



Will a U.S. Move to Scuttle Net Neutrality Affect Tucows Inc.?

Description

On November 22, the chairman of the United States Federal Communications Commission (FCC) released a final draft to repeal a 2015 order that prevented internet service providers (ISPs) from stopping or slowing consumer access to web content. The plan to deregulate U.S. internet infrastructure will come to a vote at a December 14th FCC meeting and is expected to pass by a three-to-two margin.

Republican Ajit V. Pai was appointed as head of the FCC in January, and overturning the Obama-era net neutrality regulations has been a top priority for the new administration. This has occurred with the cooperation and approval of the largest U.S. telecommunications companies, such as **AT&T Inc.**, **Verizon Communications Inc.**, and others.

Toronto-based **Tucows Inc.** ([TSX:TC](#))([NASDAQ:TCX](#)) is an internet services and telecommunications company. It is also the second-largest domain registrar in the world. Tucows has been one of the largest proponents of a free and open internet and has even lent support through its website to the pro-net neutrality advocacy group "Fight for the Future."

In an [early November article](#), I'd focused on Tucows stock as a great long-term buy. Tucows released its third-quarter results on November 9. Net revenue jumped 73% to \$85 million from \$49 million in the third quarter of 2016. Net income fell 27% but adjusted EBITDA rose 9% to \$9.4 million largely due to the acquisition of eNom for \$83.5 million in January.

Shares of Tucows have increased 65.1% in 2017 as of close on November 23 and 78% year over year. The stock has, however, dropped 2.5% since the November 21st announcement from the FCC.

How could U.S. policy affect Tucows?

On November 22, Innovation Minister Navdeep Bains reiterated the Canadian government's intention to protect net neutrality. "Our government remains committed to the principles of net neutrality," Bains stated in an email. The Canadian Radio-Television and Telecommunications Commission (CRTC) has upheld net neutrality in ruling that ISPs cannot exempt certain content like video or music streaming services.

However, in spite of the stance of the Canadian government, U.S. action to end net neutrality will likely impact Canadian consumers. Net neutrality could be subject to review as providers face pressure to mirror U.S. policy, and companies look to encourage investment. **Rogers Communications Inc.** ([TSX:RCI.B](#))([NYSE:RCI](#)) filed a formal complaint against Montreal-based telecommunications company Vidéotron for what it said was a breach of net neutrality in 2015.

This is not the first time that Tucows has been influenced by developments in the United States. In August, a far-right rally in Charlottesville ignited a political firestorm that saw a number of incendiary websites expelled from domains. The notorious neo-Nazi website The Daily Stormer was banned by **Godaddy Inc.** and then registered a domain through Tucows, which responded by refusing service days after.

In a recent article, I discussed the [cooperation between public and private entities](#) when it pertained to enhancing cybersecurity measures. Now, assuming the FCC follows through with its plan, public policy will again play a huge role in shaping the way internet services will develop in the years to come.

Tucows remains a strong long-term hold, but the stock is worth monitoring if and when the U.S. moves to scuttle net neutrality.

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