \$ 3,369                      | 4,828         | 6,602                       | 8,450          |
| Net loss                                 | \$ (1,796)                    | (656)         | (3,962)                     | (2,859)        |
| Basic loss per share                     | \$ (0.09)                     | (0.04)        | (0.22)                      | (0.17)         |
| Diluted loss per share                   | \$ (0.09)                     | (0.04)        | (0.22)                      | (0.17)         |
| <b>Operating</b>                         |                               |               |                             |                |
| Backlog MRR                              | Error! Bookmark not defined.  |               |                             |                |
| Connectivity                             | \$ 126,834                    | 86,903        | 126,834                     | 86,903         |
| Cloud & Colocation                       | \$ 15,454                     | 18,864        | 15,454                      | 18,864         |
| Churn Rate                               | Error! Bookmark not defined.  |               |                             |                |
| Connectivity                             | 1.4%                          | 1.7%          | 1.4%                        | 1.6%           |
| Cloud & Colocation                       | 1.1%                          | 1.1%          | 1.3%                        | 1.0%           |
| ARPU                                     | Error! Bookmark not defined.* |               |                             |                |
| Connectivity                             | \$ 1,032                      | 1,069 *       | 1,035                       | 1,065 *        |
| Cloud & Colocation                       | \$ 3,722                      | 3,108 *       | 3,591                       | 3,105 *        |

\*The three and six 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 Q2 2021.

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

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

## Second Quarter 2021 Operating Highlights

### Backlog Monthly Recurring Revenue (MRR)<sup>(1)</sup>

- Connectivity backlog MRR was \$126,834 as of June 30, 2021, compared to \$86,903 as of June 30, 2020. The increase in backlog MRR was driven primarily by higher sales volume compared to the prior year period.
- Cloud and colocation backlog MRR was \$15,454 as of June 30, 2021, compared to \$18,864 as of June 30, 2020. The slight decrease in backlog MRR was driven by the timing of sales bookings and provisioning activities.

### Average Revenue per User (ARPU)<sup>(1)</sup>

- For the three months ended June 30, 2021, connectivity ARPU was \$1,032 compared to \$1,069 for the same period in 2020. ARPU decreased slightly due to customer contract renewals at lower rates. For the six months ended June 30, 2021, connectivity ARPU was \$1,035 compared to \$1,065 for the same period in 2020. The decrease was driven by the factors described above.
- For the three months ended June 30, 2021, cloud and colocation ARPU was \$3,722 compared to \$3,108 for the same period in 2020. The increase was due to customer upgrades and new higher value service offerings as well as the churn of lower ARPU customers. For the six months ended June 30, 2021, cloud & colocation ARPU was \$3,591 compared to \$3,105 for the same period in 2020. The increase was driven by the factors described above.

### Churn<sup>(1)</sup>

- For the three months ended June 30, 2021, connectivity churn was 1.4% compared to 1.7% for the same period in 2020. The decrease was due to elevated customer churn recorded in the prior year period due to customer closures and restructuring related to the COVID-19 pandemic. For the six months ended June 30, 2021, connectivity churn was 1.4% compared to 1.6% for the same period in 2020. The decrease was driven by the factors described above.
- For the three months ended June 30, 2021, cloud and colocation churn was flat at 1.1%. For the six months ended June 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 in the second quarter.

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

### Conference Call

Management will host a conference call on Wednesday, August 11, 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 ended June 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 August 18, 2021. To listen to the recording, call 416-621-4642 or 800-585-8367 and enter passcode 6476788.

### <sup>(1)</sup> 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 six months ended June 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 six months ended June 30, 2021, and 2020.

| <i>(In thousands of dollars)</i>                                                             | Three months ended<br>June 30 |       | Six months ended<br>June 30 |         |
|----------------------------------------------------------------------------------------------|-------------------------------|-------|-----------------------------|---------|
|                                                                                              | 2021                          | 2020  | 2021                        | 2020    |
| <b>Net earnings (loss) for the period</b>                                                    | \$ (1,796)                    | (656) | \$ (3,962)                  | (2,859) |
| Foreign exchange loss (gain)                                                                 | (19)                          | 33    | (40)                        | 154     |
| Finance costs                                                                                | 1,049                         | 1,093 | 2,052                       | 2,609   |
| Finance income                                                                               | (12)                          | (28)  | (24)                        | (83)    |
| <b>Earnings (loss) from operations</b>                                                       | (778)                         | 442   | (1,974)                     | (179)   |
| Add:                                                                                         |                               |       |                             |         |
| Depreciation of network assets, property and equipment and amortization of intangible assets | 3,621                         | 3,673 | 7,228                       | 7,465   |
| Loss on disposal of network assets                                                           | 117                           | 30    | 123                         | 75      |
| Impairment of Assets and Related Charges                                                     | 70                            | 108   | 227                         | 176     |
| Stock-based Compensation Expense (Recovery)                                                  | 250                           | 417   | 479                         | 764     |
| Restructuring, acquisition-related, integration costs and other                              | 89                            | 158   | 519                         | 149     |
| <b>Adjusted EBITDA</b>                                                                       | \$ 3,369                      | 4,828 | \$ 6,602                    | 8,450   |

**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](http://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 six months ended June 30, 2021, each available on [www.sedar.com](http://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.