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Market Intelligence

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

## *Earnings Call*

*Thursday, August 7, 2025 1:30 PM GMT*

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# Call Participants

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## EXECUTIVES

**David Schaeffer**

*Founder, Chairman, CEO & President*

**Thaddeus G. Weed**

*VP, CFO & Treasurer*

## ANALYSTS

**Christopher Joseph Schoell**

*UBS Investment Bank, Research Division*

**Frank Garrett Louthan**

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

**Gregory Bradford Williams**

*TD Cowen, Research Division*

**Michael Ian Rollins**

*Citigroup Inc., Research Division*

**Michael J. Funk**

*BofA Securities, Research Division*

**Nicholas Ralph Del Deo**

*MoffettNathanson LLC*

**Timothy Kelly Horan**

*Oppenheimer & Co. Inc., Research Division*

**Walter Paul Piecyk**

*LightShed Partners, LLC*

# Presentation

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## Operator

Good morning, and welcome to the Cogent Communications Holdings Second 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 Cogent's website when it becomes available.

Cogent's summary of financial and operational results attached to its press release can be downloadable 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. Please go ahead.

## David Schaeffer

*Founder, Chairman, CEO & President*

Thank you, and good morning, everyone. Welcome to our Second Quarter 2025 Earnings Conference Call. I'm Dave Schaeffer, Cogent's Chief Executive Officer and with me on this morning's call is Tad Weed, our Chief Financial Officer.

I'd like to take a moment to touch on some of the key milestones that we achieved in the quarter. As of the end of the quarter, we were offering Wavelength services in 938 data centers at 10 gig, 100 gig and 400 gig service models. Materially, we also have reduced our provisioning intervals for approximately 30 days. Our Wavelength revenues for the quarter were \$9.1 million, a 150% increase on a year-over-year basis and a sequential increase of that revenue stream of 27%. As of the end of the quarter, we have sold wavelengths in 418 locations. We currently have a backlog and funnel of 4,687 wavelength opportunities. We do intend to capture 25% of the highly concentrated North American wavelength market.

In the quarter, we completed two significant debt transactions that materially enhanced our liquidity. In April, we issued an additional \$174.4 million of debt against our IPv4 securitizations at a rate of 6.646%, which was substantially below our initial securitization rate of 7.924% for the initial \$206 million of asset-backed securitization IPv4 notes issued in May of 2024. In June, we issued \$600 million of 6.5% secured notes that mature in 2032. This extended the maturity of our \$500 million secured notes which were coming due in May of 2026 and provided us an additional \$100 million of liquidity.

Our EBITDA increased sequentially by 11% to \$48.5 million, and our EBITDA margin increased sequentially by 200 basis points to 19.7%. Our EBITDA as adjusted increased sequentially by 7% to \$73.5 million, and our EBITDA margin as adjusted increased by 200 basis points sequentially to 29.8%. Our SG&A expenses declined sequentially by \$5.6 million and a decline of 27% of our revenues to 25% of revenues. Our IPv4 leasing revenues for the quarter increased sequentially by 6.3% to \$15.3 million and this represents a 40.1% increase on a year-over-year basis.

Our average revenue per IPv4 address leased in the quarter was \$0.39, a 22% increase from the base at the beginning of last year. We have an inventory of a total of approximately 38 million IPv4 addresses. We have continued the reconfiguration of Sprint facilities and added them to our data center footprint. We currently have connected 1,675 third-party carrier-neutral data centers as well as our total fleet of 187 Cogent data centers. The Cogent data centers have an installed base of 214 megawatts of available power.

During the quarter, we purchased 230,000 shares of our stock for a price of \$11.5 million at an average price of \$50.18. So far this quarter, we have purchased an additional 95,000 shares for \$4.5 million at an average price of \$47.24. Our Board has authorized an additional \$100 million buyback program that will remain in place through December 31, 2026. We currently have a grand total of \$106.4 million available for the company under its buyback program.

Our sales force rep productivity significantly improved in the quarter to 4.8 installed orders per rep per month from an average of 3.8 orders installed per rep per month in the previous quarter. After considering

the impacts of H.R. 1 tax bill, we are not expected to be a federal tax income tax payer for at least the next 5 years.

Our Board decided to increase our dividend by another \$0.005 per share quarterly from \$1.01 per share per quarter to \$1.015. This represents the 52nd consecutive sequential increase in our regular dividend and a 3% annual dividend growth rate. We anticipate our long-term average revenue growth to be between 6% and 8%. And we expect our EBITDA as adjusted margins to expand by approximately 200 basis points annually. Our updated revenue and EBITDA guidance targets are meant to be multiyear targets and are not intended to be specific quarterly or annual guidance.

We're nearing the end of the grooming of unprofitable and undesirable revenue that we had acquired in the Sprint base. And as these contracts expire and continue to expire, we expect to return to positive top line growth in mid-Q3 of 2025. We remain focused on selling high-margin on-net services. Our sequential revenue decline improved materially to \$800,000 as compared to a sequential rate of revenue decline in the previous quarter of \$5.2 million. With regard to our aggregate leverage, it has peaked at this point. We believe that our leverage on an LTM basis will continue to improve.

