

# THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

## GTT Communications, Inc. (NYSE:GTT)



**RICHARD D. CALDER JR.** is GTT Communications, Inc.'s President and Chief Executive Officer, appointed by GTT's board of directors effective May 2007. He brings over two decades of experience in the telecommunications arena to GTT. In his role, Mr. Calder has full strategic and operational responsibility for the company and also serves as a director on the company's board of directors. Mr. Calder joined GTT from InPhonic, Inc., a leading provider of wireless services and products, where he served as the President and Chief Operating Officer. Prior to InPhonic, Mr. Calder was President of Business Enterprise & Carrier Markets at Broadwing Communications. He held senior management positions at Winstar Communications, and prior to Winstar, Mr. Calder co-founded GO Communications, a wireless communications company. In his early career, Mr. Calder held various marketing and business development positions at MCI Communications, and various marketing and engineering positions at Tellabs, Inc. Mr. Calder received a Bachelor of Science in electrical engineering from Yale University and an MBA from the Harvard Business School.

### SECTOR — COMPUTERS

**TWST:** Please begin with a brief introduction to GTT's business model and mission.

**Mr. Calder:** GTT provides cloud networking services to large and multinational clients. Our core competitors include some of the largest incumbent telecom companies in the world, including AT&T, Verizon, BT and Orange Business Services. So the business of connecting people across organizations around the world and to every application in the cloud, which can be big cloud service providers such as Amazon Web Services, Microsoft Azure and others.

We have been traded on the New York Stock Exchange since 2013, and I've been President and CEO for the past 12 years. We've grown tremendously during that period from a \$50 million to nearly a \$2 billion company in annual revenue. In the last two years alone, we quadrupled the size of the business. Yet, we still consider ourselves a very small firm competing in a \$200 billion market with less than 1% market share, which means we have an enormous opportunity to continue the very rapid growth that we've experienced.

**TWST:** Give us a closer look at your global reach and how that has evolved. Where do you see the most demand, and how is that evolving?

**Mr. Calder:** We own and operate one of the largest global internet backbone networks in the world, with deep reach to any location in the world. We have an owned and controlled fiber network throughout parts of North America, the Atlantic and all of Europe. And we trade and lease last-mile connectivity with over 3,000 network suppliers around the globe. We extend the global reach for our clients to over 150 countries,

and at this point in time, we have an aggregate of over 300,000 business locations connected for our clients. We have very deep global reach and scale to deliver on our purpose of helping our clients — many of which are large corporations — connect their people.

Over the last 12 years, we have expanded through a series of acquisitions, numbering over 30 acquisitions to date. Rather than building the GTT business from scratch, we decided that through selective strategic acquisition, we would build one of the best global networks in the world. We believe that we've succeeded in doing that. Just over a year ago, GTT made the largest acquisition in its relatively short history, U.K.-based Interoute, a company which is very complementary to our business. Interoute was similar in scope and longevity to GTT, about a 20-year-old company that had been very focused in Europe. The combination of the two companies doubled GTT's size, making us a significantly stronger, disruptive player to the big incumbents.

**TWST:** Which regions or countries support the greatest demand? Are there any particular geographies where you're particularly strong or looking to grow?

**Mr. Calder:** We're focused on selling to multinational companies headquartered in North America and the main economies in Europe, including the United Kingdom, France, Germany, the Nordics, Benelux, Italy, Spain, Switzerland, Austria, Germany and select countries in central and Eastern Europe. We connect our clients to anywhere in the world, including in Latin America, Africa, the Middle East and Asia Pacific, including China. We're mainly focused on selling to corporations headquartered in North America or Europe.

The world GDP today roughly stands at about \$85 trillion. About half of the world's GDP is generated in North America and Europe. That is a very significant part of the world to sell into and to focus on selling to multinationals and delivering their networks everywhere. That's not to say that we couldn't potentially try to sell in China and Japan or India, etc. The challenge with those markets is they're less open to newer competitors like ourselves. These countries are more regulated and often require more joint ownership.

Our view is that we're strategically focused on selling to more open economies, which are found in North America and Western Europe. And given that it's half the world's GDP, we feel, at our relatively small size, it's advantageous to focus on that part of the world at this stage of the company's growth.

