

# Proposed Budget 2020

Date of this issue: 28 October 2019

Version: 2020.01





## Contents

Introduction.....	3
Executive Summary.....	3
2019 Summary.....	3
Operational Results 2019.....	4
Financial Results 2019 .....	4
2020 Budget Revenue.....	5
Proposed Prices for 2020 .....	5
Incentive programme .....	6
Effective date .....	6
Cancellations.....	6
Eligibility of offer .....	6
Contracts.....	7
LINX Scotland and LINX Cardiff.....	7
Membership Fee .....	7
Colocation and reseller services.....	7
FUTURE PRICES .....	7
2020 KEY Budget assumptions and projections .....	8
Income Forecast.....	8
Operational expenditure.....	9
Reseller activity .....	9
Projected surplus & cashflow .....	9
Capital expenditure .....	9
Closing remarks.....	10
Next steps .....	10



## Introduction

The budget for 2020 will be presented for approval at LINX107. This document describes the budget as proposed by the Board.

## Executive Summary

To date 2019 has been a good year operationally with sound network performance and continuing growth in members and services. This is also reflected in our financial situation with revenue levels being maintained despite the price cuts at the beginning of 2019.

We have confined our expenditure during 2019 to be well within budget. For the future we have taken steps to control our cost base, including moving to more economical offices in London and negotiating hard for lower costs in network support contracts. Additionally, with changes to our technology approach, we have been able to significantly reduce our network related capital expenditure.

The overall results for 2019 are predicted to show a small loss. However this is much better than budgeted.

For 2020 we are budgeting for a small profit at the same time as proposing reduced port prices. In addition to across the board port price cuts, we are also proposing an incentive scheme to drive growth of traffic, by lowering the prices for additional 100GE ports and upgrades from 1GE to 10GE. This is covered in detail below. We intend to keep operational costs at 2019 levels while we continue to reduce capital expenditure. This reflects the efforts of automation to support continued growth as well as the availability of high-density hardware at lower costs. The end of 2020 will see us maintain a healthy cash position that leaves LINX in a stable position going forward.

## 2019 Summary

The operational results table (Table 1) below shows that we have moved forward steadily and achieved good results. We have also managed to absorb the effects of the service price cuts made at the beginning of 2019 to return a result that is expected to be closer to break-even than the larger budgeted deficit. Supporting the growth in services has been excellent network stability and our developments in automation have continued.

A projected growth in 100GE ports of 23% will be an excellent result for 2019 and this is reinforced by an increase in 10GE ports. Financially these two services are key to our results as combined they contribute over 75% to our total revenues.

As indicated below, the growth in services has maintained our revenue levels following the 1<sup>st</sup> January 2019 price reductions which, together with careful management of expenditure, should result in better than the budgeted results. Our lower than expected capital expenditure has also helped us to maintain a strong cash position.

The Board is committed to providing continued increasing value to members, alongside the proposed new pricing being sustainable into 2020 and beyond.

## Operational Results 2019

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

FOR ALL LANS	EST. END OF YEAR 2019	END OF YEAR 2018	PROJECTED CHANGE  + / (-)
Member ASNs	902	862	4.6%
Member Applications	99	91	8.8%
Members	843	812	3.8%
CONNECTED PORTS	1,996	1,910	4.5%
100 GE PORTS	186	151	23.2%
10 GE Ports	1,017	972	4.6%
Connected capacity TB	28.4	25.3	12.2%

Table 1: 2019 Operational results

## Financial Results 2019

The financial results projected for the full year are expected to be better than planned, with the budgeted deficit of £0.9M being reduced to £0.2M.

	EST. FULL YEAR 2019	BUDGET 2019	PROJECTED VARIANCE  + / (-)
REVENUE	£16.0M	£15.9M	0.6%
COSTS	£16.2M	£16.8M	3.6%
SURPLUS / (DEFICIT)	£(0.2)M	£(0.9)M	77.8%
CAPITAL EXPENDITURE	£1.7M	£3.6M	52.8%

Table 2: 2019 Financial results

## 2020 Budget Revenue

### Proposed Prices for 2020

The following reductions in prices are proposed, with current prices shown as comparatives:

**Prices for 10GE and 100GE ports on LON1 and LON2 are proposed to be cut by 15%.**

<b>LON1</b>	<b>2019 (per month)</b>	<b>2020 (per month)</b>
10 GE	£638	<b>£542</b>
100 GE	£3,596	<b>£3,056</b>

