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

## *Earnings Call*

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# Call Participants

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## EXECUTIVES

**David Schaeffer**

*Founder, Chairman, CEO & President*

**Thaddeus G. Weed**

*VP, CFO & Treasurer*

## ANALYSTS

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**Frank Garrett Louthan**

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

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# Presentation

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## Operator

Good morning, and welcome to the Cogent Communications Holdings Third Quarter 2025 Earnings Conference Call. As a reminder, this conference call 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 the 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, everyone. Welcome to our third quarter 2025 earnings call. I'm Dave Schaeffer, Cogent's Chief Executive Officer. And with me on today's call is Tad Weed, our Chief Financial Officer.

I'd like to recognize a number of significant events in the quarter and discuss a few matters and then turn things over to Tad. First, our program of return of capital and our aggregate leverage. Following extensive discussions with our Board of Directors and engagement with shareholders and bondholders, we have refined our capital allocation priorities to strengthen our financial flexibility and accelerate our delevering strategy. The decision to reduce our quarterly dividend to \$0.02 per share per quarter was made after careful evaluation and will allow us to redirect capital towards reducing leverage, while remaining a disciplined approach to shareholder returns.

Supported by our growth in EBITDA, recurring cash inflows under our IP Transit agreement and continued operational efficiencies, we will reduce our net leverage ratios. These actions position us for long-term growth and enhance the financial resiliency of our business. We intend to maintain our updated dividend policy until we reach a net leverage target of 4x EBITDA on an LTM basis. On our last earnings call, we stated that we believe our leverage had peaked on an LTM basis. We also indicated that amounts due to us under the T-Mobile payments on our transit agreement and purchase agreement should be considered in calculating our leverage ratios. We believe these amounts essentially represent both short-term and long-term cash amounts based on the credit quality of T-Mobile.

Our total gross debt as adjusted for these amounts of T-Mobile for the last 12 months EBITDA as adjusted ratio was 7.74 last quarter and was reduced to 7.45 this quarter. Our net leverage ratio was 6.61 last quarter and 6.65 this quarter. T-Mobile pays us \$25 million each quarter through the fourth quarter of 2027 under the IP Transit services agreement. These payments will be -- will reduce the total amount due to us each quarter from T-Mobile. We are also temporarily suspending our stock buyback program.

Now, for a couple of comments on our data center divestiture and monetization. In early October, we entered into a nonbinding letter of intent with a credible counterparty to sell 2 of our larger data centers out of the 24 data centers that we had repurposed. This agreement calls for a cash payment of \$144 million. The counterparty has demonstrated to us the ability to complete this transaction and is completing its due diligence. We are in the process of finalizing the asset purchase agreement. We intend to monetize all 24 of the data centers, either through outright sales as with this \$144 million transaction for 2 facilities or by leasing the acquired space on a wholesale basis. We are in active discussions, negotiating LOIs with other parties that we feel are credible to purchase or lease these facilities.

Now, for a couple of comments on our wavelength trajectory. At quarter-end, we're offering wavelength services in 996 data centers with the capability of provisioning 10-gig, 100-gig and 400-gig services within a 30-day installation window. Our wavelength services revenue in the quarter was \$10.2 million, an increase by approximately 93% on a year-over-year basis. And on a quarterly sequential basis, our wavelength revenue increased 12%. At the end of the quarter, we had sold and provisioned waves in 454

locations as opposed to the 418 data centers that we had installed waves in at the end of Q2. We currently have a backlog and funnel of wave opportunities of 5,221 opportunities. We intend to continue to capture market share and believe our goal of 25% of the highly concentrated long-haul wavelength market in North America in 3 years is achievable.

Our EBITDA increased sequentially to \$48.8 million, and our EBITDA margin increased sequentially by 50 basis points to 20.2% from continued cost reductions and product optimization. Our EBITDA as adjusted increased to \$73.8 million, and our EBITDA as adjusted margin increased sequentially by 70 basis points to 30.5%.

Our IPv4 leasing activity materially accelerated. Our IPv4 leasing revenue increased by 14.1% to \$17.5 million on a sequential basis. And on a year-over-year basis, revenues from IPv4 leasing increased 55.5%. Our average revenue per IPv4 leased in the quarter was \$0.31 per address due to some larger wholesale leasing activity. We were able to accelerate this growth by entering into these more flexible agreements. We were leasing 14.6 million addresses at the end of the quarter, a sequential increase in the number of leased addresses of 10.7%. We have in inventory a total universe of approximately 38 million addresses.

We have essentially completed the integration of the Sprint network and the repurposing of the facilities that we deem appropriate for data center activity. As a result of this, there was a significant reduction in our capital expenditures in the quarter. At quarter-end, we were providing services in 1,686 carrier-neutral data centers and 186 Cogent data centers. The Cogent data centers have an aggregate of 214 megawatts of installed and available power.