**TWST: What have been the main macro or secular trends that have impacted GTT? Give us a closer look at how these have supported your fast growth.**

**Mr. Calder:** The industry and business trend that underpins our growth is the rapid migration of applications to the cloud, insatiable demand for bandwidth and need for more networking. Our purpose is to help companies connect their people every day. Employees working in large or small companies generally need or want more connections, whether to connect to the cloud or the internet. Our estimate is that internet usage within corporations is growing north of 20% per year. This trend is driving the need for more connectivity and cloud networking, which is GTT's focus.

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Many corporations are increasingly moving their core IT applications into cloud service providers like Amazon Web Services or Microsoft Azure or IBM or Google or Salesforce or others. And we are a perfect complement for that because we are highly interconnected to every one of those companies in the cloud. The movement of applications into the cloud and increasing file size, such as video, are driving a greater need for bandwidth. All types of application data are driving bandwidth demand and the ability to connect people and applications in more and varied ways. These underlying trends are all growth drivers for GTT.

**TWST: What are the biggest headwinds and challenges you've met with? Are you monitoring any upcoming headwinds on the horizon that might emerge going forward?**

**Mr. Calder:** I think the biggest headwind for us has been brand recognition. If I were to consistently ask my sales organization what's the hardest challenge to overcome, they would say that we're selling to some of the largest and most sophisticated firms in the world and that many of these firms have not heard of us. Who is GTT, and why should I trust one of the most important parts of my business, my network, to you?

Brand recognition was very hard when we were a \$50 million company, still difficult when we were a \$100 million, a bit easier when we hit \$1 billion in revenue and easier now that we're a \$2 billion company with a 20-plus-year operating history. So today, we now have 48 quarters under my leadership of public reporting. We have a huge roster of clients that we can reference and talk to in almost every industry

segment. While our brand recognition is better and we're more visible, it remains an ongoing opportunity for us to further enhance — making sure that we demonstrate our success and continue to grow with our clients.

**TWST: Give us a closer look at your product portfolio. What are the important differentiators to your brand, and are these proprietary?**

**Mr. Calder:** The basic connectivity products we sell fall into a couple of categories. The first and foremost is wide area networking. It's the underpinning of our cloud networking service to connect any location with high-capacity networks generally with different access options into any building.

We advise our clients to implement dual, separate and secure access to help protect against any business risk or disruption because, as we all know, things do fail and break. Having dual, diverse connectivity to every location — which enhances network resiliency — is one of our company's specialties. We're able to connect every location to every other location on a corporate network together to every location in the cloud on the internet. Wide area networking is at the core of what we do.

For companies who simply want an internet connection, just a high-capacity or dedicated connection to the internet, we do that as well. We also provide highly specialized transport and infrastructure. We sell wavelength, which is very high capacity, to some of the largest cloud providers in the world. Ethernet is another technology that we frequently sell to enterprises for cloud connectivity as well as low-latency, point-to-point connections.

The other product category for us is voice, which is your classic networking product. We can provide conference calling, dialing and other voice services to our clients as a core networking product.

To your question about technologies unique to us, I wouldn't say that any of the networking technology is proprietary per se. I think most of our competitors can do it. The point of differentiation for us, in the wide area networking space I mentioned earlier, is a technology called software-defined wide area networking or, in industry parlance, SD-WAN. SD-WAN marries the power of the internet together with greater use of software in wide area networking. It provides enterprise clients with less expensive and more agile methods to get traffic to each location and to public internet applications.

This is a rapidly growing part of our business. We've said publicly that at least 20% of our current uninstalled backlog is SD-WAN. It's a technology we think can be highly differentiated versus some of the legacy technologies. We have unique network assets and capabilities that enable us to realize the full potential of SD-WAN technology for our clients, such as one of the industry's largest global tier-1 I.P. networks and broad array of access options including fiber, cable, DSL and wireless.

An overarching differentiator for GTT that reinforces the power of our SD-WAN offering is our values. While we have one of the best networks in the world, underpinned by some of the best next-generation technology, and the ability to reach everywhere, our values are one of the true points of difference for GTT. We talk extensively

about them publicly to our clients and internally to GTT employees, and that is three simple things: simplicity, speed, agility.

We talk about being a company that's easy to do business with — simplicity. We are a company that is fast and responsive — speed. And we are a company that strives to say yes to its clients — agility. We sometimes refer to them as the anti-incumbent values. It's not like doing business with some of the large incumbent telcos. We think this truly sets us apart, and it's one of the many reasons that we've built a loyal customer base that continues to grow with us.