<b>LON2</b>	<b>2019 (per month)</b>	<b>2020 (per month)</b>
10 GE	£360	<b>£306</b>
100 GE	£2,277	<b>£1,935</b>

**LINX Manchester port prices are proposed to be cut by 15%.**

<b>MANCHESTER</b>	<b>2019 (per month)</b>	<b>2020 (per month)</b>
10 GE	£270	<b>£230</b>
100 GE	£1,350	<b>£1,148</b>

**LINX Nova prices for 10GE and 100GE ports are proposed to be cut by 10%.**

<b>NOVA</b>	<b>2019 (per month)</b>	<b>2020 (per month)</b>
10 GE	\$425	<b>\$382</b>
100 GE	\$2,720	<b>\$2,448</b>



## Incentive programme

In order to attract growth at LINX, the 2020 budget includes an incentive scheme designed to encourage growth of bandwidth. Growth of traffic at the exchange benefits all members as this drives down unit costs but, more importantly, delivers more value to the members over their related infrastructure. The incentive programme targets the smaller members by giving them a low-cost path to upgrade from 1GE ports but also provides an incentive for the largest members of LINX to keep growing at the exchange.

The proposed incentive programme is available on all LINX LAN's, but excluding JEDIX, and has two parts

- Upgrades from one or more 1GE ports to one or more 10GE ports
- Purchase of additional 100GE ports

If a member places an order for either of these between 1<sup>st</sup> January 2020 and 30<sup>th</sup> June 2020, and also commits to a 12 month minimum contract term, the member will receive the first six months free of the contract term, and subsequently pay normal port fees for the remaining six months.

### Effective date

The free six month period starts from when LINX have handed over the demarcation point information to the member or in the case of connections in the Telehouse campus, from when LINX has received the cabling hand-over from Telehouse. Any delay in connecting on the side of the member will not extend the free period.

### Cancellations

If the member wants to cancel ports taken under this incentive programme before the expiration of the 12 month minimum contract term, the member will have to pay the outstanding fees until the end of the minimum term. Such fees then become payable from the effective date of cancellation.

### Eligibility of offer

No ports ordered prior to 1<sup>st</sup> January 2020 are eligible for this offer.

Members who cancel any 100GE or 10GE ports after the date of this announcement will not be eligible for this offer.

No port is eligible for multiple free periods under this offer. Accordingly, a port that is upgraded from 1GE to 10GE, receiving 6 months free, is not eligible for a successive 6 months free if it is then upgraded to 100GE.

Members may upgrade multiple 1GE ports to 10GE. Each port upgraded on this basis will be subject to a minimum 12 month contract period, the first six months of which will be free of charge in each case.

Neither of these offers are valid for ConneXions members, ConneXions partner ports or members migrating from ConneXions to direct connections.



## Contracts

Members wishing to take advantage of this incentive scheme in respect of a particular port order should so indicate on the order form.

## LINX Scotland and LINX Cardiff

There are no proposed changes to port prices for LINX Scotland and LINX Cardiff.

## Membership Fee

The membership fee is proposed to remain at the current level of £1,200 per annum. This only applies once, no matter how many of the services you use, either in London, the rest of the UK, or in North America.

Additionally, the membership fee includes the first 1GE port on each peering LAN, with special conditions for ports supplied under the ConneXions scheme.

## Colocation and reseller services

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

## Future Prices

LINX's business model relies on a virtuous cycle where growth in demand for our services creates economies of scale that enable us to return value through reduced prices, enabling continuing growth. The new incentive scheme for additional ports is intended to further reinforce this cycle.

Our success in generating additional growth dictates the extent to which we will be able to support further price cuts beyond those announced in this statement. Growth in demand will naturally also be influenced by less predictable external factors such as market conditions and the state of the broader economy. In previous years we have reviewed the possibility of further cuts when circumstances indicate such are sustainable, and we hope this will be the situation when we prepare the budget for 2021.

If we achieve results well ahead of the planned budget we will consider proposing a further cut in 2020, provided we are satisfied that to do so would be financially sustainable.

