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**Cogent Communications Holdings, Inc.** NasdaqGS:CCOI

*Earnings Call*

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CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	8

# Call Participants

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*Founder, Chairman, CEO & President*

**Thaddeus G. Weed**

*VP, CFO & Treasurer*

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# Presentation

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## Operator

Good morning, and welcome to the Cogent Communications Holdings First Quarter 2026 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded, and it will be available for replay at [www.cogentco.com](http://www.cogentco.com). A transcript of this conference call will be posted on Cogent's website when it becomes available. Cogent's summary of financial and operational results attached to its press release can be downloaded from the Cogent website.

I would now like to turn the call over to Mr. Dave Schaeffer, Chairman and Chief Executive Officer of Cogent Communications Holdings.

## David Schaeffer

*Founder, Chairman, CEO & President*

Thank you, and good morning to all. Welcome to our first quarter 2026 earnings call. I'm Dave Schaeffer, Cogent's CEO. Joined with me on today's call is Tad Weed, our Chief Financial Officer.

A few key events and other significant matters in the quarter. I want to recognize some of the key achievements that we have made in the quarter. We have stated in previous calls, we intend to monetize 24 of our Sprint data centers that we acquired either via outright sale or leasing the acquired space on a wholesale basis. We have entered into a non-binding LOI for the sale of 10 of these data centers. The counterparty has essentially completed its due diligence. Based on the status of this transaction, we expect closing to be early this summer. We continue to have multiple parties interested in other former Sprint data centers.

Now while we are working on refinancing our 2027, \$750 million unsecured notes, which become due in June of 2027. At this time, we can make the following statement regarding the refinancing of our 2027 notes, and I'm going to ask Tad to read this statement.

## Thaddeus G. Weed

*VP, CFO & Treasurer*

Thank you, Dave, and good morning to everyone. The statement is as follows. The company and a limited number of holders of our 2032 \$600 million secured notes who collectively hold more than a majority of the outstanding principal amount of our 2032 notes have reached a verbal agreement on a consent to amend the indenture for 2032 notes and that process is underway. If and once finally documented, the amendment will increase our ability under the indenture to incur pari passu or junior lien secured debt and include several credit enhancements for our 2032 notes.

If and when the consent to the amendment is final, we will file an 8-K announcing the same and forego our previously announced secured debt realignment plan. Please note that this discussion does not constitute an offer to sell or a solicitation of an offer to buy any security nor is it a solicitation of consent from any holders of our 2032 notes.

Back to you, Dave.

## David Schaeffer

*Founder, Chairman, CEO & President*

Thanks, Tad. We intend our refinancing to be complete after the expiration of our make-whole period which ends June 15, 2026. Once -- and if this transaction closes, our debt maturities will be as follows. Our current \$600 million secured notes will mature in June of 2032. While anticipated \$750 million of secured notes will mature in 2033, \$206 million of our secured ABS IPv4 notes mature in May of 2029. \$174,400,000 of our secured IPv4 notes will mature in April of 2030. Whereas \$629 million of IRU finance leases or capital leases have various maturities extending through 2046.

A couple of comments on our wavelength sales. At quarter end, we're offering wavelength services in 1,107 locations at either 10 gig, 100 gig or 400 gig capability. Our provisioning interval is approximately 30 days and continues to improve. Our wavelength revenues for the quarter were \$13.6 million, an increase of 90.8% on a year-over-year basis and a sequential improvement of 12.3%. Our wavelength customer connections increased year-over-year by 71.2% and increased sequentially by 9.6% to 2,263. As of the end of the quarter, we have sold wavelength services in 581 unique locations, and we have sold those services to a total of 492 unique customers. We intend to continue to focus on capturing 25% of the North American long-haul market. As of today, we have captured approximately 3% of that market.

Now our EBITDA on a year-over-year basis, our EBITDA as adjusted for the quarter increased by \$1.4 million, and our EBITDA as adjusted margin for the quarter increased year-over-year by 150 basis points. Our EBITDA as adjusted for the quarter decreased sequentially by \$6.6 million to \$70.2 million and our EBITDA as adjusted margin for the quarter was 29.3%. Seasonally, our SG&A expenses increased in the first quarter as compared to the fourth quarter. These changes are caused by annual CPI increases in salary, impact of payroll taxes in the U.S. the timing of employee vacations, our annual audit fees and our sales meeting.

Our SG&A increased from the fourth quarter of 2025 to the first quarter of 2026, by \$7.1 million or 11%. By comparison, our SG&A increased by \$10.6 million or 19% from the fourth quarter of 2024 to the first quarter of 2025. This seasonal pattern is normal for Cogent.

We have a refined capital allocation strategy that is focused on de-levering. We have committed the proceeds of the sale of our initial 10 data centers that were formerly Sprint facilities to Cogent Communications Group, our borrowing entity, which will accelerate de-levering at that entity.

