

# NASDAQ:SHEN Q2 2025 Earnings Call Transcript

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## **Corey | Conference Operator:**

Good afternoon, everyone. Welcome to Shenandoah Telecommunications' second quarter 2025 earnings conference call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question and answer session. To ask a question during the session, you will need to press star 1-1 on your telephone. You will hear an automated message advising your hand is raised. To withdraw your question, please press star 1-1 again. Today's conference call is being recorded. At this time, I would like to turn the conference over to Mr. Lucas Bender, VP of Corporate Finance for Shentel.

## **Lucas Bender | Vice President of Corporate Finance:**

Thank you very much, Corey. Good afternoon, and thank you for joining us. The purpose of today's call is to review Shentel's results for the second quarter of 2025. Our results were announced in a press release distributed after the market closed this afternoon. And the presentation we will be reviewing is included on the investor page on our investor.chentel.com website. Please note that an audio replay of this call will be made available later today. The details are set forth in the press release announcing this call. With us on the call today are Chris French, President and Chief Executive Officer, Ed McKay, Executive Vice President and Chief Operating Officer, and Jim Volk, Senior Vice President and Chief Financial Officer. After the prepared remarks, we will conduct a question and answer session. I refer you to slide two of the presentation, which contains our safe harbor disclaimer and remind you that this conference may include forward-looking statements subject to certain risks and uncertainties that may cause our actual results to differ materially from these forward-looking statements. Additionally, we have provided a detailed discussion of various risks, factors, in our FCC filings, which you are encouraged to review. You are cautioned not to place undue reliance on these forward-looking statements. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements. With that, I will now turn the call over to Chris. Go ahead, Chris.

## **Chris French | President and Chief Executive Officer:**

Thanks, Lucas. We appreciate everyone joining us this afternoon, and I hope everyone is well. I'm pleased to lead off our call this afternoon by announcing with the unanimous support of our board, Ed McKay has been promoted to be our next president and chief executive officer. Together with Ed's promotion, I will be stepping into the role of executive chairman of the board. Both of these changes will be effective September 1st. This is a direct result of a thoughtful and deliberate CEO succession plan that the board and I developed several years ago. I also think this is a great time to undertake this transition. We are executing well on our 501st strategy and are now seeing accelerating growth generated by our network expansion. Having worked closely with Ed since he joined our organization in 2004, it is clear that he is the right person for me to hand the chief executive leadership responsibilities to and to guide our organization through the next phase of our growth. Ed has played a key role in our most significant transactions and initiatives over the past years, and his experience and expertise are well suited to lead the continued execution of our growth strategy. Importantly, he fully understands our customer-first and win-together culture, which are keys to both meeting our customer needs and delivering value to shareholders. I'm looking forward to being able to support Ed and his senior management team and I am excited about the prospects for our future. Turning to our results for the quarter, we show highlights on slide four. The second quarter was another solid quarter for executing our Fiber First growth plan. We added 5,700 new Glowfiber subscribers and over 16,000 new Glowfiber passings.

Glowfiber revenues grew 40.5% over the same period 2024 to \$19.8 million. Our results build on the evolution of Glow Fiber over the past six years. I'm very proud of what our team has accomplished to build a thriving \$80 million revenue line of business with almost 380,000 total passings. In addition to the residential fiber business, our commercial fiber business had another outstanding quarter with over 200,000 in monthly recurring revenue sales bookings. Although it's expected to take a couple quarters to install and convert these sales into revenue, sales bookings are an early indicator of future growth. Combined, we expect low-fiber residential and commercial fiber revenues to be larger than our incumbent revenues in 2026. It's been truly rewarding to see the transformation from a mature cable and telephone operator into a rapidly growing fiber-first business. With that, I'll now turn the call over to Jim to review the details of our financial results.