We anticipate our long-term annual revenue growth rates will be between 6% and 8% and an increase in our EBITDA as adjusted margins of approximately 200 basis points per year. Our updated revenue and EBITDA guidance are intended to be multiyear goals and are not intended to be used as specific quarterly or annual guidance.

Comment on our revenue. We are nearing the end of grooming of our low-margin Sprint-acquired contracts. As we have stated on our last earnings call, we expect to return to total revenue growth by mid-third quarter 2025. However, our revenue for the quarter declined at \$4.3 million or 1.7%. For the quarter, we experienced a \$1.3 million decline in noncore revenues and an additional decline of \$800,000 in USF revenues. Our high contribution on-net services and wavelength services, both increased in the quarter. Our on-net revenues increased by \$2.9 million sequentially or 2.2% from last quarter. Our wavelength services revenue increased by \$1.1 million or 12.4% from last quarter. And our IPv4 leasing revenue increased by \$2.12 million or 14.1% from the previous quarter. We remain highly focused on selling products that deliver higher margins and allow our EBITDA margins to continue to expand.

Now, I'd like to turn it over to Tad to read our safe harbor language, provide some additional operational metrics, and then we'll close with a few closing remarks and then open the floor for questions and answers.

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

Thank you, Dave, and good morning, everyone. This earnings conference call includes forward-looking statements. These forward-looking statements are based on our current intent, belief 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 releases that are posted on our website at [cogentco.com](http://cogentco.com).

Some comments on overall results. Our revenue for the quarter was \$241.9 million. Our EBITDA as adjusted was \$73.8 million for the quarter, an increase of \$0.3 million, and our EBITDA as adjusted margin increased sequentially by 70 basis points to 30.5%. Our EBITDA as adjusted accounts for payments under our IP Transit agreement with T-Mobile. Under this agreement, we received 3 monthly payments totaling

\$25 million in this quarter and the same as last quarter. We will continue to receive an additional 26 monthly payments of \$8.3 million until November of 2027. There are further cash payments related to lease obligations that we assumed at closing. That totals at least \$28 million. This \$28 million will be paid to us in 4 equal payments from December 27 to March 2028.

We analyze our revenues based upon network connection type, which is on-net, off-net, wavelength and noncore, and we analyze our revenues based upon customer type. We classify our customers into 3 types: NetCentric, corporate and enterprise.

Our corporate business represented 43.5% of our revenues for the quarter. Our corporate revenues decreased by 9.5% year-over-year and sequentially by 3.5%. These decreases in corporate revenue are primarily due to the continued grooming of low-margin off-net customer connections and the continued elimination of acquired noncore products acquired with Sprint Wireline.

Our NetCentric business continues to benefit from the growth in video traffic, activity related to artificial intelligence, streaming, IPv4 leasing and wavelength sales. Our NetCentric business represented 41.4% of our revenues for the quarter. Our NetCentric revenues increased by 9.2% year-over-year and sequentially by 3.1%.

Our enterprise business represented 15.1% of our revenues for the quarter. Our quarterly enterprise revenue decreased by 25.7% year-over-year and sequentially by 8.6% due to a reduction in acquired noncore and off-net low-margin enterprise revenues acquired with Sprint Wireline.

On-net revenues: we serve our on-net customers in 3,537 total on-net buildings. Our on-net revenue was \$135.3 million for the quarter, a small year-over-year decrease of 0.9%, but a sequential increase of \$2.9 million or 2.2%.

Off-net revenue: our low-margin off-net revenue was \$95.1 million for the quarter. That was a year-over-year decrease of 14.5% and a sequential decrease of 6.9%. It was \$7.1 million of the decrease sequentially. We serve these 25,518 off-net customers and 18,400 off-net buildings. Our off-net revenue results are impacted by our migration of off-net customers to on-net and the continued grooming and termination of acquired low-margin off-net contracts acquired with Sprint Wireline.

Some comments on pricing. Our average price per megabit for our installed base decreased sequentially by 10% to \$0.16 and decreased by 31% year-over-year, both amounts in line with historical trends. Our average price per megabit for our new customer contracts for the quarter was \$0.07, a sequential price per megabit decrease of 8% and 15% year-over-year.

Our ARPUs for the quarter: our ARPUs for the quarter were as follows. Our on-net ARPU was \$515. Our off-net ARPU was \$1,225. Our wavelength ARPU was \$2,108. Our IPv4 ARPU was \$0.31 per address for the quarter.

Churn rates: our on-net and off-net churn rates both improved marginally from last quarter. Our on-net unit churn rate was 1.3% compared to 1.4% last quarter, and our off-net churn rate was 2.1%, a slight improvement from 2.3% last quarter.

Traffic: our IP network traffic growth accelerated for the quarter. Our network traffic increased by 5% sequentially and year-over-year by 9%.

Rep productivity metrics: our rep productivity was 4.6 this quarter. It was 4.8 last quarter and 4.0 in the third quarter of last year.