## 2020 KEY Budget assumptions and projections

FOR ALL LANS	EST. END OF YEAR 2019	BUDGET GROWTH 2020	EST. END OF YEAR 2020	CHANGE + / (-)
<b>Members</b>	<b>843</b>	<b>29</b>	<b>872</b>	<b>3.4%</b>
<b>100 GE PORTS</b>	<b>186</b>	<b>53</b>	<b>239</b>	<b>28.5%</b>

Table 3: 2020 Budget growth assumptions

As can be seen in Table 3 above we forecast slightly higher growth in 100GE ports in 2020 while net growth of members remains the same as last year. We further expect the total number of 10GE ports, across all the exchanges, to remain fairly static at just over 1,000. In previous years we have seen growth in 10GE ports even though small.

	EST. FULL YEAR 2019	BUDGET 2020	VARIANCE + / (-)
<b>REVENUE</b>	<b>£16.0M</b>	<b>£16.7M</b>	<b>4.4%</b>
<b>COSTS</b>	<b>£16.2M</b>	<b>£16.1M</b>	<b>(0.6)%</b>
<b>SURPLUS / (DEFICIT)</b>	<b>£(0.2)M</b>	<b>£0.6M</b>	<b>400%</b>
<b>CAPITAL EXPENDITURE</b>	<b>£1.7M</b>	<b>£2.0M</b>	<b>17.6%</b>

Table 4: 2020 Budget summary

For 2020 our budget is based on the following assumptions:

- The reduction in port prices, together with the incentive offer, as outlined above.
- Net growth of more than 20 members.
- Further substantial growth of 100GE ports (circa 50) with 10GE port numbers expected to reduce by a small percentage. This reduction in 10GE ports takes account of upgrades from 10GE to 100GE, including the effects of the incentive offer promoting the addition of 100GE and 10GE ports.
- Only modest increases in reseller income.
- We have made the assumption that the sterling-dollar exchange rate will average around 1.21 for 2020 (at the time of writing this was 1.26). Considering the uncertain economic conditions, i.e. with Brexit, this may not prove to be the case. However in the circumstances that the exchange rate falls dramatically we have sufficient cash reserves to accommodate large fluctuations.

## Income Forecast

Based on the above factors we are forecasting total revenues for 2020 to be approx. £16.7M, an increase of 4% on the predicted revenues for 2019.





## Operational expenditure

The 2020 operational expenditure budget in total is £16.1M (marginally less than the 2019 forecast expenditure) despite the forecast growth. Efforts during the year will continue with automation and systems improvements to allow LINX to scale up further without increasing costs, but at the same time delivering on some of the new developments that have been raised at Members' meetings such as RPKI support on route-servers, and a self-service portal.

The operational expenditure budget is based on the following factors:

- An estimated cost inflationary increase averaging 3%.
- No significant change to the level of staff.
- A reduction in office costs following the relocation of our London offices.
- Reduced depreciation costs, in line with the recent lower level of capital expenditure.

## Reseller activity

Our reseller activity is expected to marginally grow from around £1.7m in 2019 to approximately £1.9M in 2020.

As a total we offer these services to members at close to our cost. 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 surplus & cashflow

We are projecting a surplus of £0.6M for 2020 which represents 3.5% of our projected revenues.

On this basis we expect to end 2020 in a strong cash position, which will enable us to support ordinary operations and planned investment from our own cash reserves. Such self-sufficiency provides us with a high level of financial resilience, by protecting us from the effects of increased interest rates or reduced capital availability that could occur should there be difficulties in the wider economy.

## Capital expenditure

The proposed 2020 capital expenditure programme is considerably less than in recent years at £2M. This mirrors a similarly sized capital expenditure program of £1.7m estimated for 2019, which will be significantly less than originally budgeted.

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 continue to review the capital budget in detail and ensure appropriateness. The LINX CEO is happy to discuss this budget with members, on an individual (non-disclosure) basis, if further explanation is required.



## Closing remarks

We are in a strong financial position and continue to grow our services and membership. We are also developing new products, such as helping to run overseas IXs, which allows us to spread our costs over a larger base.

The price cuts in this recommended budget strike a good balance between offering attractive prices for the quality services we offer, encouraging further growth, and providing a platform for the long-term sustainability of the company.

## 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 LINX 107, when they will be tabled for approval.

If you have any comments or queries, please make them directly to [ceo@linx.net](mailto: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 LINX107.

We look forward to seeing you in person at the LINX 107 meeting (on 11<sup>th</sup> and 12<sup>th</sup> November 2019). However if you are not able to make the meeting in person, then our online voting and webcast facilities are available to provide for remote participation.