### **Jim Volk | Senior Vice President and Chief Financial Officer:**

Thank you, Chris, and good afternoon, everyone. I'll start on slide six with the financial results for the second quarter of 2025. Revenue grew 3.2% to \$88.6 million, driven by another quarter of StrongGlo fiber market's revenue growth of \$5.7 million, or 40.5%, driven by an increase in subscribers. The globe fiber revenue growth was partially offset by declines in incumbent broadband markets and commercial fiber revenue of 1.4 million and 1.2 million respectively. The incumbent broadband markets revenue decline was primarily due to a 15% decline in video RGUs due to customers switching to streaming video services. The commercial fiber revenue was primarily due to \$900,000 in early termination fees received in the second quarter of 2024 and \$800,000 in non-cash deferred revenue adjustments for one of our national wireless carrier customers. Excluding these variances, commercial fiber revenue grew 2.7% over the same period, 2024. In the second quarter, we executed a new agreement with the National Wireless Carrier customer that combined the legacy Shentel and Horizon backhaul circuits under one service level agreement, extended legacy Shentel circuit maturities to 2031 to align with the former Horizon circuit maturities, and reduced the pricing of the former Horizon circuits beginning in 2027. The second quarter deferred revenue adjustment reflects the application of straight-line accounting related to the 2027 pricing step-down. Overall, we are very pleased to secure these long-term revenue commitments with a high-quality, investment-grade customer. Adjusted EBITDA grew \$5.1 million for 21.9% to \$28.4 million, driven by the previously mentioned revenue growth and \$2.4 million in lower operating expenses. Adjusted EBITDA margins increased from 27% in the second quarter of 2024 to 32% in the second quarter of 2025, driven by the high incremental margin associated with the Globe Fiber subscriber additions and a full quarter of realizing the \$13.8 million in annual run rate synergies expected from our Horizon Telecom acquisition. The Globe Fiber incremental margin was 71% in the second quarter 2025 when compared to the second quarter 2024, which highlights the strong operating leverage of our fiber network. Turning to slide seven, we are initiating annual guidance. We expect 2025 revenues to be \$352 to \$357 million and adjusted EBITDA to be \$113 million to \$118 million. Net of grant reimbursements is expected to be \$260 million to \$290 million. The midpoint of the guidance implies 8% year-over-year revenue growth and 22% year-over-year adjusted EBITDA growth, with CapEx declining approximately 8%. I'd now like to update you on our liquidity and debt positions on slide 8. Liquidity was \$260 million on June 30th, including \$29 million in cash, \$143 million in available revolver capacity, and \$95 million in remaining reimbursements under government grants. As of the end of the second quarter, we had \$513 million of outstanding debt. Our first material maturity is July 2027. Lastly, we closed and integrated a small tuck-in fiber to the home acquisition in early July. The acquisition adds 1,500 passings and approximately 700 customers to our Blacksburg, Virginia, growth fiber market. We acquired this business for \$5 million. After CapEx and OpEx synergies, the implied purchase price multiple is about eight times 2026 pro forma adjusted EBITDA. And now I'll turn the call over to Ed.

## **Ed McKay | Executive Vice President and Chief Operating Officer:**

Thank you, Jim, and good afternoon, everyone. I'll start on slide 10 with our integrated broadband network that now spans more than 17,700 route miles across eight states. During the second quarter, our engineering and construction teams set a new record by constructing over 500 new route miles of fiber. This included 16,000 new glow fiber passings, 3,000 new subsidized passings in our incumbent broadband markets, and connections to additional commercial fiber customers. We now pass approximately 623,000 homes and businesses with broadband services, and Glowfiber represents about 61% of these passes. As highlighted on slide 11, our sales and marketing team continues to drive growth in our Glowfiber expansion markets. In the second quarter, we added 5,700 new customers and approximately 6,400 total data, video, and voice revenue generating units. Year over year, we grew our customer base by 43% and ended the second quarter with over 76,000 Glow Fiber subscribers. Our total Glow Fiber revenue generating units reached 90,000 at the end of the quarter, up 40% year over year. Broadband data penetration in our Glow Fiber markets climbed to 20% at the end of the second quarter, up from approximately 18% a year ago, and monthly broadband data churn for the second quarter improved year over year to 1.15%. Our broadband data average revenue per user remained strong in the second quarter at roughly \$77, supported by customer adoption of higher speed tiers. In the quarter, 53% of new residential subscribers chose speeds of one gig or higher, including 9% that opted for speeds of two gig or higher. As shown on slide 12, Growth in our glow fiber markets has followed a consistent, predictable pattern with steady increases in data penetration rates as cohorts mature. We typically achieve 15% data penetration rates within the first year and 25% by year three. Our earliest cohorts launched in 2019 and 2020 now have an average data penetration rate of 36%. We're also pleased with our sales and marketing team's ability to quickly engage customers when launching new neighborhoods, as demonstrated by our 9% penetration rate for communities introduced in the second quarter. Turning to slide 13, we show our operating performance for incumbent broadband markets. At the end of the second quarter, we had about 112,000 broadband data customers, reflecting a slight year-over-year increase. Data, voice, and video RGUs totaled 161,000 at the end of the second quarter, down 3% year over year, primarily due to video customers moving to online streaming options. Monthly broadband data churn improved 10 basis points year over year, reaching 1.59% in the second quarter. Our rate card strategy of offering higher speeds and more value for the same price continues to be effective in mitigating churn while maintaining a stable broadband data ARPU around \$83. Overall broadband data penetration declined to roughly 46% at the end of the second quarter, primarily due to recently constructed government subsidized passings. However, these areas represent strong growth potential, and we've seen data penetration reaching 45% just one year after a neighborhood launch. Our commercial fiber business is highlighted on slide 14. In the second quarter, we set another record for sales with new contracts totaling over \$203,000 in incremental monthly revenue of 32% year-over-year. Our service delivery team installed \$210,000 in new monthly revenue in the quarter, and our remaining installation backlog is \$493,000 in monthly revenue. We've made significant progress installing the backlog we inherited from Horizon in the second quarter of 2024, and we expect to have the original backlog materially complete by year end 2025. Our network operations center and sales team continue to provide exceptional support to our commercial customers, and our average monthly compression and disconnect churn remain very low at 0.4% in the second quarter. Current capital spending and guidance for the full year are shown on slide 15. Year-to-date, we've invested 152 million, net of 17 million in government subsidies. Total year-to-date capital spending is slightly elevated over 2024, primarily due to commercial fiber construction to complete the Horizon installation backlog and grant construction projects in our incumbent broadband markets. For the full year, \$290 million range, net of 55 to 65 million in government subsidies. This is slightly higher than our previous guidance, primarily because we've accelerated incumbent broadband grant projects and network upgrades from 2026 into 2025. Before I wrap up, I would like to thank Chris and our board of directors for entrusting me with the opportunity to lead Shentel as our next president and CEO. I'm very grateful for their support and leadership, and I look forward to continuing to work with them to shape our strategy and build on the strong foundation we've established for fiber growth. I'm also excited to continue partnering with our Shentel management team and dedicated employees to execute on our growth strategy. We still have significant work ahead of us to drive customer growth and complete the construction phase of Glowfiber, and I'm confident in our team's