Foreign exchange: our revenue earned outside of the U.S. is about 20% of our revenues for the quarter. The average euro to USD rate so far this quarter was \$1.16 and the Canadian dollar rate is \$0.72. Using these average rates, we estimate that the FX conversion impact on our sequential quarterly revenues would be a negative \$200,000 and the impact of the year-over-year quarterly revenues would be a positive \$2.6 million.

We believe that our revenue and customer base is not highly concentrated. Our top 25 customers represented about 16% of our revenues for the quarter.

CapEx and payments on capital leases, principal payments. Our CapEx declined by 35.5% sequentially and was \$36.3 million this quarter, down \$20 million from \$56.2 million last quarter and down \$23 million or 38.8% decrease from the third quarter of last year. Our principal payments on capital lease were \$8.8 million this quarter, similar to \$8.5 million last quarter.

Some comments on debt and our debt ratios. Our total gross debt at par, including \$601.8 million of finance lease obligations, was \$2.3 billion at quarter-end. And our net debt -- total net debt [ of our cash ] and our \$224.2 million due from T-Mobile was \$1.9 billion. Our leverage ratio as calculated under our more restrictive covenants on our unsecured \$750 million 2027 notes indenture was 5.66, and our secured leverage ratio was 3.49. Our fixed coverage ratio was 2.62. The definition of consolidated cash flow under our \$600 million secured 2032 notes indenture includes payments -- cash payments under the IP Transit Services agreement with T-Mobile in that definition and determination of consolidated cash flow. And those payments totaled \$100 million for the last 12 months. As a result, our leverage ratio as calculated under the \$600 million 2032 notes indenture was 4.39. Our secured leverage ratio was 2.7, and our fixed coverage ratio was 3.38.

Lastly, some comments on bad debt and DSO. Our DSO improved. It was 30 days at quarter-end compared to 31 days last quarter. Our bad debt expense was less than 1% of our revenues for the quarter. It did increase from last quarter, about \$1.2 million, which is not material, but it was only 0.5% of our revenues for the quarter. Last quarter, our bad debt expense was artificially low because we had some bad debt recoveries, which helped our SG&A expenses. But overall, our target and our historical rate is 1% of revenues, and we are -- our results are better than that historical rate.

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

#### **David Schaeffer**

*Founder, Chairman, CEO & President*

Thanks, Tad. I'd like to highlight just a couple of strengths around our network, customer base and sales force. We continue to be beneficiaries of continued migration to over-the-top video, artificial intelligence activities and various other streaming trends. At quarter-end, we were able to sell wavelength services in nearly 1,000 carrier-neutral data centers with expedited delivery capabilities. At quarter-end, we sold IP services in a total of 1,872 data centers across the 57 countries and 302 markets in which we operate. At quarter's end, we were directly connected to 8,043 networks. 22 of these networks represent peers, and 8,021 of these networks are, in fact, paying Cogent transit customers.

We continue to remain focused on improving the productivity of our sales force and managing out those reps that are underperforming. Our sales force turnover rate was 6.6% a month in the quarter, down from a peak of 8.7% during the height of the pandemic. It is, however, above our historical average turnover rate of 5.7% of the sales force per month. At quarter's end, we had 617 quota-bearing reps. Our sales force includes 294 sales professionals focused on the NetCentric market, 309 sales professionals focused on the corporate market and 14 sales professionals focused on the enterprise market.

We have modified our return of capital program, allowing us to accelerate the pace of our delevering. We are actively working to monetize our acquired Sprint assets such as the data centers that we do not feel are core to our business and will allow us to further accelerate that delevering and allow us to resume our return of capital to our equity holders.

We have effectively completed the integration of the former Sprint network and buildings into the Cogent infrastructure, and now, we operate a single unified global network. We have completed the conversion of the Sprint facilities that we deemed appropriate to be converted to data centers. And as a result of this, we anticipate a continued reduced level of capital spending going forward.

We are optimistic and enthusiastic about our wavelength services business. While we have installed more wavelengths than customers have actually accepted, we are seeing changes in customer behavior and believe we will be able to accelerate the revenue recognition from these wavelength services going forward. Our wavelength services are differentiated by the quality and reliability, the uniqueness of the routes, ubiquity of our footprint and the speed at which we can install these services. Since our inception,

we have built our business on offering superior services, expedited provisioning and disruptive pricing. That is why Cogent is a market leader in the services we sell. With that, 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 with TD Cowen.

### Gregory Bradford Williams

*TD Cowen, Research Division*

Dave, first question is on the dividend cut. Do you see the company returning to a \$4 dividend level as you reach that 4x leverage? Or would it sort of ramp up and do you see it at that level at some point in time? And I ask that because with your diminished ownership, just trying to understand if a sizable dividend is still part of the DNA of the stock.

Second question is on the data center sale. Nice to see a couple sold here. Can you help us with the valuation? How much was it per megawatt? And when you think about the remaining 22 data centers or potential data centers, could they set similar valuations? Or did you just sell sort of the higher tier ones? I know you said these 2 were larger than the others. So I was wondering if that valuation will be sort of sustainable with the remaining facilities.

