

Proposed Budget 2022

Author: Malcolm Holt

Date of this issue: 05 October 2021

Status: Issued





Contents

Introduction.....	3
Executive Summary	3
2021	4
2021 Summary	4
Operational Results 2021	5
Financial Results 2021	5
2022	6
Key Budget assumptions and projections for 2022.....	6
Planned Growth in Members and Ports	6
Services, Prices and Membership fees for 2022	6
Colocation and reseller services	6
Budgeted Financial Results 2022	7
Income Forecast	7
Operational expenditure	8
Reseller activity	8
Projected deficit & cashflow	8
Capital expenditure	8
Future Pricing Policy	9
Closing remarks.....	9
Next steps	9

Document change history

Version 0.1	Initial draft	MKH	30 September 2021
Version 0.2	Second draft	MKH	05 October 2021



Introduction

The budget for 2022, and proposed revised service prices, will be presented at LINX 114. This document summarises our current financial situation, and the 2022 budget that has been approved by your board of directors.

Executive Summary

2021 has so far, as last year, been a period where our normal methods of operations have had to change due the Covid-19 pandemic. Our curtailed marketing and other activities, reduced travelling and limited use of our office facilities have resulted in lower than expected overall expenditure. These present circumstances have, however, adversely affected our ability to generate new business.

As predicted the Government has started to address some of public spending budgetary pressures with the cessation of the furlough scheme, and a recent rise in employers and employees national insurance contributions. Additionally, it should be no surprise if other direct and indirect taxes also rise. This will reduce personal and corporate spending abilities and will exert pressure on our ability to expand services,

Taking into account the current situation, our 2021 year-to-date results have been very satisfactory, and we are ahead of budget net result expectations. We have also achieved good operational performance with good network performance, good support to members and continuing growth in members and services. The overall results for 2021 are currently predicted to show a surplus of over £1m, similar to 2020.


For 2022 we are proposing further reduced port prices, alongside the new set of services, and we will still maintain a strong financial position.

Adopting a prudent approach towards the present economic volatility, we are retaining funds generated by recent cost savings as a platform for accelerating future performance, and providing a safeguard against challenges to come. Allowance also needs to be made for the untested performance of the new products and pricing structure.

The Board is committed to providing continued increasing value to members. The proposed new reduced pricing is considered to be sustainable for the future. Details of the new services and proposed price cuts are covered in a separate document.

Expenditure will continue to be closely monitored. However, as we enter into the “new normal” phase, our activities will need to be boosted to recover some of the lost ground. The recent cost savings will help facilitate this rejuvenation. Taking this into account the reduced level of expenditure for 2020 and 2021 will not reasonably compare with the increased planned level of expenditure in 2022. With the reserves we have accumulated we are able to absorb the £0.5M deficit we are budgeting.

The expected deficit of £0.5M in 2022, together with the increased capital expenditure on new technology, will see our reserves fall by an estimated £1.8M. We will still be in a



strong position after absorbing this outflow of funds, and we expect surpluses to be generated in the following years.

2021

2021 Summary

Despite a difficult operational backdrop, the results expected for 2021 (see table below) will show that good progress has been made.

We implemented peering service price cuts at the beginning of the year and, although the recovery in income levels has been difficult, we expect to be close to our overall revenue targets by the end of 2021.

Many of our planned activities have been affected by the Covid-19 pandemic, particularly in respect of marketing, member related events and travelling. This has added challenges to the ongoing expansion of our services, but a consequence has been that our expenditure levels have been lower than expected.

The better-than-expected predicted results for 2021 will put us in a strong financial position to invest in the future and bring activities levels back to those needed to support the long-term growth of the company.

The anticipated level of surplus for 2021 will also support the launch of new services in 2022 and still be able to offer further service price cuts.

The growth in services that has been achieved has again been supported by excellent network stability and strong member support. Additionally, members' access to support and services has been enhanced by the ongoing developments coming out of our automation projects.

Our membership continues to grow as does the number of members connecting to our 100GE and 10GE port services. We have also seen considerable growth in our reseller services,

Areas where cost savings have been achieved include:

- Office and related facilities charges
- Contractors and consultancy
- Travelling and accommodation
- Member meetings, event sponsorship/hosting and other marketing activities

Operational Results 2021

The table below shows there has been healthy growth in the following key operational areas.

FOR ALL LANS	EST. END OF YEAR 2021	END OF YEAR 2020	PROJECTED CHANGE + / (-)
New Member Applications	85	89	(4.5)%
Members	900	869	3.6%
100 GE Directly connected ports	320	266	20.3%
10 GE Directly connected ports	1035	1002	3.3%
Connected capacity	42.5Tbps	37Tbps	14.9%

Table 1: 2021 Operational forecast results

Financial Results 2021

As referenced above, the financial results projected for the full 2021 year are expected to be better than planned, following expenditure falling in the Covid-19 pandemic affected operational environment. Our total revenue levels have held up against budgetary targets.

	EST. FULL YEAR 2021	BUDGET 2021	POSITIVE / (ADVERSE) VARIANCE
REVENUE	£16.4M	£16.4M	0%
COSTS	£15.2M	£16.1M	5.6%
SURPLUS	£1.2M	£0.3M	300%
CAPITAL EXPENDITURE	£2.6M	£2.6M	0%

Table 2: 2021 Financial forecast results

2022

Key Budget assumptions and projections for 2022

Planned Growth in Members and Ports

TOTAL FOR ALL LANS	PLANNED END OF YEAR 2022	EST. END OF YEAR 2021	BUDGET GROWTH 2022	CHANGE + / (-)
Members	915	900	15	1.6%
400 GE PORTS	3	1	3	N/A
100 GE PORTS	339	320	19	16.5%
30 GE PORTS	22	N/A	N/A	N/A
10 GE PORTS	1,071	1,035	36	3.4%
5 GE PORTS	37	N/A	N/A	N/A
2 GE PORTS	30	N/A	N/A	N/A

Table 3: 2022 Planned growth in services and members

The expected further demand for peering services is now spread over a larger number of products. This will dilute, to varying degrees, the growth in our present peering services. However, for both new and existing services, there is healthy growth anticipated in 2022.