Our leverage inclusive of the payments from T-Mobile under the IP transfer agreement and the net present value of those of \$244.8 million should be treated as a cash receivable in calculating our net leverage and represented both on a short-term and long-term basis.

Our gross debt as adjusted for the amounts due from T-Mobile on a gross basis was 7.74% at the end of the quarter and 6.61% at the end of Q2. As I stated, we expect these numbers to decline sequentially from this point forward.

Now I'd like to turn it over to Tad and let him read our safe harbor language and provide some additional detail on the operating performance in the quarter.

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

Thank you, Dave, and good morning to everyone. This earnings conference call includes forward-looking statements. These forward-looking statements are based upon 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.

Summary of our results. Our revenue for the quarter was \$246.2 million, a sequential decline of \$800,000. Our EBITDA, as adjusted, was \$73.5 million for the quarter. That was an increase of \$4.7 million and our EBITDA as adjusted margin increased sequentially by 200 basis points to 29.8%.

As a reminder, our EBITDA as adjusted includes payments under our IP transit agreement with T-Mobile, which is \$25 million a quarter at this point. This quarter, we received the three monthly payments totaling \$25 million, and every payment has been made on time, and that was the same amount as last quarter, \$25 million.

Last quarter -- of last year's second quarter, we received \$66.7 million as the payments ramp down to \$25 million a quarter, and they will continue for 29 monthly payments until November of 2027. There are further cash payments related to lease obligations that we received from T-Mobile that we assumed at closing that will total at least \$28 million. This \$28 million is to be paid to us in four equal payments from December '27 to March '28. We analyze our revenues based upon network connection type, on-net, off-net, wavelength and noncore, and we also analyze our revenues based upon customer type.

We have three types: NetCentric, corporate and enterprise. Our Corporate business represented 44.3% of our revenues this quarter which was a decrease by 8.8% year-over-year and 1.5% sequentially. These

decreases in our corporate revenue are primarily due to the continued growing of off-net -- of low-margin off-net customer connections and the elimination of noncore products that we acquired.

Our NetCentric business continues to benefit from the growth in video traffic, activity related to artificial intelligence, streaming and wavelength sales. Our NetCentric business represented 39.5% of our revenues this quarter increased by 6.8% year-over-year and sequentially by 5.1%.

Our Enterprise business represented 16.2% of our revenues this quarter. That was a decrease of 19.9% year-over-year and sequentially by 8.8%, primarily due to the reduction in the noncore and low-margin off-net enterprise revenues that we acquired in the Sprint acquisition.

On-net revenue. We serve our on-net customers in 3,529 on-net buildings. Our on-net revenue was \$132.3 million for the quarter, a year-over-year decrease of 6%, but a sequential increase of \$2.7 million or 2.1%. Our off-net revenue was \$102.2 million for the quarter, a year-over-year decrease of 8.3% and a sequential decrease of 4.8%. We serve our 26,239 off-net customers in 19,073 off-net buildings. 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, mostly acquired from Sprint and T-Mobile.

On pricing, our average price per megabit for our installed base decreased sequentially by 11% to \$0.17 and decreased by 30% year-over-year. This is relatively consistent with historical trends. Our average price per megabit for our new customer contracts was \$0.08, a sequential price per megabit decrease of 21% and 34% year-over-year.

ARPU. Our ARPUs for the quarter were as follows. Our on-net ARPU was \$506, our off-net ARPU was \$1,267, our wavelength ARPU was \$2,163 and our IPv4 ARPU for addresses sold was \$0.39 per address. Churn has been relatively constant, our on-net unit monthly churn rate was 1.4%, the same as last quarter. Our off-net unit churn rate was 2.3%, a slight increase from 2.2% last quarter. Traffic on our network for the quarter increased by 1% sequentially and by 9% year-over-year.

Some comments on foreign exchange. Our revenue earned outside of the United States is reported in U.S. dollars and was about 19% of our revenues this quarter. The average euro to USD rate so far this quarter, so for the third quarter, is \$1.17 and the CAD 0.73. Should these average foreign exchange rates remain at the current levels for the remainder of this quarter, we estimate that the FX conversion impact on sequential revenues would be about a \$1 million positive and year-over-year, about \$2 million positive.

We believe that our revenue and customer base is not highly concentrated, and our top 25 customers represent 17% of our revenues this quarter, essentially the same as last quarter.

Some comments on CapEx and payments on capital leases. Our CapEx declined by \$1.9 million sequentially and was \$56.2 million this quarter. Our principal payments on capital leases slightly increased by \$0.5 million sequentially and were \$8.5 million this quarter. We are continuing our network integration of the former Sprint network and legacy Cogent network into a unified network and converting former Sprint switch sites into Cogent data centers. This program required capital spending for the first half of 2025 similar to the last half of 2024 and then our capital spending is expected to decline in the second half of this year. Our capital spending for the first half of 2025 was \$114.3 million and for the fourth quarter was \$105.3 million.

Our principal payments on capital leases for the first half of '25 were \$16.5 million and last year, for the first half was \$156.7 million. That included a buyout of an uneconomic lease for \$114.6 million at a 12% discount.