### David Schaeffer

*Founder, Chairman, CEO & President*

Yes, sure. Let me try to answer both of your excellent questions, Greg. First of all, on the reduction in the dividend until we reach a net leverage target of 4x. This was not taken lightly. It was actively debated by the Board, and we weighed feedback from equity holders, as well as feedback from bondholders, and we felt in aggregate, this was the best strategy. Two, once we have reached that target, we are committed to continuing to return capital to shareholders at a similar rate to what we were doing previously. What I cannot commit to is an exact restart where we left off on a per share per quarter rate. We also may be more aggressive in doing buybacks than dividends. But our commitment is to return all surplus capital to shareholders beyond the capital that is needed to run the business. As you can see from our accelerating rate of EBITDA growth that we will be able to delever more rapidly now and then continue that EBITDA growth to be able to return even larger amounts of capital per quarter to shareholders ultimately.

Now, with regard to the data center sales, we have a number of other LOIs in negotiations. We have, I think, groomed the pool of parties we're talking to, to only those that we feel comfortable can actually perform. The 2 facilities that have been agreed to are representative of the base. We are very pleased with the price per megawatt, and it is definitely within the range that we would have anticipated for the entire portfolio. However, I am not comfortable in disclosing that because that would then set a benchmark for our other negotiations. And in some cases, some of those negotiations are going to yield higher prices per megawatt. Each facility is slightly different based on its size, current power availability and potential for future power augmentations. So I'm reluctant to put an exact price per megawatt out into the market because then I'm locking, I think, the company into capping what we will receive on the other negotiations. And at this time, I expect at least some of the other facilities could potentially yield even higher prices per megawatt based on the unique characteristics of those facilities.

### Operator

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

### Frank Garrett Louthan

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

Great. Can you talk to us a little bit more about the run rate on the waves? You'd stated hitting a run rate of \$20 million to \$25 million, I think, by year-end. Just talk to us about that. And then, on the products you're selling, is it mostly 100-gig waves? And any thoughts on your ability to capitalize on demand for 400-gig and 800-gig waves with your current network?

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

Yes. Sure, Frank. I'm going to actually take those in somewhat reverse order. We are capable today of selling 10-gig, 100-gig and 400-gig across the entire footprint that we have outlined. While the equipment in our network can actually support 800-gig and even 1.6 terabit interfaces, those interfaces for customers are not readily commercially available, and there really is no commercial market today for 800-gig. But our network at all sites will be capable all the way up to 1.6 terabits per wave as that market develops.

In terms of the mix, today, roughly 79% of our wave sales have been at 100-gig. That is very different than the aggregate market, which is today dominated by 10-gig wavelengths. And there is a product rotation that is ongoing across the industry where customers who had previously had 10-gig waves are now migrating to 100-gig. And then, there is further migration from 100-gig to 400-gig waves. Today, just under 10% of our sales have been at 400-gig, but we expect that to continue to accelerate. We have the capability to provide any to any data center connectivity. I know you wrote an extensive research piece on the total market for wavelengths. While we can serve the long-haul, the regional and the metro market, our greatest competitive strength is in the long-haul market because of the uniqueness of our routes, but we will be able to sell an end-to-end wavelength product that will include both metro and regional, as well as the long-haul, in a single unified product, which gives us a large addressable market.

Now, with regard to the acceleration in wavelength sales, we are continuing to build a funnel. We installed more wavelengths this quarter than the previous quarter and expect that trend to continue. As I commented in my prepared remarks, we have still installed more wavelengths than customers have accepted. We are actually encouraged by the fact that there's been a competitive response by other providers in the market to shorten their provisioning windows. That may sound counterintuitive, but it's actually helping us condition customers to take wavelengths as quickly as we can provision them.

Now, with regard to our exit run rate, it is highly dependent on customers' acceptance. To just clarify, we had talked about a monthly exit run rate at the end of Q4 that would get us to a quarterly rate of \$20 million to \$25 million. It is extremely dependent on the customers' acceptance of the waves that we have installed. At this point, we don't have enough visibility sitting here, the first week in November, to absolutely say that the backlog that we have installed will actually be accepted by year-end, but we are hopeful. Hopefully, that answered all your questions, Frank. Okay.

**Frank Garrett Louthan***Raymond James & Associates, Inc., Research Division*

Great. And are you still confident in your long-term goal of wavelength revenue on an annual basis?

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

Yes. We absolutely believe that we will capture 25% of the addressable market. And while the entire North American addressable market is \$3.5 billion today and growing because of AI demand, we feel that the \$2 billion, which represents the long-haul portion of the market, is where we have the greatest competitive advantage, and we should be able to capture 25% of that or a \$500 million run rate.

**Operator**

Your next question comes from the line of Walter [ Piecyk ] with LightShed Ventures.

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

It's Piecyk and LightShed Partners in this particular role, as you know, Dave. Just on the wavelength, so the \$20 million run rate, I think you talked about last quarter exiting the year, or maybe I missed it when you were just responding. Is that -- are you expecting to hit that? And I think there was some maybe a little confusion last quarter whether that doesn't necessarily imply \$20 million for the quarter, just the run rate that you're exiting as of December 31.