Our total gross debt is adjusted for amounts from T-Mobile for the last 12 months on an EBITDA as adjusted basis was 7.4x EBITDA. Our net debt ratio was 6.79x at quarter's end. Our IPv4 leasing revenues increased 4% to \$18 million and increased by 25% on a year-over-year basis. Our average price per IP address was stable at \$0.40. We have title to approximately \$37.8 million IPv4 addresses and have leased out approximately \$15 million of these addresses as of today. At quarter's end, we are providing services in 1,744 carrier neutral data centers and 185 Cogent data centers. This footprint of data centers represents approximately 17 gigawatts of installed power. The Cogent data centers have approximately 211 megawatts of installed power and approximately 1.2 million square feet of floor space.

While our revenue growth for Q1 2026 was negative, the decline in revenues from acquired Sprint customers is moderating. We anticipate a long-term average revenue growth rate of 6% to 8% and EBITDA margin expansion of approximately 200 basis points per year. Our revenue and EBITDA guidance targets are intended to be multiyear and are not intended to be quarterly or annual specific items.

Now I'd like to turn the call back to Tad to read our safe harbor language, provide some additional detail, and then I will provide some summary remarks and open the floor for questions and answers.

**Thaddeus G. Weed**  
*VP, CFO & Treasurer*

Thank you, Dave. This earnings conference call includes forward-looking statements. These forward-looking statements are based on our current intent, beliefs and expectations. These forward-looking statements and all other statements that may be made on this call that are not historical facts are subject to a number of risks and uncertainties, and actual results may differ materially. Please refer to our SEC filings for more information on the factors that could cause actual results to differ. Cogent undertakes no obligation to update or revise our forward-looking statements.

If we use non-GAAP financial measures during this call, you will find these reconciled to the corresponding GAAP measurement in our earnings release that are posted on our website at [cogentco.com](http://cogentco.com).

Summary of results. Comments on our revenue mix since the Sprint closing, which as a reminder, was May 1, 2023, so the first full quarter with Sprint combined with Cogent was the third quarter of 2023. Despite revenue decreases, we have been able to increase our margins, our increases in gross margin

and our EBITDA margin have been driven by cost reductions and a rotation to our more profitable on-net products.

Comparing our revenue by connection type from the third quarter of 2023, again, the first full quarter when we were combined with Sprint to this quarter illustrates the material change to the composition of our revenues and the strength of our underlying Cogent classic business. Our on-net revenues were 47% of our total revenues in the third quarter of 2023. Our total on-net revenues including wavelength on net revenues, increased from 47% to 62% of total revenues this quarter. Our less profitable off-net revenues were 48% of our total revenues in the third quarter of 2023, and our off-net revenues have decreased to 37% of our total revenues this quarter.

Lastly, our noncore revenues were 5% of our total revenues in the third quarter of '23, and our noncore revenues have decreased to \$1 million and were approximately 0.5% of our total revenues this quarter. Our total revenue for the quarter was \$239.2 million. Our total revenue for the quarter declined sequentially by \$1.3 million or by 0.6%. The decrease was a slight improvement from the \$1.4 million sequential quarterly decline last quarter. USF tax revenues had a negative impact on our sequential revenue results of \$0.3 million and a negative impact year-over-year \$0.7 million.

For the quarter and sequentially, our on-net revenues, including on-net wavelength revenues increased by \$2.8 million. Our less profitable off-net revenues declined by \$3.9 million. Our noncore revenues decreased by [\$12.2 million]. Our wavelength revenues, which are entirely on-net, increased by 1.5%.

Our gross margin percentage for the quarter increased year-over-year by 150 basis points to 46.1% from continued cost reduction and product optimization, including our focus on on-net products.

Some comments on revenue by class. We analyze and classify our revenues into four network connection types and three customer types. Our four network connection types are on-net, off-net, wavelengths and noncore. Our three customer types are NetCentric, corporate and enterprise customers. The substantial changes in the acquired Sprint wireline revenue base have masked the underlying performance of our Cogent classic business. Our consolidated revenue declines have been largely attributed to the reduction in the acquired Sprint wireline corporate and enterprise noncore and off-net revenues.

At closing, the Sprint wireline revenues were 42% of our total revenues. That percentage has declined from 42% to only 16% of our total revenues this quarter. We acquired Sprint wireline with a revenue run rate of \$118 million per quarter. This acquired revenue base has decreased from \$118 million to \$39 million this quarter run rate. That represents a \$79 million reduction in quarterly revenue related to the acquired Sprint revenue base or a 67% decline since deal closing. At deal closing, our Cogent Classic revenue run rate was \$155 million per quarter, and that run rate has increased by 28% from \$155 million to almost \$200 million, \$198 million for this quarter.

Our total corporate business represented 42.3% of our revenues this quarter. Our quarterly corporate revenues decreased by 8.7% year-over-year and sequentially by 1.7%. The Sprint wireline corporate revenue customers represented 30% of our total corporate revenues at closing of the acquisition, and those Sprint acquired corporate customers now represent only 10% of our total corporate revenues. The Sprint wireline acquired corporate customer base has decreased from a run rate of \$39 million per quarter at closing to a current run rate of only \$8 million for this quarter, an approximate 80% decline.

Our total NetCentric business continues to increase and to benefit from the growth in video traffic, activity related to artificial intelligence, streaming, IPv4 leasing and wavelength sales. Our NetCentric business represented 44.2% of our revenues this quarter. Our quarterly NetCentric revenues increased by 14.2% year-over-year and sequentially by 2.3%. The Sprint Wireline NetCentric customers represented 21% of our total NetCentric customer revenues at the closing of the acquisition.