Comments on debt and debt ratios. Our total gross debt at par, including our \$605.2 million of finance lease obligations, was \$2.3 billion at quarter end, and our net debt -- total debt net of our cash and our \$244.8 million due from T-Mobile was \$1.8 billion. Our leverage ratio, as calculated under our more restrictive 2027 unsecured \$750 million notes was 6.82 and our secured leverage ratio was 4.2 and our fixed coverage ratio was 2.43. Our leverage ratio, as calculated under our newly issued 2032 secured \$600 million notes indenture was 5.05, secured leverage ratio was 3.12 and fixed coverage was 3.27. The definition of consolidated cash flow under our \$600 million secured notes that we issued this quarter

includes cash payments under the IP transit services agreement with T-Mobile, and these payments were \$100 million for the last trailing 12 months.

Lastly, our day sales was 21 -- 31 days rather at quarter end, a slight increase from 29 days last quarter due to the timing of cash receipts. Our bad debt expense was significantly less than 1% of revenues for the quarter. So a great job there.

And I will now turn the call back over to Dave.

**David Schaeffer**

*Founder, Chairman, CEO & President*

Thanks, Tad. I'd like to highlight a couple of the strengths of our network, our customer base and sales force. We are direct beneficiaries of continued to increase video traffic, artificial intelligence activity and streaming trends. At quarter end, we were able to sell wavelengths in 938 carrier-neutral data centers across North America with reduced provisioning windows of 30 days. At quarter's end, we were able to sell our IP services globally in 1,862 data centers. At quarter's end, we were directly connected to 8,085 networks, 22 of these networks represent peers and 8,063 are Cogent transit customers. The reduction in networks connected from last quarter was due to the completion of the combination of the Sprint and Cogent IP networks into a single unified autonomous system number, AS174.

Some details on our sales force. We remain focused on increasing our sales force productivity and managing out underperforming reps. Sales force turnover was 6.2% per month in the quarter, down from a peak of 8.7% during the height of the pandemic, but slightly above the historical average of 5.7% per month. At the end of the quarter, we had 628 sales reps. Our sales reps include 296 sales force that focus solely on the NetCentric market, 318 sales reps focusing on the corporate market in North America and finally, 14 reps focusing on global enterprise customers.

We expect to continue to provide profitable on-net and off-net IP services to enterprises, corporate customers and NetCentric customers. We remain encouraged and enthusiastic about the prospects for our Wavelength business. We have a significant wavelength backlog funnel of over 4,687 wavelength opportunities. We have several hundred wavelengths that have been installed but have not yet built due to customers' inability to accept the services as they are preparing their equipment to receive those wavelengths. And since our inception, we are focused on offering superior service, expedited provisioning and disruptive pricing. We now have a base of installed wavelengths that are beginning to give us data showing that our wavelength quality is substantially better than that of our competitors. We expect to continue to monitor this and use quality as a key differentiator in our ability to gain market share. With that, I'd like to open the floor for questions.

## Question and Answer

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### Operator

[Operator Instructions] Our first question will come from the line of Greg Williams with TD Cowen.

### Gregory Bradford Williams

*TD Cowen, Research Division*

Dave, you just ended the statements with focusing on quality as marketing your waves. Waves seem to be continuing to be off to a slow start. Did you still target 400 to 500 circuits installed a month by year-end? Second question is just on your data center sales progress. Any additional color on interest you're seeing and perhaps more importantly, at this point, is \$10 million a megawatt a realistic ask from the interest that you're seeing? Or should we see a haircut on this target?

### David Schaeffer

*Founder, Chairman, CEO & President*

Yes. Thanks for the questions, Greg. So we always knew that in order to win market share in wavelengths, we needed to be winning on three criteria. First, being ubiquity of coverage. Second, the price that we offer. And third, the quality of the service. And the quality is actually measured two ways. Our ability to actually install in a timely manner and the service to be able to work once installed.

We initially focused on the install metric because we did not have a material base of wavelengths. While our wavelength base is still small, about 1% of the North American market, it is now at least statistically significant enough that we can measure our performance quality as measured by a number of outages along each route. Today, and this is anecdotal, we are running at about 7x fewer outages per span than at least one of our major competitors as reported to us by customers who have similar city pairs along different fiber with that other vendor and with Cogent. We think all of these inputs are critical to us gaining share.

In terms of our wavelength install cadence, while we installed and began billing 147 wavelengths in the quarter, we actually installed several hundred more wavelengths than we have begun to bill for. As we had mentioned in previous calls, we have been installing services faster than customers have expected. They then usually need to order a cross connects, sometimes pluggable optics on their side to be able to accept these wavelengths and they've been accustomed to having protracted delays from other vendors. We are beginning to build credibility with those customers, and we are accelerating our ability to install.

We have the capabilities to get to 500 wavelengths per month. We will ramp to that. And I think over the next several quarters, our customer base is going to become accustomed to our rapid provisioning, which is different than what the industry has traditionally experienced. And as a result of that, we think the number of wavelengths that we install, but do not bill will shrink. We report a number of granular KPIs. I think that is critical until we have a material base of billable revenue in our wavelength product set. The fact that our revenues increased 27% sequentially, I think is a good indication of our gain in market share, albeit off of a small base.