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

I'll take those again in reverse order, Walt. To be clear, and I thought I was clear enough both on the call and in subsequent conversations, it was a monthly run rate that would get us there, so not a revenue run rate for the full quarter, but an exit run rate. And then two, just reiterating what I said in answering Frank's question, to the first part of your question, while we will install enough wavelengths to hit that target, I am not today confident enough that the customers will accept them and we can start recognizing that revenue, although...

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

Even for the \$20 million run rate, yes. I understand. Got it. Understood.

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

And we are encouraged by the fact that the gap between installation and acceptance is shrinking.

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

Got it. Dave, there's been some -- I mean, over the course of the quarter, since you had to sell your shares, there's been some conversation about how you get re-upped and how that process works. And obviously, you cut the dividend today, which probably is going to have an impact on the stock, which would present an attractive entry point, although, from a shareholder perspective, there might be questions about that, like if the Board re-ups you after driving the stock down. Is there any discussion in terms of your additional stock getting tied to perhaps the \$500 million wavelength target that you have set out for the middle of 2028? Or should we expect the Board just to re-up you at this depressed level in the stock?

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

So those are ongoing discussions. I am committed to Cogent and currently do not have a contract that will extend beyond the end of the year, but I am in discussions with the Compensation Committee and then ultimately, the entire Board around that. The exact form of those incentives will be based on a number of operational metrics, as they've been in the past. And just to remind you that many management teams set the bar low, so they always hit the performance targets. In my case, I have been, in multiple instances, forfeiting shares because those targets have not been met. And the exact nature of how that program will be put in place is just still an ongoing discussion.

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

Okay. I think you understand maybe the perception issues if it's an end-of-the-year thing not tied to future numbers. But again, that's for the Board to decide. Dave, I want to go back to kind of our core here or what used to be the core. Obviously, wavelength is kind of a new growth opportunity and maybe IP addresses and data centers. In corporate, I saw on Bloomberg that in New York, like vacancies were like at an all-time low compared to COVID. I realize there's some Sprint trimming and there's some, whatever, not on-net stuff that's trimming, but 10% growth in corporate. Like, why is that still happening? And when can that invert or at least stop declining?

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

So our off-net corporate business declined \$7.1 million on a quarter-over-quarter basis. The vast majority of that was acquired Sprint off-net corporate customers. The underlying Cogent corporate on-net business is growing in low-single digits, roughly about 3%. That is clearly not where we were pre-pandemic when

that segment of our business was growing at nearly 11%, but it is a recovery from the low point. In the Sprint customer base, we acquired a mix of corporate and enterprise customers, virtually no NetCentric customers. And virtually all of that business was off-net. We have been aggressively managing out less profitable revenue. It's how we've been able to grow margins even though we have had top line declines that continued this quarter and will continue. There is probably some customer circuits that we lose that we wish we didn't lose because the customer has 5 locations, 3 of which are gross margin negative, and we either raise prices or ask them to turn those services off. They may also turn off the 2 locations that are acceptable margin and we would like to keep. The \$7.1 million corporate off-net decline sequentially was greater than we had anticipated. In aggregate, since we have acquired Sprint, the rate of revenue decline has been over double what it was going into the acquisition because of this intentional grooming. We are near the end of what we can groom. The noncore revenue decline sequentially of \$1.3 million, if we declined at that rate again, we'd have negative revenue.

**Thaddeus G. Weed**

*VP, CFO & Treasurer*

There was only \$1.4 million left.

**David Schaeffer**

*Founder, Chairman, CEO & President*

Yes. It's all gone. And I think this is helping us drive margin expansion.

**Walter Paul Piecyk**

*LightShed Partners, LLC*

If I could just sneak one last one in, Dave. On the data centers LOI on the announcement, what type of due diligence do they have left? And I assume there's some taxation on that or maybe you have some -- I guess, you don't have NOLs, right? You've been giving the cash back through the dividend. But yes, just on the due diligence, what do they have to do? What are the -- what's our risk that it doesn't get finalized?

**David Schaeffer**

*Founder, Chairman, CEO & President*

So there is a detailed list of diligence items. They have third-party consultants verifying the data that we have provided them, inclusive of third parties going and doing site inspections. Probably the most important of those diligence items is actually the verification from the utility of what the utility has verified to us in terms of serving power availability. Because these facilities have been effectively dormant for close to a decade, we initially, before we spent the capital, reached out to each of the serving utilities and confirmed that if we spent the capital that the power would be available. We got those affirmations, and the counterparties that are acquiring these facilities are doing that same utility verification. That's probably the most important point.

And then, in terms of taxes, you are correct, Walt, we have very few usable NOLs left. While we have a significant number of NOLs, they are mostly outside of the U.S., and there is virtually no tax basis in these facilities other than the capital that we have spent to modernize them. And because of bonus depreciation, we have very little basis in these facilities.