Those Sprint Wireline acquired NetCentric customers now represent only 6% of our total NetCentric revenues. The Sprint Wireline acquired NetCentric customer base has decreased from a run rate of \$19 million per quarter at closing to a run rate this quarter of only \$8 million an approximately 60% decline, 58% actually.

Enterprise business. Our total enterprise business represented 13.5% of our revenues this quarter. Our quarterly enterprise revenue decreased by 26% year-over-year and sequentially by 5.7%, primarily due to a reduction in the acquired Sprint wireline enterprise off-net revenue. The Sprint wireline enterprise customers represented virtually all of our enterprise revenues of the closing of the acquisition and the Sprint wireline acquired Enterprise revenue base has decreased from a run rate of \$60 million per quarter at closing to a current run rate of \$23 million, a 62% decline.

Revenue and customer connections by network type. We serve our on-net customers in 3,605 total on-net buildings. Our total on-net revenue, including on-net wavelength, was \$149.2 million for the quarter. That's a year-over-year increase of 9.1% and a sequential increase of 1.9%. Our less profitable off-net revenues were \$89 million for the quarter, a year-over-year decrease of 17% and a sequential decrease of 4.2%. Our off-net revenue results are impacted by the migration of certain off-net customers to on-net and the continued grooming and termination of low-margin off-net contracts, virtually all of the decline from the Sprint wireline acquired customers.

Our average price per megabit for our installed base decreased sequentially to \$0.12 from \$0.14 last quarter and was \$0.20 for the first quarter of last year, and our average price per megabit of new contracts for the quarter was \$0.07 compared to \$0.06 last quarter, so a slight increase and \$0.10 in the first quarter of last year.

Our ARPU for the quarter were as follows: our on-net IP ARPU was \$514, our off-net IP ARPU was \$1,219, our wavelength ARPU was \$2,093, our IPv4 ARPU was \$0.40 per address.

Churn rate. Our on-net churn rate was stable and our off-net churn rate actually slightly improved from last quarter. Our on-net unit churn monthly rate was 1.2%, the same as last quarter. Our off-net churn rate is primarily driven by the reduction in the acquired Sprint customer base, and it was 1.7%, moderation from 1.9% last quarter. Our wavelength monthly churn rate is less than 0.5%.

Traffic. Our year-over-year IP network traffic growth continued for the quarter. Our IP network traffic for the quarter increased sequentially by 4% and increased year-over-year at an accelerated rate to 14% this quarter compared to the same quarter last year.

Sales rep productivity. Our sales rep productivity was 4.1% this quarter, the same as last quarter and compared to our long-term average of 4.8%.

FX. Our revenue earned outside of the United States, about 21% of our revenues this quarter. Based on the average euro Canadian conversion USD rates, so far this quarter, we estimate that the FX conversion impact on sequential quarterly revenues will not be material and the impact on year-over-year would be a positive of approximately \$1 million. Our revenues and customer base are not highly concentrated. Our top 25 customers represented 16% of our revenues in the quarter.

CapEx. Our capital expenditures were \$46.2 million in this quarter. We have experienced multiple equipment price increases from vendors due to supply chain constraints so far this year. Our principal payments on capital leases were \$13.4 million this quarter.

Debt and debt ratios. Our total gross debt at par, including \$629 million of finance lease IRU obligations, was \$2.4 billion at quarter end, and our net debt, total net of our cash and our \$181.7 million due from T-Mobile, was \$2 billion. Our leverage ratio, as calculated under our more restrictive unsecured \$750 million 2027 notes indentures that we plan on refinancing was 6.1%. Our secured leverage ratio was 3.79%. Our fixed coverage ratio was 2.29%.

The definition of consolidated cash flow under our \$600 million secured 2032 notes indenture includes cash payments under our IP Transit Services Agreement with T-Mobile in the determination of consolidated cash flow. Our anticipated \$750 million secured notes indenture will include the same definition of consolidated cash flow, again, including cash payments under IP Transit Agreement. Our leverage ratio, as calculated under our \$600 million secured 2032 notes indenture was 4.66%. Our secured leverage ratio was 2.9% and our fixed coverage ratio was 3%. Lastly, on bad debt and day sales. Our days sales was 31 days at quarter end. Our bad debt expense was less than 0.5% of our revenues for the quarter.

And with that, I will turn the call back over to Dave.

**David Schaeffer**

*Founder, Chairman, CEO & President*

Okay. Thanks, Tad. I would like to highlight a couple of strengths of our network, our customer base and our sales force. We are direct beneficiaries of increased demand for over-the-top video, AI activity and streaming video trends. At quarter's end, we were able to sell wave services in 1,107 data centers across North America with a reduced provisioning interval of approximately 30 days. We are selling wavelength services as of quarter end to 492 unique customers and 581 unique data center locations. At quarter-end, we are selling IP services globally in a total of 1,929 data centers.

