

Budget 2023

Author: Kurtis Lindqvist, Malcolm Holt

Date of this issue: 2nd November 2022

Status: Final

Authorised: Board

Circulation: Membership

Confidential: do not copy unless authorised



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Document change history	
Version 0.1	Initial draft



Introduction

The budget for 2023, and proposed service prices, will be presented at LINX117. This document summarises our current financial situation, together with the 2023 budget that has been approved by your board of directors.

Executive Summary

2022 has seen inflation rise to over 10% - a level not seen for many years, and most businesses are facing significant rises in input costs. We are therefore very pleased to confirm that we will be able to avoid raising our own prices, offering perhaps a little respite to our members.

In these circumstances, together with overall economic volatility, budgeting is a considerable challenge and, for 2023, we believe we are unable to propose across-the-board reductions in our service prices. For many years LINX has reduced our headline port prices and peering fees each year. In 2023, by freezing most of our prices in nominal terms, this will give the effect of a real-term price cut.

We are continuing to work on a hybrid basis, although our staff are now spending more time in the offices and travelling. Marketing and member support activities are now heading back towards pre-pandemic levels.

Our year-to-date financial results, and those predicted for the year-end, are close to break-even. Expenditure control has resulted in this being better than expected, and a significant element has been foreign exchange gains arising from our holding of US dollars ahead of planned US dollar expenditure. Our revenues are lower than expected; a factor being that we did not start the year with the anticipated number of recurring services being brought forward from 2021.

In addition to better than budgeted overall financial performance, we have also achieved good operational performance when measured against our agreed key performance indicators.

The overall results for 2022 are currently predicted to show a small deficit of under £(0.1)m.

The service price changes for 2023 are included in the separate paper "LINX Services and Fees 2023" and such are factored into the figures outlined below. On the basis of those prices, and the anticipated changes in our cost base, the predicted results for 2023 are again a small deficit of circa £(0.1)m. In looking ahead to 2024 and beyond, we see the company returning to surpluses. The Board does have the power to change prices mid-year, and intends to consider whether to do so should actual financial performance be materially different from that budgeted.

2022

2022 Summary

The effects of COVID-19 continued into 2022 with marketing and selling events being affected by cancellations and lower attendances. Consequently, our progress in the last quarter of 2021 was not as promising as had been anticipated when the 2022 budget was being finalised. The effect of this being that we did not start 2022 with the expected level of provided services.

As we have been able to do in previous years, we have controlled our expenditure to be in line with the lower than expected revenue levels. The net result for 2022 should be close to break-even. This is better than budget, and we are maintaining a strong financial position.

The growth in services has again been supported by excellent network stability and strong member support. The ongoing delivery of automation projects allows members easier access to our services, and the ability to self-enable service changes.

The Board is committed to providing services at good value to our members, whilst maintaining financial stability in these difficult times.

Operational Results 2022

The table below shows there has been steady growth in key services. The estimate for end of year 2022 is based on year-to-date August 2022 actuals. The negative growth in connected member ports is due to members with multiple 1GE and 10GE ports upgrading to 10GE and 100GE ports:

FOR ALL LANS	EST. END OF YEAR 2022	END OF YEAR 2021	PROJECTED CHANGE + / (-)
New Member Applications	93	95	(2.1)%
Members	889	878	1.3%
400 GE PORTS	5	1	400%
100 GE PORTS	304	276	10.1
30 GE PORTS	25	0	N/A
10 GE PORTS	862	850	1.4%
Connected capacity TB	41.9 Tbps	36.9 Tbps	13.6%



Financial Results 2022

The financial results projected for the full 2022 year, based on year-to-date August 2022 actuals, are expected to be better than planned. The small percentage adverse variance in our revenues should be more than offset by a larger positive variance in our actual expenditure, when compared with budget.

	EST. FULL YEAR 2022	BUDGET 2022	POSITIVE / (ADVERSE) VARIANCE
REVENUE	£16.6M	£17.6M	(5.7)%
TOTAL EXPENDITURE	£16.7M	£18.1M	7.7%
(DEFICIT) / SURPLUS	£(0.1)M	£(0.5)M	80%
CAPITAL EXPENDITURE	£3.9M	£3.8M	(2.6)%

Table 1: 2021 Financial results

2023

Key Budget assumptions and projections for 2023

Planned Growth in Members and Ports

TOTAL FOR ALL LANS	PLANNED END OF YEAR 2023	EST. END OF YEAR 2022	BUDGET GROWTH 2023	CHANGE + / (-)
Members	901	889	12	1.3%
Connected Capacity - TB	O/S	862	O/S	O/S

The growth in connected capacity is due to a healthy increase in demand across our range of services.



Membership Fee, Services and Prices for 2023

The range of services and associated prices for 2023 are described in a separate paper to the membership entitled "LINX Services and Fees 2023".

Colocation and reseller services

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

Future Pricing Policy

Our proposed approach towards pricing our services in 2023 is included in the separate paper to members entitled "LINX Services and Fees 2023". This paper reflects the current difficult economic environment and the caution required in changing our pricing.