**Walter Paul Piecyk**

*LightShed Partners, LLC*

Got it. So what's the tax rate on that? Just like 20%, 30%, 40%? What is it?

**Thaddeus G. Weed**

*VP, CFO & Treasurer*

Well, company tax rate is 25%, effective income tax rate.

**Walter Paul Piecyk**

*LightShed Partners, LLC*

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Even on sales like that? Yes, okay.

**David Schaeffer**

*Founder, Chairman, CEO & President*

Yes. That's federal and state. Yes, that's right.

**Thaddeus G. Weed**

*VP, CFO & Treasurer*

But with bonus depreciation going forward, we do not expect, even if this closes with the \$144 million, that we would have a material income tax liability.

**David Schaeffer**

*Founder, Chairman, CEO & President*

Because we have the bonus depreciation.

**Thaddeus G. Weed**

*VP, CFO & Treasurer*

Right. With the [ tax bill ].

**Operator**

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

**Christopher Joseph Schoell**

*UBS Investment Bank, Research Division*

Maybe just a follow-up on the wave competition. You've talked about a mix of market concentration, route diversity and faster provisioning driving your competitive edge. With Lumen enhancing its provisioning timelines and expanding its wave network, is this taking away from your edge? And has it had any ability -- impact on your ability to scale so far?

**David Schaeffer**

*Founder, Chairman, CEO & President*

So, thanks for the question, Chris. So the answer is, not yet, but we're only 1.5% of the addressable market today, and Lumen is the dominant player. Our largest competitive advantages actually come from the route diversity that we offer and the reliability of our network vis-a-vis others. It is hard to count that as a competitive advantage until you actually have installed customers. So in kind of an early deployment, we had to focus on things such as provisioning speed and ubiquity of footprint. We still have over 3x as many data centers as Lumen that we can connect and provision in what they are alleging their improved provisioning times are in a subset of their data centers. But what they don't have is the uniqueness of footprint that we got from Sprint and the fact that the Sprint network was deployed with a much deeper buried cable that has been cut much less frequently, therefore, resulting in higher reliability, better throughput and ultimately, less future cuts going forward. We monitor the cut activity on a per kilometer basis versus the fiber that we have bought through IRUs. We have bought fiber now from 378 different suppliers around the world, roughly 124,000 route miles of IRU fiber. And across that footprint, the frequency of fiber cuts from IRU fiber, not calling out Lumen specifically, but across the entire base, is 7x that of what we experienced on the Sprint network. And I think that will ultimately be probably our biggest long-term competitive advantage other than pricing. But we feel very comfortable that we're going to continue to gain market share.

**Christopher Joseph Schoell**

*UBS Investment Bank, Research Division*

Got it. If I could just fit in one more. You still sit on a large portfolio of unleased IPv4 addresses. Can you just help us think through why not sell these excess addresses and accelerate the pace of delevering?

And I appreciate, the data centers required investment and due diligence, but would selling this excess inventory be a simple and faster process?

**David Schaeffer**

*Founder, Chairman, CEO & President*

So it would. However, 2 points. The first one is, we have modified our strategy on leasing that saw a material acceleration in our leasing revenue from these addresses. We had previously not leased out addresses allowing the counterparty to sublease them. We removed that restriction last quarter and entered into one large wholesale leasing agreement kind of mid-quarter. That was partially reflected in our revenue. And we have a second one of those agreements [indiscernible] today. We think that's a significant additional addressable market. And while it does yield a lower revenue per address per month, it does allow us to deplete the unleased inventory much more rapidly than through our direct sales efforts by going through these brokerage or wholesale type counterparties. We then can use that revenue to raise ABS capital at very attractive rates. And the alternative would be an outright sale, which to Walt's point, would have tax consequences because we have no basis in these. But also the market for these addresses has softened on a sale basis because the 2 largest buyers in the market have not been active buyers in the past 24 months. And as a result of that, while there is a broad market, I'm not sure the market is deep enough to absorb the type of volume that we would bring to market. So I think our leasing strategy at this point is the best way for us to generate cash and provide incremental financial flexibility.

**Operator**

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

**Nicholas Ralph Del Deo**

*MoffettNathanson LLC*

First, regarding wavelengths, I think in your remarks, you said that you installed more than have been accepted by customers, you're observing changes in customer behavior, and you're confident that you will accelerate the revenue recognition from waves. I guess, can you expand on those comments a bit, and as part of that, perhaps share the number of provisioned but not yet billed waves that you have to give folks comfort in the outlook you've shared?