I'm going to pivot to your wave -- to your data center question. We continue to negotiate with the four initial parties that put in offers and have actually received two more offers. So we actually have a set of six total LOIs for firm offers on facilities. They range from the entire portfolio to as few as one facility. We have tried to be very cautious with investors not to project the proceeds of the data center sales into our recurring revenue. We have not done that before. We have, I think, been a bit concerned that some of the counterparties have been unable to post meaningful nonrefundable security deposits as they move from letter of intent to contract.

I think it is premature for us to conclude that we have to adjust pricing. We will ultimately let the market decide the pricing. We have no initial cost basis in these data centers. And the only basis we have is the work that we have done and the capital that we have spent to convert these centers. With that, we have a great deal of flexibility in divesting of these noncore assets.

We continue to have tours, continue to have third-party consultants working on behalf of financial sponsors evaluating the assets, and to be direct and answer your question, we have offers ranging from our full ask price to a fraction of the price. And it's impossible for us to say exactly what we're going to have to accept until we get a contract with a binding deposit.

**Gregory Bradford Williams**

*TD Cowen, Research Division*

Just to be clear on your waves comment then. So the 147 additional waves, that's what you've billed, but you've installed far more than that, just not billed yet. Is that the right way to think about it?

**David Schaeffer**

*Founder, Chairman, CEO & President*

That is absolutely correct, Greg. And as I stated previously, at some point in the future, it will only make sense for Cogent to report not on a funnel, not on orders installed but not billed, but actually installed and billing. But until we build a larger base, I think giving these incremental KPIs is helpful for investors. Next question, please.

**Operator**

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

**Christopher Joseph Schoell**

*UBS Investment Bank, Research Division*

Last quarter, Dave, I think you talked about the business returning to top line growth by mid 3Q. Can you just provide your latest thoughts here and to the extent expectations have changed, what has shifted versus several months ago? And I also believe you slightly raised the margin expansion target long term. Can you just walk us through what gave you confidence to do that today and the main drivers of upside there?

**David Schaeffer**

*Founder, Chairman, CEO & President*

Yes, sure. Thanks for both questions, Chris. So as we stated on our last earnings call, we expected our rate of revenue decline to materially decelerate, it actually did. It went from sequentially \$5.2 million decline quarter-over-quarter to \$800,000. We knew that in July, we had a significant resale agreement that was actually terminated in June, but we had a tail that we had to support until July. That is behind us. And with that, one remaining large, noncore contract now terminated we have a clear visibility to monthly growth in revenue.

Whether that is sufficient to get to aggregate positive for the quarter, it's very close, and I'm not prepared to say, there's FX and there's just some noise around customers. But the rate of decline for the quarter maybe lower than the \$800,000. It could actually be a positive number. And then from that point forward, we expect to see positive revenue growth each and every quarter sequentially.

It's important also and it ties in your margin point that the revenue growth that we are experiencing is almost exclusively on-net services, whether they be IP-based services or wavelength services. And the revenue declines are coming from much lower margin, in some cases, negative margin off-net services. The fact that we delivered 200 basis points of margin expansion sequentially last quarter, quarter-over-quarter and looking back at the 8 quarters since the acquisition of the Sprint assets, we have outperformed 200 basis points annually and now with a return to growth, we feel very comfortable that we will replicate the type of margin expansion that Cogent historically had prior to acquiring Sprint.

Just to remind investors, from the period in 2005 through 2023 when we acquired Sprint, over that 18-year period, Cogent organically, without an acquisition, had experienced an average rate of margin expansion of 220 basis points. So this is something that is not theoretical, but it is our actual historical results. We had a margin reset that occurred from acquiring a declining and negative margin business.

We've taken more than \$220 million of costs out of that business, and we have experienced better than 200 basis points since the initial acquisition. While there were puts and takes for severance and other reimbursables by T-Mobile as part of the transaction, with all of that extraordinary payment behind us, we now have a high degree of confidence that the 200 basis points, as I just outlined, is sustainable going forward on a year-over-year basis. And again, to remind everyone, this is meant to be a multiyear average. Some years we'll beat it. Some years, we may miss it. But on average, over the next decade, we will deliver more than 200 basis points a year of margin expansion on average.

### Operator

Your next question comes from the line of Walt Piecyk with LightShed.

### Walter Paul Piecyk

*LightShed Partners, LLC*

Dave, can you just remind us in terms of sources of capital or where you could borrow against? Because I think unless your CapEx falls off a cliff, you're probably going to need some incremental capital to fund the dividend growth by the early 2026. So can you just remind us what you can tap to bring funds in to fund that dividend?

### David Schaeffer

*Founder, Chairman, CEO & President*

Yes. Sure, Walt. So first of all, I'm going to disagree with your premise with over \$300 million of cash on the balance sheet. Secondly, we have indicated that our capital spending was elevated in the second half of '24, in the first half of '25, primarily due to the upgrading of the data centers from DC power to AC. That capital expense is behind us now and was approximately a \$100 million spread over 4 quarters.

