

Budget 2025

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Document change history	
Version 0.1	Initial draft
Version 1	Final Version

Introduction

The budget for 2025, and proposed service prices, will be presented at LINX123. This document summarises LINX's current financial situation, together with highlights from the 2025 budget, which has been approved by the LINX board of directors.

Executive Summary

After some years of economic uncertainty with high inflation and high interest rates, we are now seeing inflation gradually lowering and the economy stabilising. Interest rates remain relatively high, which might impact investments among our members in the near term, but we remain optimistic that we can meet our budgeted target for 2025, and that we will see increased investments from 2026 onwards. With lower inflation rates we are also revising our pricing model and service levels, by increasing the service bandwidth included in the membership fee, introducing several new peering service speeds, lowering port service fees and readjusting the price curve for peering services. We believe this will provide increased value for members.

The forecast for 2024 sees a deficit of £0.4M which is slightly worse than budgeted due to slightly lower than expected revenue and some one-off costs in the year.

The budget sees us return to a small surplus in 2025. 2025 will see Cost of Goods Sold (COGS) continue to drop slightly while Sales, General and Administration costs will rise slightly. The drop in COGS is the result of continued work on efficiency and scaling. The rise in SG&A is due partly to investments in security, regulatory compliance and further work on automation and tooling improvements.

Capital Expenditure (CAPEX) for 2024 has been lower than expected due to time shifting of upgrades and capacity needs but is forecasted to be lower than budget while the budget assumes a return to normal CAPEX spend in 2025.

2024

2024 Summary

Following on from previous years' higher inflation, we saw some of this continue to drive costs at the beginning of the year while higher interest rates seem to have dampened investment appetite. This means we have seen somewhat slower than expected sales in some areas, especially in 10GE, and slower than expected migration to 400GE. Somewhat mitigating these effects has been higher than anticipated sales of 100GE ports.

We have continued work on efficiency in service delivery which has improved our COGS to below budget, and management and board have continued to monitor costs and cost growth in the light of the economic climate. LINX remains in a very strong financial position with a strong balance sheet.

LINX continues its commitment to stability and service excellence, and we have delivered a lot of improvements to the member facing services in the portal, and its product portfolio. The service quality, availability and member feedback remain high.

Operational Results 2024

The table below shows there has been steady growth in 30Gbps, 100Gbps and 400Gbps peering services. The estimate for end of year 2024 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.

FOR ALL LANS	EST. END OF YEAR 2024	END OF YEAR 2023	PROJECTED CHANGE + / (-)
New Member Applications	80	93	(14.0)%
Members	878	881	(0.3)%
400 Gbps	15	7	114.3%
100 Gbps	403	373	8.0%
30 Gbps	54	41	31.7%
10 Gbps	703	758	(7.3)%
Connected peering capacity Tb	54.95 Tbps	48.91 Tbps	12.3%

With total 'access' capacity, including managed IXPs set to exceed 72 Tbps across all LANS by the end of 2024.

Financial Results 2024

LINX has made excellent progress in 2024 against plan with growth in revenue forecast to be around 15% to £22.3m from £19.4m in 2023. The £3m increase arose from growth in core revenue from membership and peering of around 10%, combined with around 26% increase in colocation services revenue. We expect to report a deficit of around £0.4m after tax, which is below the original budget due to slightly lower than expected revenue resulting from among other factors fewer 10GE sales than anticipated, combined with some one-off costs in the year.

Capital expenditure is expected to be £2.7m in 2024, which is lower than 2023. We have continued to invest in deploying more efficient equipment in our datacentres in the UK and overseas, which will create more capacity whilst being more power efficient. We expect to generate positive operating

cash flow of around £2.3m in the year and ending 2024 with £9.4m of cash, a modest decrease in the year.

The financial results projected for the full 2024 year, based on current year-to-date actual and forecast results, are slightly behind what was originally planned in the budget. Our total revenue is expected to be around 1% lower than budget due to peering revenue being slightly below budget and delays on some overseas projects. Total expenditure was slightly above budget levels by 1%, mainly due to some one-off non-recurring items in the year, although capex was 13% below the original budget. The combination means we expect a deficit after tax of around £0.4m as shown in the table below. Whilst this is below our budgeted result level, we expect to achieve revenue growth over 2024 of around 15%.