**David Schaeffer**

*Founder, Chairman, CEO & President*

Yes, sure. First of all, thanks for the questions. Let me start with the change in behavior. With our competitors offering accelerated provisioning, we are seeing customers now ordering waves with the expectation that they'll be delivered in a shorter window. Now, some of that could be the confidence that we're building with that customer based on our existing installed track record. Some of it could be the belief that the industry is changing. It's hard for us to disaggregate that. In terms of installed but not billed, it's several hundred waves that are in place today, sitting there waiting for customers to accept them. And with IP services, we do have a mechanism where we require the customer to start paying even whether they have affirmatively accepted or not. We are still probably several quarters away from implementing that same policy to our wavelength products. We are a new entrant. We have 1.5% market share. And what we don't want to do is alienate customers through forced billing that would then preclude them from giving us the opportunity to bid on a greater percentage of their wavelength demand.

The other thing that has been encouraging to us has been the fact that customers increasingly are choosing us because of the uniqueness of the route. It's something we expected. But until we had a large enough base, a couple of thousand waves installed, we needed to really hear from the customers why they're buying. And while the city pairs are available from any of our competitors, the actual routes that we're on in most instances, there is no other provider on those routes. And that has turned into, I think, in many ways, today, our most significant advantage. And if I think longer term, I think the greatest advantage that we're going to have is just demonstrating to customers the infrequency of cuts on our network versus the networks that they're more accustomed to. So the measure of quality is multidimensional. I think we're trying to win in every one of those dimensions.

**Nicholas Ralph Del Deo***MoffettNathanson LLC*

Okay. That's helpful color, Dave. You kind of -- along those lines, the backlog was up. It wasn't up a ton. I guess, to what degree is that a function of demand or how focused you are with certain customers for sales versus the dynamic you described where customers are ordering closer to when they need the waves because they understand that they'll be provisioned relatively quickly?

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

It's a little hard, again, to disaggregate what's driving customer behavior. I also think we have really tried to discipline the sales team around trying to sign orders that will install more quickly. We fully recognize that we can't go on continuously installing more than we recognize revenue for. And while the sales rep does not get paid a commission until the service is installed, we've put some additional incentives in place to help them drive customers that will accept quickly. It will take several months for all these programs to kind of play out.

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

And just to clarify, the commission is paid when billing starts.

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

That's correct.

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

Not on installation. They get paid when we get paid.

**Nicholas Ralph Del Deo***MoffettNathanson LLC*

All right. That sounds good. And can I -- sorry, can I slip in one last question on a different topic. Dave, you alluded to this in your prepared remarks about the inflection to positive revenue growth in mid-Q3. I guess, it wasn't obvious if that happened in September versus August. But I guess, more importantly, should we expect full quarter revenue growth Q4 versus Q3?

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

I believe we will see positive revenue growth. It did happen late in the quarter. And the one caveat to that -- and we did see more off-net corporate churn in the quarter than we anticipated. Some of it was collateral damage to other services that we terminated intentionally. I think that's behind us, and we do anticipate returning to aggregate positive growth.

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

And noncore revenue is now down to \$1.4 million.

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

Yes. We can't lose another \$1.3 million sequentially if there's only \$1.4 million total left. So we've got some things, and we don't anticipate the incremental headwind from USF as well. So I think there were just a confluence of things this quarter, whether it be late inflection towards the end of the quarter and these additional headwinds. But we are on the trajectory to total top line growth.

**Operator**

Your next question comes from the line of Michael Rollins with Citi.

**Michael Ian Rollins**

*Citigroup Inc., Research Division*

Dave, just maybe a few follow-ups. First, can you share -- if you go by your segments, corporate, NetCentric, et cetera, enterprise, can you share how much of the legacy revenue subject to churn is left? And I have a few other follow-ups, if you don't mind, afterwards. So as we just think about like what the remaining pressure is in each of the pieces, including even in that \$1.4 million left of noncore?

**David Schaeffer**

*Founder, Chairman, CEO & President*

Yes. So there was virtually no NetCentric revenue acquired from Sprint. The vast majority of the revenue was enterprise and a smaller percentage, but not immaterial, was corporate. The aggregate rate of decline of acquired Sprint revenue has been nearly 24% annually. It was 10.6% average negative decline for the 3 years prior. We have groomed virtually everything we want to groom. What we don't have visibility to perfectly is for the business that is left from those customers, which we're happy with and the customers are still using, how much of those services will still churn off because the customer had other services that they wanted to keep with us that we could not keep. Of the noncore revenue, it's down to \$1.4 million. It's -- probably 80% of its still left is ex Sprint. I'm not going to say there was 0 Cogent noncore. It was very small pre-acquisition. But yes, it's probably a couple of hundred thousand. And then, in the corporate off-net segment, there still remains some Sprint revenue and 100% of the enterprise revenues, which represent about 15% of our revenues, are still from the enterprise customer base.

**Michael Ian Rollins**

*Citigroup Inc., Research Division*

And maybe secondly, you talked about the wave business in terms of the different dynamics of 10-gig, 100-gig, 400-gig. What are the ARPU differentials between these different points as the mix shifts more towards 100-gig and 400-gig and maybe more over time?