So as a result of that, we anticipate our annual rate, and this will be the rate in the second half of '25 and full year '26, to be approximately \$100 million in capital expenditures. On top of that \$100 million of CapEx, we do make principal payments on capital leases. Due to GAAP accounting, it's shown at a different point in the cash flow statement, but it should be treated like CapEx. That number for the first half of this year was \$16.5 million. We have indicated that the annual run rate for those principal payments should be about \$40 million. So we were actually slightly below. It was elevated materially in '24 due to the buyout of the Verizon IRU as a onetime event, which we called out with its associating discount.

As a result, the total amount of cash expenditures for principal payments and on capital leases and CapEx should be around \$140 million a year. In terms of additional borrowing capabilities, we have borrowing capabilities at three levels in Cogent. We have additional capacity available in the group entity, where our leverage today is substantially below the covenant thresholds and our debt service coverage is substantially above.

So at Cogent Group, there is several hundred million dollars more of borrowing capacity, either secured or unsecured allowed in our current indentures, and it will be likely that we will look at the 2027 unsecured debt and probably look to refinance at some time in the latter part of 2026 possibly raising incremental capital but not necessarily. We also have incremental borrowing at Cogent infrastructure. That includes both the IPv4 ABS, which will have additional capacity based on the growth and cash flow in that as well as the ability to borrow against the other assets that reside in that entity. And then finally, there is always borrowing capability at the holding company level, which has no debt associated with it.

However, we do not anticipate needing material incremental borrowings to either fund the dividend or operations as on an LQA basis. Our leverage peaked last year and has been declining and on an LTM basis, just arithmetically is going to continue to decline. So while we are at 6.6x net leverage on an LTM basis at the end of this quarter, we anticipate that over the next 6 quarters, that number will fall below 5x and continue to delever.

### Walter Paul Piecyk

*LightShed Partners, LLC*

I mean it's not 6 based on the math. I mean, I think in your math, you're basically taking a net present value of TSA payments and then also including the TSA payments in the denominator of the calculation. So if you just look at what your reported adjusted EBITDA is, which is reported and your actual net debt, it's 7.5x leverage. And in terms of not -- if you're basically saying gross debt is not going up, I mean, I guess, we'll just see if that's going to be the case in future quarters because you're paying \$50 million a quarter in dividends, your operating cash burn is \$30 million, and you have \$300 million left in cash.

So borrowings, if you're saying they're not going to go up, fine, we'll just see what happens, I guess, in future quarters, and we can just see how that plays out without obviously a material cut in CapEx. But I don't understand how you can represent the math when it's actually reported numbers. It's 7.5x leverage. And it's 1x time when you exclude the TSA payments, which you're trying to use as an NPV. So if we exclude the TSA payments, leverage is 12x on trailing EBITDA.

**David Schaeffer**

*Founder, Chairman, CEO & President*

So Walt, we've had this discussion on multiple earnings calls.

**Walter Paul Piecyk**

*LightShed Partners, LLC*

It's math. Everyone has the numbers. They can do their own math.

**David Schaeffer**

*Founder, Chairman, CEO & President*

I totally agree with that, and we absorbed a number of losses from T-Mobile, which have depressed our EBITDA and we received a stream of payments over 54 months equaling \$700 million. The net present value of those payments goes down each and every quarter as we receive those payments.

**Walter Paul Piecyk**

*LightShed Partners, LLC*

You're trying to include it in the numerator and the denominator. You can do that and present it that way, but investors obviously have to make their own decision. Dave, can you just update us on in terms of the pledged stock. Has the Board put any limitation on that? And can you just walk us through the mechanics, if there's any further drop in the stock, how does that impact, if at all, the pledged shares?

**David Schaeffer**

*Founder, Chairman, CEO & President*

So I as an individual, have received my compensation from Cogent almost exclusively in stock for 25 years. I paid taxes on that stock as that stock vested. I have a basis in my stock as of the beginning of this year of \$155 million. I borrowed against a portion of that stock in order to fund those tax payments so I did not have to sell on. And I was fortunate enough to have income from other sources, primarily my real estate portfolio. As the D.C. real estate market deteriorated, I had additional pressure to reduce leverage on my real estate portfolio, which forced me to begin selling Cogent stock. Some of that stock is pledged. And as a result, I have to reduce the pledge amount as well as receive cash to fund equity injections into my real estate.

I've tried to be extremely transparent with investors probably more than most people in my situation would be. And I am committed to making sure that as an individual, not as Cogent, my lenders are made whole even though many of my brethren in my industry have walked away from their assets. And the policy that the Board has, has not changed in terms of my ability to pledge, my ability to not hedge in any way, which if I had that ability would negate some of the pressure that forces me to sell.

**Walter Paul Piecyk**

*LightShed Partners, LLC*

But is there a cap on what you can pledge? Because if you just search GPT, this is, I think, has occurred with Elon and other companies and boards have actually implemented caps on the percentage of shares that can be pledged.

**David Schaeffer**

*Founder, Chairman, CEO & President*

There is not at Cogent.

**Walter Paul Piecyk**

*LightShed Partners, LLC*

Who in the Board makes that decision?

**David Schaeffer**

*Founder, Chairman, CEO & President*

The Audit Committee.

**Operator**

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

**Nicholas Ralph Del Deo**

*MoffettNathanson LLC*

Dave, you noted that you had provisioned but not yet billed for several hundred waves. Did that metric go up quarter-over-quarter?

