

## Tucows Inc.'s Old-School Ways Continue to Make Money for Shareholders

### Description

You wouldn't know it by its market cap, but **Tucows Inc.** ([TSX:TC](#))([NASDAQ:TCX](#)) is one of the best-performing stocks on the TSX — up six consecutive calendar years and working on a seventh.

Tucows does two things.

### Domain registration

It's the second-largest domain registrar in the world with 29 million domains under management worldwide and a network of 40,000 active resellers, many of which are part of eNom, the US\$83.5 million acquisition Tucows made in January.

Tucows, founded in 1999, couldn't do anything more boring than authenticating domain registrations, yet its domain services segment generated 75% of the company's US\$84.2 million in Q2 2017 revenue and 70% of its gross profit.

Tucows recently found itself in the news when neo-Nazi website "The Daily Stormer" moved from **Godaddy Inc.**, the world's largest domain registrar, to **Alphabet Inc.** after GoDaddy gave it 24 hours to move its domain to another provider. The website was forced to do so after the protests in Charlottesville, Virginia, which killed one person and injured many others, left the two firms with no choice but to send it packing.

Google then did the same, and finally, "The Daily Stormer" ended up at Tucows, where the neo-Nazi site met the same fate.

"It's kind of soul sapping," said Tucows vice president of sales and marketing Michael Goldstein, in an interview with *Global News* August 14. "I don't feel capable of stopping hate today, but we're doing what little we can by keeping them off our services."

It's not a glamorous business, but it pays the bills.

### Mobile and the internet

In 2012, Tucows launched Ting, its wireless and internet service meant to give customers bang for their buck. From a beta test of a few hundred users, it's grown to almost 150,000 accounts, 225,000 active devices, and super-fast fibre internet networks in three smaller towns (Charlottesville, Virginia, is one of them) with two more in the development stage.

It might not seem like a lot, but the revenues and profits over a decade will add up.

### Exceptional stock performance

Tucows went public at US\$0.90 per share. As of August 15, it closed trading at US\$53.45, an

annualized total return of 40.5%, 38% higher than **Amazon.com, Inc.** over the same 12-year period.

Now, I'm not about to say that Tucows is in the same league as Jeff Bezos's baby, but if you've been an investor since the IPO, you've done very nicely indeed.

### **Why buy now?**

In the second quarter ended June 30, Tucows's gross margin was 580 basis points lower than in the same quarter a year earlier at 25.3%.

That might seem like a significant decline, but if you go further down the income statement to operating profits, you'll see that its operating margin is about three times GoDaddy's.

Bottom line: Tucows's gross margin is significantly higher than it was in 2012 when it launched Ting.

It might not be a deep-value play, but something tells me its old-school ways will continue to deliver outsized shareholder returns.

Tucows is a fly-under-the-radar kind of stock.

### **CATEGORY**

1. Investing

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