At quarter end, we are directly connected to 7,630 networks. 22 of these networks represent settlement-free peers. 7,608 of those networks are Cogent transit customers. We remain very focused on our sales force productivity and managing out underperforming reps. Our sales force turnover rate was 4.8% per month for the quarter, below our historical average of 5.7% per month. At quarter end, we have a total quota-bearing sales force of 568 reps. This includes 285 professionals focused on the NetCentric market, 269 sales professionals focused on the corporate market, and 14 sales professionals focused on the enterprise market.

We've made significant progress in several areas. We're improving our margins and growing our EBITDA due to our diligence in cost reduction and our focus on selling more profitable on-net services. In the first quarter of 2026, 83% of our sales were on-net services. This increased the percentage of our total base to 62% of all services being on-net. We have a clear path to refinance our 2027 \$750 million unsecured notes with secured \$750 million notes. We are actively working to continue to monetize former Sprint facilities, and we are looking to grow EBITDA, which will further accelerate our de-levering and allow us to re-accelerate our return of capital program to equity.

We're optimistic about our wavelength services business. Our Wavelength services are differentiated in quality of service, breadth of footprint, uniqueness of routes and efficiency and provisioning. Our on-net services, both IP and Wavelength, offer unparalleled value to customers. We offer superior services for all of our products, a broad footprint in revenue rich locations, expedited provisioning and disruptive pricing. In summary, we win on value.

Now I'd like to open the floor for questions.

## Question and Answer

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### Operator

[Operator Instructions] Your first question comes from the line of Greg Williams from TD Cowen.

### Gregory Bradford Williams

*TD Cowen, Research Division*

Great. Dave, the first one just on EBITDA. It was a touch light versus the Street in our estimates. You mentioned that obviously, you have the seasonal cost, payroll taxes, CPI, et cetera, and it's up \$7.1 million quarter-over-quarter. How much of that \$7.1 million was the seasonal cost? And maybe talk to the cost takeout progress. Essentially, I'm just trying to figure out the EBITDA cadence next quarter and the balance of the year. Are you still looking for 200 bps of expansion or I think you said greater than 200 bps this year?

And then the second question is just on that data center sales process. You mentioned the 10 data centers you're looking to close this summer. Any color would be helpful in terms of valuation price per megawatt. Is it coming close to the \$10 million a megawatt? Maybe just generally characterize them versus the other 14? Are they better, same, worse, larger, smaller? Any help.

### David Schaeffer

*Founder, Chairman, CEO & President*

Thanks for both questions, Greg. So first of all, in terms of EBITDA margin expansion, we historically experienced a reduction in EBITDA margin and an increase in SG&A expenses in the first quarter. This pattern has been in place for 20 years as Cogent has been a public company. The increase this quarter was approximately \$7.1 million. The vast majority of that increase will go away, and we expect to be able to resume our sequential increase in EBITDA margins as well as our year-over-year expansion.

And while we will probably not repeat the roughly 800 basis points of improvement last year, meaning 2025 over 2024, we do expect to be over our multiyear guidance of 200 basis points on a year-over-year basis. With regard to the 10 data centers, the aggregate proceeds are substantially more than the \$144 million. These 10 represent a pretty good average across the 24 data centers that we are looking to divest of. It does not include our largest data center or our smallest data center that we are looking to sell. We also have a number of other parties conducting due diligence on multiple other data centers. We are focused on getting this transaction completed early summer. And then using those proceeds to be able to rapidly delever at the Cogent group level.

Just to remind investors, the data centers are held at Cogent Infrastructure, which is not a borrower under our high-yield indentures. We have committed and we'll continue to commit to contribute the proceeds of these 10 data centers that are being divested of to the borrower group and then use that money to rapidly delever both on a gross and net basis.

### Operator

Your next question comes from the line of Sebastiano Petti from JPMorgan.

### Sebastiano Carmine Petti

*JPMorgan Chase & Co, Research Division*

Dave, I think last quarter, we talked about hitting an inflection point where the growth in the organic business would offset the Sprint declines, but despite favorable currency, I guess, sequentially here, the business did contract. I mean, just help us think about any onetime anomalies in the business? How should we think about the top line trajectory from here? I think Tad talked about it being neutral on a constant currency basis as we think about the second quarter.

And then any update on the Wave installs just slowed a little bit sequentially here. Is this related at all to the supply constraints that Tad talked about in his prepared remarks?

And I guess relatedly or just to kind of confirm the 25% market share target in waves, is that still anticipated by May 2028? Or should we anticipate the timeline has been extended because it didn't seem you were specific in your prepared remarks.

**David Schaeffer**

*Founder, Chairman, CEO & President*

Yes, sure. So the inflection in revenue was related almost exclusively to several large enterprise customers churning a portion of their off-net revenues. While those were not anticipated, those revenues were out of contract and on a month-to-month basis. The core Cogent business and the on-net business in totality grew both sequentially and year-over-year. Our primary focus is on growing on-net revenues, 83% of all revenues sold in the quarter were on-net, and that will help us increase our aggregate profitability and our free cash flow and EBITDA.

The wavelength install rate was not impacted by our supply constraints, but it was impacted by supply chain constraints of our customers. We have not, as of yet, begun to force build wavelength services. I think this is part of the way we've been able to grow both the number of locations and number of customers that we sell to. The supply chain constraints did hit Cogent in terms of capital equipment from pluggable optics to normal sequential capital installs across our network.