**David Schaeffer**

*Founder, Chairman, CEO & President*

Yes. So the ARPUs are determined by 3 inputs: the physical length of the pack, the size of the wave and the duration of the contract. Kind of the range across all 3 of those metrics goes from about \$500 a wave to about \$8,000 a wave. Our ARPU in the most recent quarter was \$21.08. And I'll just pick kind of a typical, say, 1,500-mile wave. If you did that at a 10-gig rate, it would probably be \$600 to \$700. At a 100-gig rate, it would probably be \$1,600, \$1,700. And if it's a 400-gig wave, it would probably be somewhere around \$4,000. So, that just gives you a sense. But it's a little hard to answer it exactly because you've got to look at all 3 inputs on a wave-by-wave basis to get to exact pricing.

**Michael Ian Rollins**

*Citigroup Inc., Research Division*

That context is really helpful. And maybe just one more. Going back to the dividend cut and pausing the buyback simultaneously, can you give us a little bit more insight into the conversations that changed at the Board level? Where, if you look at the variances in financials in the quarter versus the severity of the action that you're taking on capital allocation, can you give us maybe a list maybe in order of importance to the Board of what really changed and over the time frame that these conversations really accelerated?

**David Schaeffer**

*Founder, Chairman, CEO & President*

Yes. So 2 very different timelines. The first one is on the reduction in the dividend. We have a very specific target before we reaccelerate the dividend, and that is a leverage target. For the buybacks, we view those as more episodic. They have been temporarily paused, but they are not necessarily tied to the same

endpoint. The second point and maybe the more important one that you asked is what changed. And I would say, the 2 inputs that the Board looked at from 2 different capital markets weighed heavily on their decision. They looked at the trading of our secured bonds and the fact that they had traded off to about [ 96 ], and they were concerned that those bondholders were concerned with aggregate leverage. The unsecured bonds continue to trade above [ 99, like 99.5 ]. And we view that as a less relevant input because of the short duration. But because the secured debt had a 7-year maturity, I think the sell-off in those bonds really had the Board focus on that constituency in our capital stack as part of their decision process.

I think the second thing that the Board looked at was the violent reaction of the stock last quarter to my forced sales. Now ultimately, the stock recovered for the most part, but there was a clear decoupling of the dividend yield from the stock price. And I think the Board looked at that and said, it was an indication that the equity holders did not believe the sustainability. So with those inputs, I think the Board realized that it would be in the best interest of all of our stakeholders to put a firm marker in the ground around what an acceptable net leverage target would be, and then two, a program that would help us get there as quickly as possible.

### **Operator**

Your next question comes from the line of Michael Ng with Goldman Sachs.

### **Michael Ng**

*Goldman Sachs Group, Inc., Research Division*

I just wanted to ask about wavelengths and customer acceptance. I just wanted to kind of revisit this concept. Are these orders that you have in hand and there's a certain performance obligation before a customer accepts and you get revenue? Or is this more about you guys converting that [ fallow in ] connected capacity, dark fiber to lighting it up and then expecting to get an order after having that installed capacity? Any thoughts there would be helpful.

### **David Schaeffer**

*Founder, Chairman, CEO & President*

Yes. Thanks for the questions, Michael. So we do not pre-provision any capacity. Each wavelength is built on an order-by-order basis. What we are referring to are wavelengths that customers have ordered, have signed contracts, we have installed, we have provided the customer the test results of that installation and service, and the customer says, I am not yet ready to begin to use the wave. So very different than, say, your cable service at home. When you call the cable company, they turn up the service, you start paying whether you have a television to watch it or not. We do a similar thing with our IP services because we have conditioned customers over a long period that we meet our installation windows. We do allow customers 2 windows where they can move out acceptance on IP and then there is forced billing. On wavelengths, we have not implemented any kind of forced billing, but the wavelengths that are installed have specific contracts. They have been installed to the specification that the customer requested and then the customer has informed us they're not yet ready to utilize the service.

### **Michael Ng**

*Goldman Sachs Group, Inc., Research Division*

Great. And just as a quick follow-up, when at least I think about the historical customer base of point-to-point, regional networks, international carriers, content distributors, including hyperscalers, like, any specific group of customers that you see that are driving the new aggregate demand for waves? Is it DCI and AI? Or is it kind of more traditional?

### **David Schaeffer**

*Founder, Chairman, CEO & President*

Yes. So there are legacy use cases that remain, but the largest incremental use case that is driving an acceleration in unit volume and an acceleration in aggregate revenue for the entire industry is coming from AI. And the AI demand is coming both from hyperscalers who have both AI and non-AI use cases,

as well as neoclouds who are exclusively AI-driven. But that is, by far and away, the dominant driver of incremental demand in the industry.

**Operator**

And there are no further questions at this time. Mr. Dave Schaeffer, I will turn the call back to you for closing remarks.

**David Schaeffer**

*Founder, Chairman, CEO & President*

I would like to thank everyone for their time. We will be at a couple of conferences coming up, and I look forward to seeing everyone in person. Again, thanks a lot. Take care all. Bye-bye.

**Operator**

Thank you. This does conclude today's conference call. You may now disconnect.

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