

Budget 2024

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Introduction

The budget for 2024, and proposed service prices, will be presented at LINX120. This document summarises our current financial situation, together with the 2024 budget that has been approved by your board of directors.

Executive Summary

2023 has been a more stable year than 2022, but inflation has remained high and for longer than predicted. It is now expected to end the year at above 6%. Despite the persistent inflationary pressures, we will be maintaining our pricing for 2024 at the same levels as in 2023. We will, however, diligently monitor the situation throughout the year to determine if there is any opportunity for price reductions. Prices for 2024 are detailed in the separate paper "LINX Services and Fees 2024. In addition, for LINX NoVA, we are making price reductions which we expect will incentivise further demand.

Our pattern of working on a hybrid basis is now well established and is effective. At the same time our involvement with external activities and events is also back to pre-pandemic levels.

Our current year-to-date financial results, and those predicted for the year-end, are close to break-even, and are likely to be slightly better than budgeted. Our revenue levels have recently started to exceed budget, whilst our expenditure levels have been held in-line with budget.

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 2023 are currently predicted to show a small surplus of approx. £0.1m.

The service prices for 2024 are included in the separate paper "LINX Services and Fees 2024" 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 2024 are again a small surplus of circa. £0.1m. In looking beyond 2024 we see the company returning to more significant surpluses. This, at that time, will open the opportunity to consider price reductions, provided the demand for our services continues on its upward path.

2023

2023 Summary

The unsettled economic climate followed-on from 2022. However, our marketing and selling events progressed back towards levels from earlier years and by the end of the year we expect to have regained ground with our revenues starting to exceed expectations.

Expenditure has been closely monitored and is expected to be as per the budget at the end of the year. Our overall result is projected to be a small surplus, which will be better than budget and we will remain in 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 challenging times.

Operational Results 2023

The table below shows there has been steady growth in key services. The estimate for end of year 2023 is based on current year-to-date actual results. With the consolidation/merging of some members, the result is the overall number of members is likely to be similar to last year after adding the 2023 new member applications.

With the exception of 10Gbps peering services, where migration to other services has taken place, there has been good growth in all other services:

FOR ALL LANS	EST. END OF YEAR 2023	END OF YEAR 2022	PROJECTED CHANGE + / (-)
New Member Applications	64	62	3.2%
Total Members	881	870	1.3%
400 Gbps Peering Service	8	3	166.7%
100 Gbps Peering Service	361	321	12.5%
30 Gbps Peering Service	38	23	65.2%
10 Gbps Peering Service	785	812	(3.3)%
Connected capacity TB	60.8 Tbps	50.7 Tbps	19.9%

Financial Results 2023

The financial results projected for the full 2023 year, based on current year-to-date actual results, are expected to be better than planned. Our total revenue should be around 1% higher than budget and our total expenditure held at budget levels.

	EST. FULL YEAR 2023	BUDGET 2023	POSITIVE / (ADVERSE) VARIANCE
REVENUE	£19.5M	£19.3M	1.0%
TOTAL EXPENDITURE	£19.4M	£19.4M	0.0%
SURPLUS / (DEFICIT)	£0.1M	£(0.1)M	200.0%
CAPITAL EXPENDITURE	£2.8M	£2.7M	(3.7)%

2024

Key Budget assumptions and projections for 2024

Planned Growth in Members and Ports

TOTAL FOR ALL LANS	PLANNED END OF YEAR 2024	EST. END OF YEAR 2023	BUDGET GROWTH 2023	CHANGE + / (-)
Total Members	891	881	10	1.1%
Connected Capacity - TB	72.9Tbps	60.8Tbps	12.1Tbps	19.9%

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

Membership Fee, Services and Prices for 2024

The range of services and associated prices for 2024 are described in the separate paper entitled "LINX Services and Fees 2024".

Colocation and reseller services

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

Future Pricing Policy

The agreed approach towards pricing our services in 2024 is described in the separate paper to members entitled "LINX Services and Fees 2024". This paper reflects current challenges, including continuing higher than "normal" inflation rates, and our desire to not increase our prices unless this becomes unavoidable.