**David Schaeffer**

*Founder, Chairman, CEO & President*

Yes.

**Nicholas Ralph Del Deo**

*MoffettNathanson LLC*

Okay, meaningfully?

**David Schaeffer**

*Founder, Chairman, CEO & President*

Meaningfully. And we commented on this when we reported Q1 numbers and the majority of the wavelengths were installed near the very end of the quarter, and it was the reason for the disconnect between 2% revenue growth and 18% unit growth. We also explained that we wanted to be careful not to alienate significant customers by being too aggressive and pressuring them to accept wavelengths.

We have several large customers that have been truly shocked by our ability to provision in the windows that we have outlined. And as a result, they were not prepared to take the wavelength services. They typically order their cross connects, order their pluggable optics and accept them in a 3- to 4-month window from placing new order. But in Cogent's case, we had one very large wave order that we were actually able to provision nearly 100 waves in 7 days.

I mean they were truly amazed at that, but they came back and said we can't take them. And I understand investors' frustrations that they want to see an installed number. And we only report installations based on billing revenue. That's been our policy and practice since inception. We have given incremental KPIs to help investors understand that there's demand here. But as I've said on previous earnings calls, and I want to repeat today, the ultimate goal is to be measured only by GAAP revenue growth. And listen, on that metric, it looked really good, but it was because a lot of waves installed at the very end of the previous quarter, which got us to 27% sequential and 150% revenue growth. With a small base and with these lags, it is going to be lumpier than I would like. Our piece of it is much smoother than

the lumpiness suggests. And I think there will be a point in time when we can implement a forced billing discipline, but we are unwilling to do that at this point.

**Nicholas Ralph Del Deo**

*MoffettNathanson LLC*

Okay. Got it. And then maybe just turning to the data centers. What do you think is holding those bidders back from putting down deposits? Because it seemed like you expressed a bit more caution on that front than you have historically.

**David Schaeffer**

*Founder, Chairman, CEO & President*

Well, it's because another 10 weeks has passed since we have publicly commented on this, and there are no firm deposits in hand. And I would say it's kind of twofold. I think, for the operators that have LOIs in, they are struggling to get capital committed and we've had offers for what I would consider de minimis deposits relative to the size of the portfolio and I view those as just unacceptable to go to contract, letting someone tie up the portfolio for, say, 1% of the proposed purchase price, that is just inappropriate. You wouldn't do that if you were buying a hotel or a shopping center or any real property asset.

And then I think for the private equity sponsors, they are trying to get comfort around the revenue stream that their management team is going to generate while they have continued to spend money and do condition reports, do tours, quality assessments, they're being cautious because what they would like to do, which I would do if I was in their shoes, is derisk it by going to the management team you're backing and saying, show me an actual end-user contract that I can underwrite.

And we've been very clear, the assets that we are looking to divest of have no recurring revenue associated with them. And I think it's really these two constraints that have slowed down the process. And we've tried to, I think, caution investors not to place a lot of value on these. I do still think they will be monetized, but I'm not in a position as I am with wavelengths to give you any clarity on the when and how much until we actually conclude a binding transaction with a meaningful deposit.

**Operator**

Your next question comes from the line of Mike Funk with Bank of America.

**Michael J. Funk**

*BofA Securities, Research Division*

Good to hear from you again. So given that I'm newer back to the story, let me ask some basic ones here. On the provisioning of circuits, I heard your comments, some customers not ready to take delivery as soon as you're available. But from my perspective, it signals a disconnect between your sales team, your provisioning team and the customer, I would expect a better coordination. So I guess, where is the disconnect if customers aren't ready to take and what are you doing to, I guess, alleviate that or improve the coordination with customers? And do you expect them to shorten their delivery acceptance time?

**David Schaeffer**

*Founder, Chairman, CEO & President*

Yes. So for IT services, which are the bulk of Cogent's revenues, they're 87% of our revenues, we have a 25-year track record. We install services on-net at an average of about 9 days. We also allow customers two times to push out the delivery and then we have kind of a forced billing discipline that's in place. This policy for transit, DIA and VPN services has been in place for over 20 years. Customers are accustomed to it. And there is very little float in terms of IP orders installed but not billed. It's not 0, but it's a couple percent.

In the wavelength market, we are a new entrant. Secondly, we made representations that were much more aggressive than any of the other vendors in the market in terms of our speed to deliver, the breadth of locations that we could deliver and the quality of the service we would deliver. I think it's totally legitimate for customers to say, show me.

Secondly, for the period between deal closing in May of '23 and the end of '24, so in that roughly 18-month period, we were doing one-off provisionings, but they did not go smoothly. We did not have all of the automated systems and processes in place, and we did not have the ubiquity of coverage. We have sold about 1,000 wavelengths in that kind of semi-manual but lengthy process.

At the beginning of this year, we began provisioning in a streamlined automated way. We have surprised our customers both in terms of where and how quickly we could deliver. Those customers are starting to adjust their behavior. But they've been accustomed to going to the two other major vendors and getting a 3- to 4-month delay with a failure rate of, in some cases, up to 50%.