Services, Prices and Membership fees for 2022

The range of services and associated prices for 2022, together with the membership fees, are described in a separate communication to the membership entitled "LINX Services and Fees 2022"

Colocation and reseller services

We will continue to offer the existing reseller and colocation services.

Budgeted Financial Results 2022

The budget for 2022 compared with last year's budget is shown below.

We expect a reasonable rise in our revenue levels in 2022 despite the anticipated continuance of difficult trading conditions, and the uncertainty on the effect the new services will have on these revenue levels. The current curtailed expenditure will need to rise to support and achieve this growth. The projected overall results are expected to show a deficit of £0.5M.

	BUDGET 2022	BUDGET 2021	POSITIVE / (ADVERSE) VARIANCE
REVENUE	£17.6M	£16.4M	7.3%
COSTS	£18.1M	£16.1M	(12.4)%
(DEFICIT) / SURPLUS	£(0.5)M	£0.3M	(266.7)%
CAPITAL EXPENDITURE	£3.8 M	£2.6M	(46.2)%

Table 4: 2022 Budgeted results

Income Forecast

Based on the above factors we are forecasting total revenues for 2022 to be approx. £17.6M, an increase of 7.3% on the predicted revenue levels for 2021.

Our budget is based on the following assumptions:

- The changes in services and their prices as included the "LINX Services and Fees 2022" document.
- A small net growth in members, after accounting for cancelled and merged memberships.
- Continued growth in 100GE and 10GE service, supplemented by a reasonable take-up of the new 30GE, 5GE, and 2GE services.
- Reseller income remaining strong.
- Our support services income from other partnered internet exchanges incrementally growing.



Operational expenditure

The 2022 operational expenditure budget in total is £18.1M. This is 12.4% higher than the budget for 2021. This increase anticipates not only a return to a more normal method of operation, but also significant additional costs for the estimated requirements of satisfying new statutory obligations related to the classification of our operations.

The operational expenditure budget is based on the following factors:

- An estimated cost inflationary increase averaging 3%, with overall staff cost inflation being lower.
- Estimated project costs for meeting ISO27001 and other regulatory obligations.
- No significant change to our staff levels.
- Marketing, events related and travelling costs increasing to normal/pre-pandemic levels.
- Depreciation costs marginally increasing in line with increased capital expenditure

Reseller activity

Our reseller activity is expected to continue to rise to circa £3.2M.

These activities are aimed at leveraging our existing relationships with suppliers to enable members to peer in a more economic way, which might otherwise have proved difficult. This overall service approach also helps our technical team provide a full end-to-end service.

Projected deficit & cashflow

We are projecting a deficit of £0.5M for 2022, which represents -2.8% of our projected revenues.

On this basis we expect to end 2022, after taking into account capital expenditure, with £1.8M million less cash reserves than at the start of the year.

After absorbing the above anticipated net outflow we will still have substantial cash reserves to meet expected future challenges.

Capital expenditure

The proposed 2022 capital expenditure programme at £3.8M has risen from 2021 (£2.6M) as our investment in new technology increases.

As in previous years we do not provide a detailed breakdown of the planned capital expenditure programme in order that we do not adversely affect our negotiating position with vendors. The Board continues to review the detailed capital budget and ensures appropriateness.



Future Pricing Policy

A significantly revised approach towards our product offering, and pricing structure, is factored into this budget, and this is also linked with further port service price reductions.

During 2022, when the demand for the new services is better understood, we will review the effect on our total revenues and, if there is an opportunity for further reductions or promotions, we will consider such later in the year. The current unpredictability of the future economic consequences of the Covid-19 pandemic is also a factor we believe requires caution to be applied to our pricing policy.

Closing remarks

We have managed to restrict the negative effects to our operations from the enforced Covid-19 pandemic regulations and maintain our revenue levels at close to budgetary expectations levels. This is at the same time as reducing our expenditure.

We do however need to build for the future and resume activities that have been restricted during 2020 and 2021. This requires investment in new technology and methods of operation and engaging directly with potential and existing members to promote our services. Our costs will rise to adopt the “new norm” methods of operation and we are also facing significant costs in complying with regulations being imposed upon us by the regulators.

We have also recognised that we need to offer a wider choice of services, together with a structure enabling services to be added to ports. The changes to our services and their prices are included in the “LINX Services and Fees 2022” document and these are embedded in this 2022 budget.

The overall effect of the above, together with the planned reduction in our existing service prices at the beginning of 2022, will result in an anticipated deficit of £0.5M for the year. Our business plans for the years after 2022 show that this deficit will be reversed into a reasonable surplus.

Although we have significantly changed our range of services, and the way they are charged, we still continue to follow the business model whereby the growth in our services supports the reduction in the prices of those services.

Next steps

In line with previous years we are explaining to members our plans for the coming financial year. We are sending these plans to the membership list with sufficient time for review before being presented at LINX 114.

If you have any comments or queries, please make them directly to ceo@linx.net. Please do not reply to the membership list unless you wish to start a discussion on a specific point amongst the membership. We will do our best to answer all questions, and will post a summary of any comments with a Q&A to the list before LINX 114.