**TWST: Do you expect the advent of 5G to impact GTT? And if so, what will happen?**

**Mr. Calder:** There are many technologies that deliver cloud networking to corporations and connect their people and locations, and we use them all. There's the most ubiquitous technology to be able to connect to a building: copper. We use legacy copper networks all around the world. Another delivery technology is coaxial cable, and we use that significantly to connect people and locations. We also use fiber. Fiber is the highest-capacity connectivity option for corporations, though usually the highest cost and least available. Wireless — whether it's 2G, 3G or 4G and, in the future, 5G — these are all great connectivity options that we use.

We see 5G as just the next evolution, the fifth generation of wireless technology that we can use together with the other technologies, including copper, coax cable and fiber, to help provide diverse, secure connections for corporations and office buildings around the world. Do I think 5G will be available to us soon? Not as quick as it would seem from all the industry hype. I believe it will take a little bit longer. I expect it will be deployed on different frequency bands depending on the various countries where we deploy it or where the operators deploy it. Similar to 3G and 4G, it will be available to us as a technology to connect corporations and buildings.

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**TWST: Earlier, you mentioned your recent acquisition of Interoute. How will that change and integrate with GTT?**

**Mr. Calder:** We announced the acquisition of Interoute in February 2018 and closed the transaction at the end of May 2018. It's the largest acquisition in the company's history, almost doubling our size, as I said earlier. It's the most strategic acquisition we've done to date, and it closely mirrors our business, just in a slightly different geography.

As noted earlier, we feel that Europe and North America represent the two best market environments for us to sell to multinational clients and deliver traffic everywhere in the world for them. However, we had been overrepresented in North America and underrepresented in Europe. So pre-Interoute, our business mix was 80% in North America and 20% in Europe, with high concentration in the United Kingdom. Interoute balances us out geographically. That means, today, 40% of our revenue is generated in the U.S. and 60% outside the U.S. We feel that's a good mix, although we would prefer to be closer to a 50-50 geographic split, which may happen in time.

Interestingly, the one acquisition that we did post-Interoute was a small company called Access Point based in the U.S. We see equal acquisition opportunities, both in the U.S. and Europe. Interoute had a similar strategy to ours; that is, cloud networking services to larger multinational clients. Interoute added significant network reach, especially in Europe, that can be integrated into the broader GTT internet network backbone and brings a tremendous roster of new clients and exceptional talent.

We have a stated objective of growing our business to \$3 billion by the end of 2021, which we announced in November 2018. We believe that we will achieve this next financial objective by executing our strategy, both organically through internally rep-driven growth as well as through continued selective acquisitions that are consistent with our strategy. And our proven track record of swift and effective integrations will enable us to expand our scale and market presence as we continue to build the GTT organization broadly.

**TWST: GTT has an extraordinary fast-growth record, and yet, the stock looks to have a low valuation level compared to peers. Why so?**

**Mr. Calder:** Well, having been here for 12 years, at our ebb, I think our entire market cap of the firm at our lowest point, approximately 10 years ago, was around \$4 million. Our market cap today is closer to \$2 billion. Our peak market cap has been higher at points in time, although fairly close to where it is today. While we've seen some fluctuation in our equity value over time, it has been a steady, upward trajectory.

We're clearly focused on driving long-term value for our shareholders. The board and management are 20% shareholders in GTT. We trade at, I would probably say, a slightly lower multiple at this stage relative to what we think we can earn. We're focused on delivering two things to investors. First is continuing to drive organic growth, making sure that investors can see that the combination of all the companies we

have bought are truly an engine for long-term, future growth. That is one of the fundamental things we're driving at this stage.

The second thing we're focused on delivering to investors is the realization of the remaining synergy and value of Interoute and GTT combined. We have a quarter or two of results to post for that. And to the degree we continue to demonstrate tangible progress on these objectives, we believe that we will earn a higher value in the marketplace. We think that's certainly in front of us.

**TWST: Can you share a closer look at any specific goals or targets you have for the upcoming year? What's currently at the top of your strategic agenda?**

**Mr. Calder:** Historically, we've never provided to investors annual targets. But we've had success in sharing multiyear targets. We're currently on our fifth stated multiyear target objective. When we were an \$80 million firm in 2011, we shared our first financial target, which was to grow to \$200 million. We achieved that. Our next financial target was to grow to \$400 million, and we achieved that. The next one was to grow

to \$1 billion. We achieved that. We then announced a \$2 billion financial objective, and we felt that we would achieve that much sooner than 2021.