All of our major vendors have had price increases. Actually, our primary vendor had 4 price increases in the 4 -- in the first 4 months of the year. This is counter to a pattern of prices for technology declining.

On wavelength installs, we have seen a variety of customers pushing out their acceptance of wavelengths. We actually provisioned more wavelengths in the quarter than we did in the previous quarter, but the customers did not accept them. That decision to push out acceptance is being driven by constraints. We have seen constraints of power availability in data centers. We've seen customers actually change wavelength termination points to avoid a constraint in one data center in a market moving to another data center. There are equipment constraints from pluggable optics on the customer side to the ability to have GPUs installed to accept wavelengths.

And probably something that should be obvious that people forget is while there is a rapid acceleration of capital for AI training and there have been literally hundreds of billions of dollars annually of announced investments and trillions of dollars in total, almost all of those announcements are not yet online. And in many cases, customers order wavelengths to facilities that are not yet either fully powered or fully constructed. We do think that will ease.

With regard to our ability to gain market share, we have gone from 0% market in 2 years to 3% of the market. Our goal remains to hit 25% of the intercity long-haul market. We feel that is very reasonable based both on the number of locations and the diversity of the customer base. While we are hopeful that we can reach that by mid '28, that is just a little over 2 years from now, and these equipment supply constraints may, in fact, impact that. We are not in a position to make that determination.

**Operator**

Your next question comes from the line of Chris Schoell from UBS.

**Christopher Joseph Schoell**

*UBS Investment Bank, Research Division*

You mentioned the equipment prices stepping up from vendors due to the supply chain constraints. But is there anything else causing CapEx to come in higher than that \$25 million per quarter run rate you previously spoke to? And should we assume this level of capital spending will persist in the near term?

And then maybe just one on the sales force. It appears that head count has been stepping down consistently. What is the main driver there? And do you believe you can still hit your revenue targets with a lower headcount?

**David Schaeffer**

*Founder, Chairman, CEO & President*

Yes. Thanks for both questions, Chris. So first of all, on equipment pricing, I think there have been two primary drivers that are forcing vendors to raise pricing. The first is the acute shortage of DRAM. And since DRAM is utilized both in optical transport and routing equipment that is causing our vendors to experience a higher cost of goods sold. The second has been a shift in buying patterns.

So historically, service providers represented the vast majority of equipment purchases. Those equipment purchases have become concentrated in a handful of hyperscalers that have exerted very strong pressures on gross margins for our vendors. In order to offset that margin pressure, our vendors have increased prices on service providers while offering the aggressive discounts for volume to hyperscalers.

We don't have enough data to know how all or how material these trends will be going forward, we do expect our capital intensity to continue to moderate. However, these increases in pricing were not anticipated and are not in line with historical trends. This is the first time in Cogent's 26-year history that we've seen the prices of our key technologies increase, not decrease. We do think these are not permanent, but we don't have enough data to fully answer that with conviction.

With regard to headcount, we have tried to manage out unproductive reps. And we have consolidated some teams in order to better affect training. We do believe we will see an acceleration and rep productivity, while on a unit basis, it remained flat, on a dollar of revenue acquired basis, it actually improved materially both sequentially and year-over-year. We expect to see an improvement in rep productivity, both on a unit basis and dollar of revenue acquired. We also are continuing to hire reps and believe that the vast majority of the housekeeping that we have done is behind us now, and we should be at a point where the sales force will stabilize and then begin to resume growth as there is adequate addressable market for our services to allow us to support a larger number of sales reps across all of our products, but holding reps accountable to productivity targets is critical to our ability to hit our margin objectives.

### **Operator**

Your next question comes from the line of Ana Goshko from Bank of America.

### **Anastazia Goshko**

*BofA Securities, Research Division*

So Dave, a few questions, follow-ups. So just on the timing of the data center sales, so you're still at a letter of intent and you said that you expect to close the sale early summer. So that seems like a pretty fast turnaround. I think in the past, you had said it might even take like several quarters to close the deal from the actual agreement.

So a few things. When do you expect that the actual sale agreement will be finalized? And when that happens, will you press release or 8-K that for us with the dollar amount? And then, yes, I just want to confirm, when you say early summer, what does that really mean in terms of July or late June?

### **David Schaeffer**

*Founder, Chairman, CEO & President*

Yes. So first of all, the counterparty has been actively completing its diligence with a battery of consultants. They have spent several million dollars on that diligence and it all has been confirmatory. And they have indicated that they would like to accelerate the closing once we have a final purchase and sale agreement in place, they have agreed to shorten the period of time from their LOI expiring to closing. We expect that to be in early summer which would mean probably June or early July at the latest. We will announce the economics and the locations in an 8-K once the deal has been put under a binding agreement with a nonrefundable deposit, and we will disclose the name of the counterparty as well as the exact proceeds.

And finally, we have committed that those proceeds will be contributed to Cogent Group, the borrower and that those proceeds will be earmarked for net delevering. And in some cases, a portion of those proceeds will also be used for gross delevering.