We have not had any situations where we have committed to provision and could not provision. There are a few cases where the provisioning windows were as long as 90 days and certain vectors at certain speeds, but a very small percent, about 6% of the total footprint has those limitations. So the customers are now starting to understand the first part of our value proposition, which is we're not misleading them, and we really are able to provision the way we say we can. You have to prove your...

**Michael J. Funk**

*BofA Securities, Research Division*

I think I don't want to take too much of your time, but I mean, I think one other potential view concern could be maybe customers have over provisioned or over purchased wavelengths and are now maybe dragging their feet, delaying acceptance of delivery because if you look at other parts of the ecosystem, whether it's data center capacity or other pieces, customers can't take that fast enough, right? And so from my seat, I'm hearing this and I'm thinking the customers over provision just to make sure they had enough potential inventory capacity and now they're pushing out or delaying acceptance.

I mean that's the concern from my standpoint, but I definitely hear what you're saying you've improved provision. Can I ask one more quick one, Dave. I think in the past, you talked about a 4Q exit run rate for waves, I think \$20 million was the last time you spoke. Can you update us there, please?

**David Schaeffer**

*Founder, Chairman, CEO & President*

Yes, we still feel confident that we will hit that quarterly run rate in the fourth quarter. And I do want to go back to the over purchasing and delay comment. That is not what we've heard from customers. It's really, we're just surprised you did it when you said you would do it. And I do think it goes back to the other comment I started to make earlier, which is we still have to prove to people that not only can we provision faster, the quality is going to be higher than that of our competitors. And every vendor can make those claims. The only way you validate them is by delivering and monitoring. And I feel comfortable that we are building credibility and the size of the funnel that we are accelerating and building is giving us that confidence.

**Operator**

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

**Frank Garrett Louthan**

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

A couple of questions. First, where you -- are you getting most of your wavelength customers? Are they new to Cogent? Or are they from your existing base? And then as far as going forward with the data centers, do you need to hire more experienced dedicated salespeople for that space? Or do you have any sales channel relationships that can help with converting that space?

**David Schaeffer**

*Founder, Chairman, CEO & President*

Okay. Two very different questions. So first of all, on the wavelength customers. To date about 3/4 of them have been existing Cogent transit customers and about 25% of them are brand new to Cogent.

Whether that mix will continue to hold as we build the pipeline and install, I'm not sure, but to date, of the 4,600-and-change in the funnel and the 1,500-plus installed, the 6,000, the mix has been 3/4, 1/4.

With regard to the data centers, Frank, what we are doing now is trying to do two very different things. One, continue to do one- and two-rack retail deals into our retail footprint. We have 187 facilities where we have a retail space available. We're at about 14.5% utilization in that footprint and the entire 628-person Cogent sales force has been the ones who have been focused on filling that footprint up. And I think that will continue. The wholesale disposition is a very different process. There, we actually have one of our real estate professionals focused on that disposition process.

### **Operator**

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

### **Michael Ian Rollins**

*Citigroup Inc., Research Division*

Two topics, if I could, please. So first, when you look at the opportunities to improve revenue in the future, you talked about waves a bunch on this call. Can you talk more specifically about the customer verticals and how those are each progressing in terms of the corporate, the NetCentric and the enterprise. And then secondly, you mentioned earlier in the call your target to reduce net debt leverage. Can you give us just a little bit more of an explanation of how you see both the numerator and denominator evolving over this next couple of years and what are the critical points of execution to deliver on each of those?

### **David Schaeffer**

*Founder, Chairman, CEO & President*

Yes. Sure, Mike. Very good questions. So first of all, as I stated in the prepared remarks, we remain focused on selling on-net services. Just to remind everyone on this call, every dollar of revenue gets classified by on-net, off-net customer type, geography and by product type. In our investor presentation, we give you a great deal of granularity and breakdown of the various mixes of customer type, product and on-net and off-net. Our primary business is selling on-net services.

We get much higher contribution margins from those on-net services. For our corporate customers, roughly half of their purchases are on-net, half are in locations that we concluded we cannot economically get a return on invested capital to bring on-net and buy off-net services for.

For the enterprise base, based on their very disparate geography requirements, we are only about 10% to 15% on-net and almost exclusively off-net. That is business that came to us from the acquisition of Sprint. And then finally, in the NetCentric segment, about 90% of our revenues are on-net, we are focused on on-net corporate, on-net NetCentric.

Within that, wavelength as a product are almost exclusively on-net. The customer verticals for wavelengths are typically hyperscalers who are using them for AI or for content distribution, other content distribution customers, regional access networks who connect their networks together, international carriers who extend their networks and then finally, some enterprises should build their own private closed networks.

Each of these represents drivers for wavelengths. For transit services, the market is typically divided between access networks which we have about 8,050 or so that pull down content around the world and about 5,000 content-generating customers that push applications out. And they could be either hyperscalers for their core business. They can be CDNs. They can be publishing companies or application service providers.

And this is a good pivot into the second part of your question, which is how do we delever. And we delever through three mechanisms. The first being growth in aggregate revenue. Since acquiring Sprint, we've delevered, and we have improved EBITDA solely through the margin improvement that has occurred faster than the decline in the payment streams from T-Mobile. But over time, those payment subsidies will go away, and we need to grow EBITDA out of top line growth with high contribution margin products.