ability to deliver strong results and create lasting value for both our customers and our shareholders. Thank you, and operator, we're now ready for questions.

**Corey | Conference Operator:**

Thank you very much. At this time, we will conduct the question and answer session. As a reminder, to ask a question, you will need to press star 11 on your telephone and wait for your name to be announced. To withdraw your question, please press star 11 again. Please wait while we compile the Q&A roster. Our first question comes from the line of Hamed Khorasan of BWS Financial. Hamed, your line's open.

**Hamed Khorasan | Analyst at BWS Financial:**

Hi. So I just want to start off with your expansion in Glow Fiber. Could you just talk about any competitive pressures at all with the ads that you're seeing? Is it becoming more and more difficult in any way?

**Ed McKay | Executive Vice President and Chief Operating Officer:**

No, as far as competitive pressure, we have seen some of the big cable providers change their rate plans. They're offering five-year guarantees in some cases. I think it's too soon to really know the impact of that. But I will say that their price plans are very consistent to our models of having standard, straightforward pricing. So we believe we have opportunity to increase speed. We have a lot more speed availability to us than cable competitors. And we think that speed advantage combined with our local customer service and our network reliability really give us an edge. But for the quarter, we were up 20% on net ads over the second quarter last year. So we're pleased with the growth.

**Hamed Khorasan | Analyst at BWS Financial:**

And then on the CapEx side, you talked about accelerating in 26. What drew that decision to do that now versus next year?

**Ed McKay | Executive Vice President and Chief Operating Officer:**

It was basically success by our construction team in building the government grant projects. We were able to construct more mileage faster than we expected. So instead of spending the money in 26, we pulled it into 2025. That's the primary driver.

**Hamed Khorasan | Analyst at BWS Financial:**

Does that help you with revenue in any way in 26? Because now you've already built it out.

**Ed McKay | Executive Vice President and Chief Operating Officer:**

It helps us. As I mentioned, we're seeing rapid penetration on those government grant projects, 45% after one year. So I think pulling the construction forward, having more passings in these government subsidized areas will help us from a subscriber standpoint and therefore revenue standpoint.

**Hamed Khorasan | Analyst at BWS Financial:**

And last quick one, why the decision to have guidance all of a sudden in the middle of the year?

**Jim Volk | Senior Vice President and Chief Financial Officer:**

Yeah, Ahmed, we just wanted to provide more visibility and transparency over our business, and we thought – you know, providing some annual guidance, not just this year, but in future years as well, would be a good practice to adopt to allow you and other shareholders and potential shareholders more visibility into our business.

**Hamed Khorasan | Analyst at BWS Financial:**

Great. Thank you.

**Corey | Conference Operator:**

Thank you, Ahmed. Thank you very much. I'm showing no further questions at this time. I would now like to turn it back to Jim Bulk for closing remarks.

**Jim Volk | Senior Vice President and Chief Financial Officer:**

I'd just like to thank everyone for joining our call this afternoon, and I wish everyone a good evening.

**Corey | Conference Operator:**

Thank you for your participation in today's conference. This does conclude the program, and you may now disconnect.