	EST. FULL YEAR 2024	BUDGET 2024	POSITIVE / (ADVERSE) VARIANCE
REVENUE	£22.3M	£22.6M	(1.0)%
TOTAL EXPENDITURE	£22.7M	£22.5M	(0.9)%
(DEFICIT) / SURPLUS	£(0.4)M	£0.1M	N/A
CAPITAL EXPENDITURE	£2.7M	£3.1M	12.9%

Table 1: 2024 Financial results

2025

Key Budget assumptions and projections for 2025

For 2025, we expect revenue to grow by around 9% to around £24.4m. The revenue growth is expected to come in all areas, including peering, where we expect greater take up of 400GE services. We also expect some growth in managed IXP revenue and colocation services. Virtually all our revenue is recurring so this will represent another positive increase in our recurring revenue base.

We have budgeted cost increases ranging from around 2.5% to 5% in most areas (higher for some costs), reflecting the current expectations for inflationary impact on our cost base.

Capital expenditure is expected to be close to our normal long-term trend at around £3.1m, and we expect to end 2025 with cash of £9.4m.

We are budgeting for a modest surplus after all costs and taxes of £0.1m.

Planned Growth in Members and Ports

TOTAL FOR ALL LANS	PLANNED END OF YEAR 2025	EST. END OF YEAR 2024	CHANGE + / (-)
Members	888	878	1%
Connected Capacity - Tb	85 Tbps	72Tb Tbps	18%

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

Membership Fee, Services and Prices for 2025

The range of services and associated prices for 2025 are described in a separate paper to the membership entitled "LINX Services and Fees 2025".

Budgeted Financial Results 2025

The budget for 2025 compared with this last year's budget is shown below.

We anticipate trading conditions will start to improve in 2024 and the expected revenue growth, shown below at around 8.4%, 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 2025	BUDGET 2024	POSITIVE / (ADVERSE) VARIANCE
REVENUE	£24.4M	£22.5M	8.4%
TOTAL EXPENDITURE	£24.3M	£22.4M	(8.5)%
SURPLUS	£0.1M	£0.1M	0.0%
CAPITAL EXPENDITURE	£3.1M	£3.1M	0.0%

It should be noted that although the capital expenditure budget for 2025 is the same level as originally budgeted in 2024, it is approx. 13% higher than forecast for 2024, which is partly due to timing of certain capex projects.

Revenue Budget

Based on our forecasting assumptions total revenues for 2025 to be approx. £24.4M, a solid increase of around 9% above the predicted revenues for 2024.

Our budget is based on the following assumptions:

- The revenue from 400GE services will grow significantly in 2025.
- 100GE services, and the new 50GE service offering, will provide revenue growth.
- The current high demand for reseller services will continue into 2025.
- Additional income will arise from expanding our overseas operations.

Expenditure Budget

The 2025 total expenditure budget in total is £24.3M. This is 9% higher than the budget for 2024. This reflects the inflationary pressures we are facing in external costs, together with an expectation to fill long-time vacancies.

The operational expenditure budget is based on the following factors:

- An estimated cost inflationary pressure averaging between 2.5% and 5% (higher in some cost areas).
- A small increase in staff levels of three new heads, alongside the inflationary effect on 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.

Capital expenditure

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

The proposed 2025 capital expenditure programme of £3.1m is slightly higher than the expected spend in 2024, which has been partly affected by supply constraints, noting some 2024 spend was implemented in Q4 2023

As for 2024, the 2025 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 that any major capital expenditure is properly evaluated prior to approval.

Projected cashflow

With the forecast 2024 financial results being marginally below budget (although offset by reduced capital expenditure), we expect to report cash reserves reducing in 2024 by circa £0.4M. This will nevertheless mean that we remain in a strong financial position with expect cash reserves of around £9.4m at the end of 2024.

We continue to operate in accordance with our treasury policies, which are aimed at ensuring the company has adequate financial resources to sustain its future growth and investment, including absorbing foreseeable fluctuations, without the need for external support.

Closing remarks

Although the current economic climate may not be as volatile as past years, there is still much uncertainty in the world business markets especially with interest rates still relatively high in many markets. In addition, exceptional global events currently occurring further adds uncertainty to business planning. We continue to monitor our financial position closely, and are maintaining a healthy liquidity position to cope with external challenges as and when they arise. We are also endeavouring to expand our range of attractive services to the membership.

The prices for our 2025 services are included in the separate paper entitled “LINX Services and Fees 2025”, and such are incorporated into the assumptions used in the preparation of this 2025 budget.

The 2025 Services and fees contain price cuts and a number of changes that increases the value of LINX services to members and add more affordable upgrade paths that we believe should increase the competitiveness of LINX services.

Next steps

Our plans for the next financial year ahead are outlined in this paper, and at the LINX123 meeting the 2025 budget will be presented to the membership. This meeting is taking place in mid-November and this budget paper is posted together with the resolutions and notice of the EGM two weeks in advance, which allows 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. We will do our best to answer all questions.