### **Anastazia Goshko**

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*BofA Securities, Research Division*

Okay. So just to put that maybe in kind of simpler terms. So are you saying a portion of the proceeds will go to pay down debt, but not all of them?

**David Schaeffer**

*Founder, Chairman, CEO & President*

So we have committed to a group of bondholders, that the vast majority of the proceeds will go to buy back debt but we did not commit to a number that equals the purchase price. We just committed to a number that is a significant percentage of what the final purchase price would be since we did not disclose that information to the bondholders as it is nonpublic at this time.

**Anastazia Goshko**

*BofA Securities, Research Division*

Okay. And then just another follow-up on this. So you had said that you plan to refi the unsecured with the new secured the full \$750 million after the call price drop in June 15. So have you thought about if these proceeds are going to be coming in so soon, why do you need to do the full \$750 million? Could you do a smaller deal and then just use the proceeds to pay down a portion of the bonds that are due in '27, the unsecured?

**David Schaeffer**

*Founder, Chairman, CEO & President*

So the answer is we can do that. But with our current \$600 million secured debt trading at a discount to par, we want to try to capture some of that discontinuity and buy back the current \$600 million secured until they trade closer to par. And then at that point, the additional capital that we have could be used to result in a smaller new issuance. But today, the current secured debt is trading at a material discount.

**Anastazia Goshko**

*BofA Securities, Research Division*

Okay. And then finally, just a quick follow-up on the business model. So on the cost side, you had previously talked about there being \$10 million of annual synergies left from the Sprint acquisition, then also that there were integration costs of about \$3 million a month that should be rolling off this year. So if I put that all together, it's roughly maybe like \$45 million of annualized cost saves that you could theoretically or hopefully, in practice achieve this year. Just wanted an update on where you stand and what that outlook for the actual cost reductions looks like this year?

**David Schaeffer**

*Founder, Chairman, CEO & President*

So we have achieved a small portion of that \$10 million in remaining synergies. And just to remind you, we actually increased that target after we had already achieved the initial targets that we had laid out. The remaining integration work is continuing. That number was running as high as \$5 million a month or \$60 million a year. Today, it is slightly below \$3 million a month, and we expect both of those areas of savings to be complete by year-end. We have not disclosed the exact pacing throughout 2026. But all of these roughly \$45 million in costs will disappear in 2027.

**Operator**

Your next question comes from the line of Frank Louthan from Raymond James.

**Frank Garrett Louthan**

*Raymond James & Associates, Inc., Research Division*

On the wavelengths, what's the average size wave that you're selling now currently? And then on -- were there any dark fiber or IPv4 address sales that helped contribute to revenue or EBITDA this quarter?

**David Schaeffer**

*Founder, Chairman, CEO & President*

Frank, thanks for the questions. I'm going to actually take those in reverse order. There were no dark fiber sales in the quarter, while there was some IPv4 unit activity. Actually, the number of IP addresses leased went down slightly sequentially but the revenue went up. It is a combination of selling at higher prices and continuing to raise prices on legacy orders. We do anticipate continued growth in our IPv4 business. We do not forecast any dark fiber sales. We treat those on an episodic basis and do that only to date with parties as a way to help them out of a bind if we have a route that is particularly critical to their operations. Many -- or to date, the handful of dark fiber sales that we've done have been to counterparties where we have been a customer of theirs buying dark fiber for a number of years.

With regard to Wave sales, the vast majority of our waves have been 100 gig waves. We are seeing an increase in the number of 400 gig waves and a significant decrease in the 10-gig wave. I think an average number would be somewhat misleading. I think looking at that on a model basis is the best way to do that. And roughly about 75% of our sales have been 100 gig waves.

**Frank Garrett Louthan**

*Raymond James & Associates, Inc., Research Division*

Yes. That's kind of how I was thinking about it. So 75% of 100 gig waves, what was that last quarter? And of that 25%, are they substantially 400 gig wave? Is that the way to think about it? How much is that 400 gig wave growing as a percentage of your new sales?

**David Schaeffer**

*Founder, Chairman, CEO & President*

Yes. So the 100 gig percentage has remained relatively constant. I think it was 78% the quarter before. And of the remaining 25%, there definitely has been a shift away from 10 gig sales and a shift towards 400 gig sales with today, over 10% of sales being 400 gig sales.

**Operator**

Your next question comes from the line of Walter Piecyk from LightShed Partners.

**Walter Paul Piecyk**

*LightShed Partners, LLC*

Dave, on these data center sales that are coming up, I guess just getting back to Ana's question. Is there anything that forces the buyer to act by a certain period of time? Otherwise, is there a risk that they understand the dynamics of your refi coming up on the \$750 million in June of next year and try and push that out as a leverage point to impact price. Can you just give us a little bit more on those terms as well as what is it that you had to consent pay off, whatever it is on the 2032 noteholders to get them? I think you were saying to effectively enable the refi in the '27, I don't necessarily understand that connection if you could put a little bit more color on that.