Previous years' papers have noted that the Board keeps actual financial performance under regular review and does have the power to adjust prices during the year if it believes it to be appropriate. However, taking into account current expectations, the Board does not predict the need to change prices mid-year.

Budgeted Financial Results 2024

The budget for 2024 compared with 2023's budget is shown below.

We anticipate trading conditions will start to improve in 2024 and the expected revenue growth, shown below at around 17%, reflects this brighter outlook. However, we still expect continuing cost inflation pressures which will affect our staff and external costs. The projected overall results are expected to show a small surplus of £0.1M.

	BUDGET 2024	BUDGET 2023	POSITIVE / (ADVERSE) VARIANCE
REVENUE	£22.5M	£19.3M	16.6%
TOTAL EXPENDITURE	£22.4M	£19.4M	(15.5)%
SURPLUS / (DEFICIT)	£0.1M	£(0.1)M	200%
CAPITAL EXPENDITURE	£3.1M	£2.7 M	(14.8)%

The capital expenditure budget for 2024 is approx. 15% higher than 2023. This provides for the expansion of our networks and continuing investment in new technology.

Income Forecast

Based on our forecasting assumptions total revenues for 2024 rise to approx. £22.5M, a significant increase of almost 17% above the predicted revenues for 2023.

Our budget is based on the following assumptions:

- The revenue from 400GE services will grow and make a significant impact.
- 100GE services will also continue with steady growth.
- The current high demand for colocation services will follow into 2024.
- Additional income will arise from expanding our overseas operations.

Total expenditure

The 2024 total expenditure budget in total is £22.4M. This is 15% higher than the budget for 2023, a sizable increase. This reflects the inflationary pressures we are facing in external costs, together with an expectation to fill long-term vacancies.

The operational expenditure budget includes the following factors:

- An estimated cost inflationary pressure averaging between 4% and 6%.
- A small increase in staff levels, alongside maintaining competitive salaries.
- The increasing cost of complying with new regulations and requirements.
- Continuing to spread the costs of projects over longer periods where it makes sense and possible.

Colocation product activities

The continuing significance of our colocation product remains and a similar large increase (22%) in revenue as in 2023 is expected. This will bring the revenue from such activities to approx. £4.5M.

We continue to review the related pricing to ensure that we recover the additional costs for facilitating and supporting such end-to-end service provision. These activities are aimed at leveraging our existing relationships with suppliers to enable members to access our services in more economic and less challenging ways.

Projected outcome & cashflow

The marginally better than planned 2023 financial results, together with capital expenditure at lower levels than recent years, are expected to see our reserves increasing in 2023 by circa £0.5M. This will however be offset in 2024 by an increase in capital expenditure leaving the level of liquidity at roughly the same level as at the beginning of 2023. This remains to be a strong financial position.

We continue to follow our treasury policies which are aimed at the company sustaining its future growth and investment, including absorbing foreseeable fluctuations, without the need for external support.

Capital expenditure

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

The proposed 2024 capital expenditure programme of £3.1m is marginally higher than the expected spend in 2023, which has been partly affected by supply constraints.

As for 2023, the 2024 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 ensures appropriateness.

Closing remarks

Although the current economic climate may not be as volatile as last year, there is still much uncertainty in the world business markets, in addition to exceptional world events occurring generally. We continue to monitor our financial position closely, and are maintaining a healthy liquidity position to cope with challenges as and when they arise. We also endeavour to expand our range of attractive services to the membership.

The prices for our 2024 services are included in the separate paper entitled "LINX Services and Fees 2024", and such are included in the assumptions used in the preparation of this 2024 budget.

Implementing the predominantly static prices in the “LINX Services and Fees 2024” paper will help us ensure we can still offer good quality services at competitive prices whilst acknowledging, at the same time, that we need to provide for our long-term future of the company.

We hope that better upcoming economic conditions will be reflected in our future financial projections. Such will then allow us to resume service price reductions, on the premiss that such reductions will be overtaken by the growth in demand for those services.

Next steps

Our plans for the next financial year are outlined in this paper, as has been our practice with similar papers in recent years. At the LINX120 meeting the 2024 budget will be presented. This meeting is taking place in mid-November which should allow time for this budget to be reviewed, and for any comments to be made.

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 120.