The Board keeps actual financial performance under regular review, and does have the power to adjust prices mid-year if it believes it to be appropriate. It is the Board's intention to give active consideration to whether a mid-year change of prices is appropriate should there be a substantial change in the economic background upon which this budget is based, or if the company's actual financial performance differs materially from the budget forecasts.

Budgeted Financial Results 2023

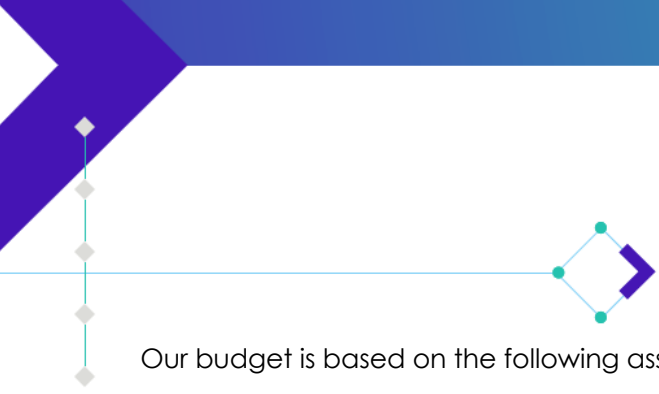
The budget for 2023 compared with this last year's budget is shown below.

Despite challenging trading conditions, we expect reasonable revenue growth in 2023, and such will offset the effects of increasing cost pressures. The projected overall results are expected to show a small deficit of £(0.1)M.

	BUDGET 2023	BUDGET 2022	POSITIVE / (ADVERSE) VARIANCE
REVENUE	£19.3M	£17.6M	9.7%
TOTAL EXPENDITURE	£19.4M	£18.1M	(7.1)%
(DEFICIT) / SURPLUS	£(0.1)M	£(0.5)M	80%
CAPITAL EXPENDITURE	£2.7 M	£3.8M	29%

Income Forecast

Based on the above factors we are forecasting total revenues for 2023 to be approx. £19.3M, an increase of 9.7% on the predicted revenues for 2022.



Our budget is based on the following assumptions:

- The revenue from 400GE services starting to make a noticeable impact
- Continuing healthy growth in 100GE and 10G services
- Following consistent recent growth, reseller income increasing by over 20%
- Additional income from expanding our servicing of remote internet exchanges
- The effect of limited price reductions not significantly reducing revenue
- A small net growth in members, after accounting for cancelled and merged memberships

Total expenditure

The 2023 total expenditure budget in total is £19.4M. This is 9.7% higher than the budget for 2022 and reflects the cost pressures we are currently experiencing, together with our activities heading back towards pre-pandemic levels

The operational expenditure budget is based on the following factors:

- An estimated cost inflationary increase averaging 9%.
- No significant change to the level of staff, with tight controls on recruitment
- Significant increases in power charges
- Cost savings made from moving our offices to smaller premises in the WeWork estate at Moorgate
- Spreading the costs of projects, e.g. TSR compliance, over longer periods and into 2024.

Reseller activities

Our reseller activities, over recent years, have grown significantly, and this is expected to continue into 2023, with a 22% increase to circa £3.5M.

Historically many of these services were provided to members at close to our direct cost. This has been addressed in recent years, but we will continue to review the related pricing to ensure we recover the additional costs for facilitating and supporting such end-to-end service provision.

As noted in previous budget papers, these activities are aimed at leveraging our existing relationships with suppliers to enable members to peer in more economic and less challenging ways.

Projected outcome and cashflow

Taking into account the small anticipated deficit in 2023, together with other factors such as capital expenditure plans, we are projecting a reduction in our reserves of £0.4M.

This reduction in our reserves is adequately covered by our total reserves, the level of which is in accordance with our treasury policies. The treasury policies are aimed at the company sustaining its future growth and investment, including minor fluctuations, without the need for external support.



Capital expenditure

We continue to invest in improving and expanding our networks and systems.

The proposed 2023 capital expenditure programme of £2.7m is lower than that projected for this year at £3.9M.

The expenditure will include further investment in 400GE services, expansion in managed services, and systems enhancements, to comply with new regulations.

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 ensure appropriateness.

Closing remarks

As implied in the introduction at the head of this paper, recent years have been consistent with their unpredictability. Despite this background we have continued to maintain a strong financial position and provide an expanding range of attractive services to our also expanding membership.

The prices for our 2023 services are recommended for approval in the separate paper entitled "LINX Services and Fees 2023", and such are included in the assumptions used in the preparation of this 2023 budget. Adopting the pricing recommendations in the "LINX Services and Fees 2023" paper will help us ensure we continue to offer good quality services at competitive prices, at the same time as providing security for our long-term future.

When the future economic climate, together with related financial projections allows, then it is our intent to resume our past record of providing service price reductions, when the effect of such reductions is outpaced by growth in those services.

Next steps

Consistent with our approach in previous years, our plans for the next financial year are outlined in this paper. At the LINX117 member meeting the 2023 budget will be presented, and this is still a few weeks away. We hope such will allow sufficient time for the members to review our plans.

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. We will also post a summary of any comments with a Q&A to the list before LINX 117.