**David Schaeffer**

*Founder, Chairman, CEO & President*

Yes. Sure, Walt. So first of all, we entered into a letter of intent that has exclusivity for the intended buyer on these data centers. That period of exclusivity ends, those -- some of those facilities have backup agreements that are ready to spring into force if the exclusivity period is allowed to lapse. So there is a significant amount of pressure on the buyer to inoculate themselves from a counter offer.

Secondly, they have spent in excess of \$3 million on diligence, and they are in the process of rounding out their management team to absorb these facilities. So we believe they are going to move forward, but the biggest lever that we have is a counteroffer that would spring in if their exclusivity period lapse. They have indicated to us that they actually want to shorten the window from the exploration of that exclusivity period to closing. And that's what gave us confidence and our decision to announce early summer rather than later in the summer.

To pivot to your second question about the current 32 note bondholders, while we have every right under our indentures to do the IRU realignment that we disclosed on our last earnings call, in discussions with many of those bondholders they preferred a more traditional way of giving us the flexibility to increase our secured leverage. While we have a substantial amount of capacity for additional leverage, we were constrained by the 4x net leverage limitation that's embedded in the 32 notes, and it will be their decision to increase that to allow us to fully refinance the \$750 million with a single unitary secured issue. And in doing that, they would then be in a position to see us not realign the IRUs and keep those with their associated debt and the borrower group.

**Walter Paul Piecyk**  
*LightShed Partners, LLC*

And do you anticipate -- if all goes well, you sell the data centers ahead as you told Ana, take down secured, refi the \$750 million, what type of rate do you anticipate? I think you're paying 7% on that now, same rate low or higher?

**David Schaeffer**  
*Founder, Chairman, CEO & President*

Yes. We are paying 7% on the current unsecured bonds. Our current secured bonds are trading at just around 8% today. I believe our new issue will most likely price off of the trading of those bonds and will be somewhat similar. We'll have both a new issue concession. It's typically about an 8 point, and it could have a small variance based on duration. If we sell the data centers use a portion of the proceeds to buy back bonds, it is likely that the current secured bonds will trade asymptotically to par, which is 6.5% and then it would allow us to finance probably at a similar rate.

While I can't predict the exact trading off the bonds, the sequencing of completing the data center diligence period, converting into a binding agreement, announcing it along with the announcement that Tad mentioned around the exact mechanics of our agreement with the majority of the bondholders and then earmarking the exact amount of dollars that will go to repurchasing bonds of the current 32. And then to Ana's point, maybe a portion of that money maybe held in advance and just allow us to refinance a slightly smaller amount of money than the \$750 million, that's outstanding.

But all of this is designed to drive down our cost of borrowing and make our new bonds similar to where our existing bonds are, which I think is an achievement considering the aggregate increased cost of capital since those bonds were issued.

**Walter Paul Piecyk**  
*LightShed Partners, LLC*

I mean my guess is operational performance like sequential revenue growth and wavelengths growth will probably have a bigger impact on where the secured debt trades relative to some asset sales relative to a much larger debt load. But I guess what would be helpful is understanding why would unsecured trade at parity was secured?

**David Schaeffer**  
*Founder, Chairman, CEO & President*

Well, today, the unsecured actually trade at a discount to secured. Our current unsecured trade at roughly 7.1 and our secured trade at about 8.1.

**Walter Paul Piecyk**  
*LightShed Partners, LLC*

Why do you think that is?

**David Schaeffer**  
*Founder, Chairman, CEO & President*

I think it's primarily duration.

**Walter Paul Piecyk***LightShed Partners, LLC*

Okay. But then the rate market will obviously have an impact. Just one last in terms of understanding cash burn. The CapEx, I think you said last year or 2026, not excluding capital lease obviously, should have been about \$100 million for this year, a big cutdown for the variety of reasons that you guys have talked about. You were at \$46 million for the first quarter. Is it just going to drop off a cliff in future quarters? Or should the CapEx run rate maybe be higher than the \$100 million that you talked about?

**David Schaeffer***Founder, Chairman, CEO & President*

Yes, Walt. So our CapEx on a Q1 '25 to Q1 '26 dropped by about \$13 million. So it dropped from roughly \$59 million to \$46 million.

**Walter Paul Piecyk***LightShed Partners, LLC*

But up sequentially.

**David Schaeffer***Founder, Chairman, CEO & President*

Well, typically, declines in fourth quarter and steps up in Q1, again, like our SG&A. We do anticipate our CapEx coming down on a year-over-year basis. But as I mentioned and Tad mentioned in the prepared remarks, we have been shocked by the fact that our equipment vendors have actually raised prices, which is highly unusual in a technology business. We think those may be over. And if they are, we'll be much closer to the \$100 million number. If there are future increases in equipment that will push up our costs, primarily for pluggable optics, which are probably the largest single item that we spend capital on.

**Walter Paul Piecyk***LightShed Partners, LLC*

Okay. Just one last follow-up, Dave. Just again, going back to the Ana's question. She's obviously as a debt analyst, a lot smarter about this stuff than I am. What -- I guess if it's trading at a discount today, right, and you're like, oh, if it's a par when it's time to refi, like why bother then with the secured note if it's at par, then take a smaller unsecured note out? I mean, shouldn't that..

**David Schaeffer***Founder, Chairman, CEO & President*

That may be the case, Walt. That's why I said we will look to capture discontinuity while the current secures are trading at a discount.