And last November, we disclosed our next financial objective of achieving \$3 billion in annual revenue by the end of 2021. That is the financial guidance we provide to the marketplace, in addition to a \$900 million EBITDA target and a minimum of \$5 per share in free cash flow. We believe that cash flow is critically important in our business. These are the next three financial objectives. We think these medium-term objectives are a more important yardstick for investors, which is where we're going to be over the next three years. And we have a good track record of hitting the financial objectives we set out for the company.

As it relates to our short-term priorities, the overwhelming priority of the business right now is demonstrating that the combination of the 10 businesses that we have purchased over the past two years create a massive engine, if not a rocket, for growth. We see that growth in our business each and every day, and our opportunity to take share in what is a very large \$200 billion market opportunity — that's mainly held by the incumbents, who are not as focused on our business of serving large enterprises and multinational organizations with cloud networking services. GTT is a relatively small company in an incumbent-dominated market, yet well-poised to take share and continue to grow.

Another 2019 priority for GTT is the realization of the remaining synergies of the Interoute transaction. We're going to continue to look at selective acquisitions, and I'd say we will continue to do that as we work toward hitting our next financial objective of \$3 billion.

**TWST: Well, it looks like GTT certainly has a deservedly rosy outlook going forward, but what are any possible risks or emerging challenges that worry you and that investors might face?**

**Mr. Calder:** That's a great question. On the acquisitive side of our business, a potential risk is doing the wrong deal. We're keenly focused on making sure that if we do an acquisition, that it is absolutely the right acquisition that fits our strategy of cloud networking to larger multinational clients and that we can integrate the acquired company very rapidly — we talk about integration time frames in one, two or three quarters, when most people talk about integration in one, two or three years — and that we're paying the right price. We're happy to lose deals if we think any of those acquisition dimensions don't fit.

We believe our strategy is the right one for where demand for global connectivity is trending, and we think that we have the assets and capabilities in place to seize the market opportunity. Many firms do acquisitions to change their strategy. We pursue a focused and consistent strategy. We think we can continue to execute it, but doing the wrong deal always worries me. I spend a fair amount of my personal time making sure that everything we're looking at is strategic. Can we integrate it, and are we going to pay the right price for it?

And on the organic growth side of our business, it's continuing to deliver an outstanding client experience that is of paramount importance. It's all about living our values of simplicity, speed, agility, which are the underpinnings of delivering a great experience to clients because that keeps them loyal and growing with you. A true measure of loyalty is this: Is the client growing with you, or are they shrinking with you? If they're growing with you, you're doing something right.

And that's how we measure client loyalty: Who is actually growing and giving us more share? We have a relatively small share of spend with most of our clients. Our ability to grow, not only existing client business but to attract new clients and logos to GTT, into our banner and away from the incumbents, still remains ahead of us.

**TWST: Is there anything you would like to share about your and your team's proven track record?**

**Mr. Calder:** One of the things that I think has set us apart is the stability of our leadership team. While we have made changes over the 12 years, during the past three or four years, we've had a very stable team. We generally look at acquisitions as ways to add some really great talent. We find fantastic talent that have joined our team through acquisitions.

We announced one new senior leader to my leadership team, Jesper Aagaard, who is President of our Europe division. Jesper joined us from Interoute. We will continue to use acquisition as a way to further strengthen our leadership team. We think that the cohesiveness and leadership we have demonstrated with the leadership team, and the 3,000 employees we have at GTT, has helped us execute.

I think that one of the keys to our success is that we have had a consistent strategy, a very steady purpose of helping corporations connect their people. We have maintained the same consistent values — simplicity, speed, agility — and we're executing on the same strategy of extending cloud networking services everywhere in the world, to every application in the cloud, and executing it both organically and through selective acquisitions. I think that has been one of the real strengths of GTT over these many years.

**TWST: To conclude, what are the main factors and features that investors should focus on when evaluating GTT?**

**Mr. Calder:** I think again back to the point of having a deep history of establishing intermediate next financial objectives, and I think it is that we're focused on making sure we achieve those intermediate financial objectives and, of course, reporting as required our quarterly results. I think we have an excellent track record of establishing and achieving these financial objectives. But I would say the \$3 billion revenue objective in three years is just a next way station. That's not our goal; that's not our endpoint.

We see the opportunity to grow significantly. We'd still be a very small share player at that stage in a \$200 billion market. So there is a huge opportunity for a firm like GTT to be a very fast grower over the next five to 10 years.

**TWST: Thank you. (VSB)**

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