It is why we were confident in saying we can return on a combined basis to 200 basis points of margin expansion year-over-year. That is a significant delevering in and of itself and then returning from what is effectively negative 1% growth we reported this quarter to a year-over-year growth rate of between 6% and 8%, coupled with the delevering gets you to EBITDA growth rate in the low to mid-teens, which is comparable to where Cogent had been historically prior to acquiring the Sprint business.

And then in terms of the aggregate leverage, it has been Cogent's policy since 2010 to return more than 100% of free cash flow. We did that successfully between 2010 and 2020, maintaining a net leverage range of around 3x levered. With the pandemic and the slowdown in our corporate business, our leverage crept up to 4.2x net levered. We acquired the assets from T-Mobile, all with the subsidy payments, we initially delevered due to the asymmetry of those payments down to below 3x levered.

But as those payments step down and went from \$87 million a quarter to \$25 million a quarter, our leverage has ticked up. We peaked in net leverage this quarter at 6.6x net leverage on a fully consolidated basis. That number will come down, but our gross leverage will probably not materially come down. It will come down by improving the aggregate amount of EBITDA.

**Thaddeus G. Weed**

*VP, CFO & Treasurer*

Just want to make a quick comment on the numerator and the denominator that is the 6.6 is consistent. So on the debt and the numerator and excluding the -- or coming to a net debt deducting the \$244.8 million from T-Mobile, essentially, cash and cash equivalents for the short-term portion and then the long-term investment on the long-term portion. So that's getting the net debt from the numerator.

On the denominator, on the EBITDA, that's backwards looking. So the numerator on the top, that is as of the balance sheet date. On the denominator, that's the historical last 12 months that has been paid in cash. So one is as of and one is looking backwards for the last 12 months. So there's no double counting and it's a consistent application or treatment of those payments from T-Mobile, both that we have received in the past and both that we will receive in the future.

**Operator**

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

**Timothy Kelly Horan**

*Oppenheimer & Co. Inc., Research Division*

Dave, can you just reiterate your wavelength kind of longer-term \$500 million target and timing and confidence there? Secondly, can you just give us some -- your best guess on timing of the data center resolution? And then third, can you give us some sense of what the actual EBITDA numbers will be for the second half of the year, either third or fourth quarter or full year? Any kind of sense would be helpful.

**David Schaeffer**

*Founder, Chairman, CEO & President*

Yes. Sure. Always good to hear from you, Tim, and thanks for the questions. So first of all, on the confidence on wavelengths, we are actually more confident today than we were on last quarter's call or the quarter before or since we acquired Sprint. The reception that we have received from the customer base, the orders that we have in our funnel and the customer feedback that we've gotten from the orders that we have installed, all give us confidence that we will reach our \$500 million run rate on wavelength revenue by midyear 2028, which is identical to what we laid out in our justification in September of '22 when we announced the potential transaction that ultimately closed in May of '23.

With regard to the data centers, I am not going to put a date. Of course, we have never done it before. We have interested parties. We could tell they're spending money, they're hiring professionals, are doing analysis, they put in offers. But until we have an actual monetized deal with a meaningful at-risk deposit, I'm unprepared to put a stake in the ground of saying when we're going to close because we have no history, we have had a great deal of interest. We've had some parties who say, it's not for them, and they've moved away, but more have been interested than not and many parties are continuing to do work.

With regard to EBITDA, I'm going to qualify this by saying we don't give quarterly or even annual guidance. What I will say is we expect meaningful sequential growth in EBITDA each and every quarter going forward at or greater than the pacing that we delivered in the last several quarters. So I think you can model that out, but we feel comfortable that we are both delevering due to the growth in EBITDA and growing our cash flow. And the 6% to 8% top line growth, I think, is now much more realistic than it was when we announced the deal at 5% to 7% in '22. And again, just to remind investors from 2005 through 2020, Cogent with no acquisitions organically grew at 10.2% a year.

Our growth rate went negative when we acquired the Sprint business as was planned. We initially thought we could only return to 5% to 7%. We've become comfortable that we've groomed out the undesirable revenue. The rate of revenue decline sequentially improved from \$5.2 million negative to \$800,000, and should be flat to slightly positive in Q3 and positive from that point going forward. And because we have demonstrated post closing more than 200 basis points a year of margin expansion, and in fact, we delivered 200 basis points sequentially in a quarter this last quarter, we feel comfortable that's the right goalpost going forward. Hopefully, that was helpful, Tim.

**Operator**

We have no further questions for today. That concludes the Q&A session. And I would now like to turn the call back over to Dave Schaeffer for closing remarks.

**David Schaeffer**

*Founder, Chairman, CEO & President*

I'd like to thank everyone for being on today's call. Hopefully, we were clear in answering your questions. We look forward to seeing investors at some upcoming conferences and remain extremely encouraged around our growth prospects and our ability to expand our free cash flow and maybe most importantly, our commitment to return capital to shareholders.

Take care, all, we'll talk soon. Bye-bye.

**Operator**

This concludes the meeting. You may now disconnect your lines. Have a pleasant day, everyone.

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