**Operator**

Your next question comes from the line of Tim Horan from Oppenheimer.

**Timothy Kelly Horan***Oppenheimer & Co. Inc., Research Division*

I think, Dave, on the data center sale, the binding sale agreement, does that have to occur like a month before the final close? Or can you give us some color around that? And can you talk about a little bit more color where you are with selling the other data centers roughly will be the same price? And when do you think you'll be able to kind of have a letter of intent?

**David Schaeffer***Founder, Chairman, CEO & President*

Yes. Thanks for the question, Tim. So first of all, the period between contract signing and closing has actually been shortened at the purchasers request. Normally, you would have a window of up to 90 days from binding agreement to sale. This is substantially shorter than that, and that's what gives us

confidence that we will end up closing this in early summer. And then in terms of the other data centers, we are in discussions with multiple counterparties, some for just one facility, some for several, some are in kind of a backup position to the current party and we've informed them of the likelihood that the current party is moving forward. We have tried to focus our data center resources on getting this initial 10 centers over the finish line. And then for the remaining 14 we will hopefully be in a position to work more expeditiously to getting some of those deals move along, but we've really tried to keep resources focused on getting this deal closed.

**Timothy Kelly Horan**

*Oppenheimer & Co. Inc., Research Division*

And then, Dave, on the wavelength side, could you give us your best guess then on when you think you can hit 25% share? And can you just talk about the dynamics of where you are winning share? Is this -- is this new builds? Is it when contracts expire? Is it moves? Or is it because they're increasing from 10 meg (sic) [ gig ] to 100? Any more color would be great.

**David Schaeffer**

*Founder, Chairman, CEO & President*

Yes. So first of all, it's kind of all of the above in terms of our wins. We are winning existing waves with customers that are frustrated with their current supplier. We are winning waves from customers who are increasing their throughput. We are winning waves due to locations shifting and the breadth of our footprint. And we are winning brand new builds, particularly from hyperscalers and neoclouds, which are new to the market.

With regard to getting to a 25% market share, we feel very confident that we will achieve that level. Doing it in a little over 2 years, does become harder as we see the current rate of installs not being accepted by customers. We are working as diligently as we can to install if customers are ready to accept. I think we'll need another quarter or two to be able to definitively answer that question. But we do see a significant pent-up demand for the locations, the routes and the price points that we are offering.

**Operator**

Your next question comes from the line of Nick Del Deo from MoffettNathanson.

**Nicholas Ralph Del Deo**

*MoffettNathanson LLC*

Turning back to CapEx. Just to be clear, was all the increase this quarter versus what you've guided to attributable to higher prices? Or were there more units of equipment you purchased or inventory build, anything like that going on?

**David Schaeffer**

*Founder, Chairman, CEO & President*

Yes. So as I mentioned in Walt's answer, our CapEx was down \$13 million on a year-over-year basis. It's -- that was probably about half of the level of reduction that we would have anticipated and would have been kind of on plan. I would say that the majority of the overruns came from price increases, but there was also some preordering of equipment that we're concerned about delivery schedules on. And we have probably increased our forward purchases almost double what we would normally do as shipping windows have stretched from normally somewhere between 60 and 90 days. We actually have one vendor today quoting 15 months for deliveries on key items, another vendor quoting 9 to 12 months. And these were items that historically would ship in 2 to 3 months. So we are also preordering just based on these elongated shipment windows. But I would say the majority of the increase came from price increases to date.

**Nicholas Ralph Del Deo**

*MoffettNathanson LLC*

Okay. That's helpful. And then separately on the corporate front, we see from various data providers that leasing in certain metro areas in the U.S. has ticked up quite noticeably as vacancy rates are coming down and whatnot. I'm wondering if you're seeing improving corporate sales trends in those markets? And if so, what that might suggest about corporate growth prospectively?

**David Schaeffer**

*Founder, Chairman, CEO & President*

Yes. So our footprint is heavily concentrated in Class A buildings, which tend to be the first building to recover leasing activity. However, the aggregate vacancy rate and our footprint still remains about triple what it had been historically pre-COVID. So while it is improving, it is improving at a slow pace. Our corporate organic business is growing at around 4% to 5% annually. The decline in corporate has been almost exclusively off-net and almost exclusively former Sprint customers. Our aggregate Cogent revenue in the 3 years since deal closing has grown at 28%. That results in about an 8% compounded growth rate that has obviously helped by wavelength sales and IPv4 leasing, but we have seen an improvement in corporate on-net growth we have not seen a significant improvement in corporate off-net even for Cogent sales, and we are continuing to see a decline in off-net Sprint corporate as well as an even more accelerated rate of decline in Sprint Enterprise, which is now Cogent Enterprise and is roughly 88% off-net.

**Operator**

And there are no further questions. I will now turn the call back over to Dave Schaeffer for closing remarks.

**David Schaeffer**

*Founder, Chairman, CEO & President*

Okay. Thank you all very much. We appreciate everyone taking the interest in Cogent, and we look forward to seeing you at some conferences soon. Take care all. We'll talk soon. Thanks. Bye-bye.

**Operator**

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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